CORPORATE GOVERNANCE: THE PRACTICES OF THE BOARD OF DIRECTORS IN KENYA ROADS BOARD

BY

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A MANAGEMENT RESEARCH PROJECT SUBMITTED IN PARTIAL FULFILLMENT OF THE REQUIREMENTS OF MASTER OF BUSINESS ADMINISTRATION (MBA), SCHOOL OF BUSINESS, UNIVERSITY OF NAIROBI

October, 2006

DECLARATION

This management project is my own original work and has not been presented for degree in any other University

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DEDICATION

This study is dedicated to my children Caroline and Cindy

ACKNOWLEDGMENT

This work would not have been of form were it not for the efforts of very dedicated Kenyans to whom I am grateful. It may not be possible to thank each of those who assisted in one way or the other in realizing this goal but there are a few individual I wish to recognize.

Special thanks go to my supervisor Prof. Evans Aosa who patiently guided me through my work. He put extra hours to ensure that the deadlines were met and that a well researched paper was finalized.

Most importantly I want to thank my family for their support, encouragement, patience and prayers during the study. Even though I used up all the time that would otherwise have been spent with them, they always encouraged me that good things can only be achieved through sacrifice. For my children, I know you sacrificed a lot but always encouraged mum to work hard even when I felt like letting go. You were my source of strength.

I also wish to thank my colleagues at work for their great encouragement during the compilation of this work. Lastly but not the least I wish to acknowledge with appreciation the Kenya Roads Board directors and senior management for having taken time to assist in the data collection of this study. To all of you I will forever be indebted.

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ABSTRACT

Good Corporate Governance is the word on the lips of most successful leaders. The world focus has turned to the management of organizations and particularly to the boards of directors. This is because, owners of organizations want to get value from their investments, the society wants services from corporations and the employees wanting higher salaries. This can only be guaranteed by appropriate utilization of resources. The board of directors is a key structure of corporate governance.

This study is a case study of Kenya Roads Board (KRB). The board of directors of KRB is mandated to oversee the road network in Kenya and manages the Road Maintenance Levy Fund (RMLF). The effectiveness of an organization is measured by the corporate governance practices that it has adopted. The study seeks to determine and assess the corporate governance practices of the board of directors of KRB. Data for the study was collected from secondary and primary sources. Primary data was collected through personal interviews. Content analysis method was used to analyze the data collected.

The study established that the board of directors in KRB had adopted practices of good corporate governance. The board of directors are involved in setting the mission and objectives of the organization and overall strategic planning, allocate and monitor utilization of resources, have put in place internal controls, appoint and determine the remuneration of the senior managers as well as regularly monitor their performance, hold regular board meetings, report to stakeholders and are generally aware of the risk areas facing the organization. However succession planning for the directors and the senior managers was minimal as well as involvement in social responsibility activities.

Though some practices of good corporate governance were found in KRB there is need for a more structured mechanism of handling various issues. Disclosures and dialogue with the stakeholders needs to be enhanced and monitoring of funds released to external bodies tightened. The relationship between the management and the board of directors needs to be continuously monitored to ensure that it remained cordial to realize the objectives of the organization.

CHAPTKRONE - INTRODUCTION

1.1 Background

1.1.1 Corporate Governance

Corporate governance, which is the manner in which organizations are directed, controlled and held accountable has attained critical importance in these days of globalization and political pluralism in both developing and developed countries (Cadbury, 2002). This is due to the increasing recognition that a firm's corporate governance affects both its economic performance and its ability to access long term, low cost investment capital (Shleifer et al, 1997). The globalization of the marketplace has ushered in an era where the traditional dimensions of corporate governance defined within local laws, regulations and national priorities are becoming increasingly challenged by circumstances and events having an international impact (Commonwealth Association of Corporate Governance (CACG), 1999). A fundamental reason why corporate governance has so recently moved into the economic and political agenda worldwide has been the rapid growth in international capital markets (Cadbury, 2002).

Frustrations with the performance of publicly traded corporations have abounded for decades. Since the turn of the millennium the public eye has focused on the prominent topic of corporate governance and its importance to the world economies. In recent months, large corporate failures and uncovering of major incidents of fraud have brought about increased pressure for accountability by directors and the lawmakers to introduce legislation to protect the rights of investors, creditors, employees and customers. The corporate failures created an atmosphere of doubt and distrust. The investors lost confidence in the markets on which stocks of public corporations were traded. The public grew anxious about the prospect of business failure, job losses and the severe decline of the savings invested in corporate stocks. Questions were raised as to whether the transgressions were confined to the ranks of a few renegades, or whether the wrong doing was systemic (Colley et al, 2005). In the first half of the 1990s, the issue of corporate governance in the United States received considerable press attention due to the wave of Chief Executive Officers dismissals by their boards. In the latter half of the 1990s, during the Asian financial crisis, a lot of attention fell upon the corporate governance systems of the developing world, which tended to be heavily cronyism and nepotism (Marco et al, 2004).

Numerous high profile cases of corporate failures have focused the minds of governments, companies and the general public on the threat posed to the integrity of the financial markets, although it is not clear that any system will or should prevent business failures, or that it is possible to provide a guarantee against fraud (Blair, 1995). In response the media, government and various regulatory boards widened the scope of their scrutiny beyond the offending corporations. In doing so they brought the broader social institutions of governance of publicly traded corporations into the media spotlight. For most it meant the examination of the boards of directors. One of the key structures of governance is the board of directors. The board of directors is entrusted with the resources of the organization by the owners. Board of directors should manage the resources in a most prudent manner and account to the owners. Greater responsibilities placed on directors have resulted to changes in management styles (Hoffman, 2003).

In today's world, where there is growing awareness of the rights of the citizen, organizations and governments need to rethink their processes to be able to survive against forces of changing needs, expectation and influence of citizens, changing technology, globalization among others. Effective governance helps to strengthen democracy and human rights, promote economic prosperity and social cohesion, reduce poverty, enhance environmental protection and the sustainable use of resources and deepen confidence in Government and public administration (Organization for Economic C-operation Development (OECD, 1999).

In the 1980s, Kenya experienced collapse of key corporations like the Kenya Co-operative Creameries, Kenya National Trading Corporation, Kenya Meat Commission, Kenya National Assurance Company, Nyayo Bus Services, among others. Other corporations faced imminent danger of closure unless the government bailed them out like the National Bank of Kenya. The public also became more aware of their rights and demanded accountability from the government. The civil society formed lobby groups to demand accountability from the government for the utilization of public funds. These, among other challenges prompted the government to address the governance of state corporations. Various reforms were embarked on in various sectors like roads, energy, water, communication, transport, finance. These reforms are still on going. The reforms aim at enhancing governance structures to ensure the survival of the corporations and for improving service delivery to the people.

Following a consultative meeting held in Kenya in November, 1998 it was agreed to form an interim committee with the mandate of formulating a code of best practices for corporate governance in Kenya and to coordinate with other efforts in the region and beyond for the purposes of improving corporate governance and establish a permanent organization to oversee the implementation of the best practice. Following this initiative the Private Sector Corporate Governance Trust later renamed Center for Corporate Governance was formed (Private Sector Corporate Governance Trust, PSCGT, 2002).

1.1.2 Roads Subsector

Transport is achieved through various modes. The transport sector in Kenya comprises of roads, rail, air, maritime, inland waterways and pipeline transport modes. Road transport accounts for about 80% of internal freight and passenger traffic in the country (World Bank, 2003). Kenya's road network is summarized in Table 1 below;-

Table 1: Kenya's Road Network Length (Kilometers)

Type	Classified		Unclassified		Total
	Class A,B and C	Class D,E and Others	Rural	Urban	
Paved	7,100	2,000	0	2,500	11,600
Unpaved	7,200	47,000	100,000	12,000	166,200
Total	**14,300**	**49,000**	**100,000**	**14,500**	**177,000**

Source: *(Government of Kenya (GoK), 2004)*

Only 40% of paved roads are in good condition, the balance being fair or poor. For unpaved roads the situation is worse with only 14% in motorable condition and the balance in poor condition (Gok, 2004). The poor roads condition in Kenya prompted the Government of Kenya together with the World Bank to address issues of governance in the road subsector. From studies carried out by Road Management Initiative (RMI) of the World Bank in Sub-Saharan African Countries (SSA), it was established that for a country's road sector institutional arrangement to be functional and sustainable, four basic principles must be satisfied (Kenya Roads Board (KRB), 2003).

The first one was creation of ownership. This would be achieved through involving road users in the management of roads and thereby win their active support. The second principle was clarification of responsibilities. There was need to have clear mandates and legal identity for each organization involved in the road subsector to avoid conflicts and duplication of resources. The third principle was creation of stable financing for the sector. It was realized that it was necessary to create a fund which would be secure, with a stable flow and dedicated to the subsector. Lastly introduction of commercialized management in the subsector. Roads needed to be managed in a businesslike manner to provide an effective network.

The Road Maintenance Levy Fund (RMLF) was introduced in 1993 to provide stable financing (GoK, 1993). Kenya Roads Board (KRB) was established in 1999 to provide ownership. The Board of directors of Kenya Road Board draws membership from stakeholder organizations (GoK, 1999). These two steps have fulfilled two of the basic building blocks and provide governance structures in the road subsector (KRB, 2003).

The road sub sector faces many challenges. One of the challenges facing the sector is the poor state of the road network. Currently, only 40% of the road network is motorable, the balance is in poor condition. To bring the entire road network into a maintainable state, the government requires about Kshs. 140 Billion (Nation Media Group, 2006). The funds are not available either from within the country or from the development partners. This means that the roads condition will continue to deteriorate unless the government ejects the funds into the sector. There has been overdependence on development partners for funding of reconstruction and rehabilitation works (KRB, 2003).

The second challenge to the sector is the growth of the other sectors. Most sectors in the economy depend on the road sector for growth. A good example is agriculture and tourism. The two sectors have experienced significant growth in the last decade. This has put pressure on the road subsector to change at the same pace. Every sector today blames its slow growth to the dilapidated road network. The famine condition that was experienced in the country in the mid 2006 could have been alleviated faster were the roads leading to the areas motorable. The efforts to curb insecurity in North Eastern province have been frustrated by poor road network in the region. These among other examples have challenged the sector to keep in pace to avoid blame.

The third challenge that faces the sector is high costs of construction works. Currently the country requires about Kshs. 30 million to rehabilitate one kilometer of road (GoK, 2004). This means that the RMLF yield of Kshs. 9 Billion can only do a few kilometers in a year. The fourth challenge is the growing awareness of the public of their rights. This has forced the sector to refocus its way of operations to meet the expectations of the public. A road unlike other infrastructure is used by all Kenyans either to transport goods, services or persons. Roads are used to reach market centers, health facilities, schools and other administrative units. The public therefore expects roads to be available to allow movement. Roads are of such great importance for all Kenyans that it is no wonder that all investors consider the conditions of the roads before deciding whether or where to invest.

1.1.3 Kenya Roads Board

Kenya Roads Board is a statutory body established under Section 4 of the Kenya Roads Board Act, 1999. It is a state corporation under the Ministry of roads and public works. The object and purpose for which the organization was established is to oversee the road network in Kenya and thereby coordinate its rehabilitation, development and maintenance and to be the principal adviser to the government of kenya on all matters related thereto (GoK, 1999).

The composition of the board of directors of Kenya Roads Board is stipulated under the Kenya Roads Board Act. The members from the private sector are nominated by the organizations contained in the Third Schedule to the Kenya Roads Board Act. The organizations nominate three persons and forward the names to the Minister for roads and public works who then appoints one of the three a director of Kenya Roads Board (KRB 2003). The persons so appointed are gazzetted in the Kenya Gazette. Directors from the public sector automatically become directors of Kenya Roads Board by virtue of the office they hold.

The board consists of a chairman appointed by the President from among the members from the private sector, the Executive director who is recruited through public advertisement, the Permanent secretary ministry of roads and public works, the

Permanent secretary ministry of finance, the Permanent secretary ministry of local government, the Permanent secretary ministry of matters related to regional co-opcration, the Permanent secretary in the ministry of transport, eight other members comprising, representatives of each of the following organizations :- The Institution of Engineers of Kenya (IEK), The Automobile Association of Kenya (AA), The League of Kenya Women Voters (LKWV), The Institute of Surveyors of Kenya (ISK), The Kenya Association of Manufacturers (KAM), The Kenya Association of Tour Operators (KATO), The Institute of Certified Public Accountants of Kenya (ICPAK) and the Kenya Transport Association (KTA). The Executive director is the secretary to the board of directors and an ex officio member of the board (GoK, 1999). Directors hold office for a term of three years except the Executive director but they are eligible for reappointment for only one more term. Kenya Roads Board first board of directors was appointed in July, 2000 for a term of three years. The second board was appointed with effect from 1^{M} September, 2003.

Kenya Roads Board administers and manages the RMLF. The RMLF was established by the RMLF Act, 1993. It is a levy chargeable for all petroleum imported into the Republic of Kenya. The fund is applied for the maintenance of the road network in Kenya. Kenya Roads Board mandate is to administer and manage this fund in such a manner as to ensure efficiency and cost effectiveness (KRB, 2003). The annual collection from the fund has risen from Kshs. 5 Billion (KRB, 2003) at the imposition to Kshs. 10 Billion in 2005 (Nation Media Group, 2006) and stands at Kshs. 15 Billion with the adjustment of the RMLF charge from Kshs. 5.80 per litre to Kshs. 9.00 per Litre (GOK, 2006).

Kenya Roads Board does not implement road works. The implementation of works is executed by various bodies designated by the Kenya Roads Board Act as roads agencies. The Act recognizes five road agencies. The first one is the Roads department of the Ministry of roads and public works which is responsible for the trunk roads classes A, B and C. The second road agency is the District roads committees which are responsible for rural roads classed D, E and others. The Urban development department of the Ministry of local government is the third road agency responsible for all roads within municipalities except Nairobi, Mombasa, Nakuru, Kisumu and Eldoret which are independent road agencies. The fifth road agency is the Kenya Wildlife Service which is responsible for all roads within the national parks. The road agencies receive funds for maintenance of roads from Kenya Roads Board while the development funds come from the exchequer and the development partners (Nation Media Group, 2005).

During the financial year 2006/2007, the road sector will receive about Kshs. 50 billion which is about 4% of the countries Gross Domestic Product (GoK, 2006). Roads are critical to the economic development of the country as they enable transport of goods and services. Roads are arteries of a nation, just like blood vessels are to a human body. When blood vessels get clogged, the result is high blood pressure, stress and ultimately a heart attack, so does a failed road network. A vibrant road network makes the economy vibrant while poor state of roads suffocates economic growth. (GoK, 2004)

1.2 Research Problem

The governance model of a successful corporation typically includes an effective board of directors. An effective board is one that carries out its responsibilities with integrity and competence. The board should hire a competent Chief Executive Officer (CEO) and give him the authority to run the business. A competent CEO is one who, with the advice and consent of the board, has a valid business concept with an appropriate implementation policy. An effective board must put in place systems to ensure that the organizations obligations to its major shareholders are met with integrity and in compliance with applicable laws and regulations. They must ensure full and timely disclosure of the performance of the business to its owners and to the investment community at large (Colley et al, 2005).

A board that fails to guarantee that a sound governance model is in place and executed conscientiously and effectively invites the failure of the enterprise it oversees. Securing the services of and retaining qualified, capable and effective directors provides the foundation for effective corporate governance. The board of director's practices can provide clues about a company's posture towards risks and even preferred strategic approaches (Porter, 1985).

The board of directors is a very important structure of corporate governance. Boards of directors direct organizations into the future. Most corporate failures have been associated to ineffectiveness of the board of directors. Indeed whenever an organization experiences resource mobilization difficulties and faces imminent closure, owners always result to changes in the members of the board of directors. A board can have appropriate mix, composition, size and structure but be ineffective and hence lead an unsuccessful organization.

A critical sector like roads requires effective management. The resources allocated to the road subsector are enormous therefore they require effective utilization. The governance structures in the sector must therefore be enhanced to realize value for all the stakeholders. The sector should be managed by able leaders who can steer the resources for the benefit of all the sectors of the economy. KRB oversees the entire road network in Kenya. It is therefore a major determining factor of the performance of the road subsector. KRB is managed by a board of directors. The success or failure of KRB and ultimately the success of the road subsector is determined by the effectiveness of the board of directors. An effective board of directors is determined by the corporate governance practices that it has adopted in the execution of its work.

1.3 Research Objectives

The objective of the study is to determine and assess corporate governance practices of the board of directors in KRB.

1.4 Scope of Study

The study shall cover board of directors and management of KRB. The study shall cover the practices of the board of directors with special focus on involvement in strategic planning, resource allocation, monitoring of top management, internal controls, disclosures and reporting, meeting procedures, social responsibility, risk management and succession planning.

1.5 Value of the Research

The research project shall be useful to the government in that it shall assist them in identifying the appropriate persons to appoint to the board of directors of KRB and evaluating the mandates and objectives of the corporation. The research project shall also be useful to the board of directors of KRB as it will assist them in understanding their role ' and responsibilities more clearly, determine the separation of duties between themselves and management, determine the training needs of directors and evaluate their practices to ensure that they enhance effectiveness in the road subsector.

The research project shall be useful to the management of KRB in understanding their role more clearly and determine the separation of duties between themselves and the board of directors. To researchers and academicians the research project shall help them understand more clearly the management structure of organizations, the role of leadership against that of management, distinguish governance from management and explore issues of corporate governance.

CHAPTER TWO - LITERATURE REVIEW

2.1 Corporate Governance

2. LI Concept of Corporate Governance

Governance is the manner in which power is exercised in the management of economic and social resources for sustainable human development. Governance is a vital ingredient in the maintenance of a dynamic balance between the need for order and equality in the society, the efficient production and delivery of goods and services, accountability in the use of power, the protection of human rights and freedoms, the maintenance of an organized corporate framework within which citizens can contribute fully towards innovative solutions to common practices (PSCGT, 2002).

The governance framework describes whom the organization is there to serve and how the purposes and priorities of the organization should be decided. It is concerned with functioning of the organizations and the distribution of power among different stakeholders. The issue of corporate governance has arisen due to two reasons. One reason is the practical need to separate ownership and management control; and secondly the fact that there has been an increasing tendency to make organizations more visibly accountable not only to the owners but also to other stakeholder groups including the community at large (Johnson and Scholes, 2003). Corporate governance is therefore the set of processes, customs, policies, laws and institutions affecting the way a corporation is directed, administered or controlled. Corporate governance also includes the relationship among the key players involved and the goal for which the corporation is governed (Blair, 1995)

Corporate Governance refers to the way organizations are directed and controlled. It encompasses authority, accountability, stewardship, leadership, direction and control exercised in organization (Cadbury, 1992). It is concerned with the processes, systems, practices and procedures that govern institutions, the manner in which they are applied and followed, the relationship created and the nature of such relationships (PSCGT, 2002). Indeed it is the process and structure used to direct and manage business affairs of the company towards enhancing prosperity and corporate accounting with the ultimate objective of realizing shareholder long term value while taking into account the interest of other stakeholders. The bottom line is about power, how it is used and controlled (Mullins, 2002). In its broadest sense, corporate governance is concerned with holding the balance between economic and social goals and between individual and communal goals. The governance framework is there to encourage the efficient use of resources and equally to require accountability for the stewardship of those resources. The aim is to align as nearby as possible the interest of owners of corporations and of the society (Cadbury, 2002).

Corporate governance is concerned with the resolution of collective action problems among dispersed investors and the reconciliation of conflict of interest between various corporate claimholders (Marco et al, 2004). Corporate governance is the rules of the game for a company in its relations with the shareholders, its lenders and other stakeholders in the business community and society at large. Leaders and investors need to be assured that the basic principles of corporate governance are in place and will be followed, that a company's dealing with the shareholders are fair and transparent, that the board of directors is held accountable and that the company deals responsibly with stakeholders.

Getting this right is key to a company's integrity, efficiency, long term growth and profitability. Corporations create jobs, generate tax income, produce a wide array of goods and services, and increasingly manage savings and secure retirement income (Page, 2005).

Corporate governance is therefore a multifaceted subject. One of the most important themes of corporate governance deals with issues of accountability and fiduciary duty, essentially advocating the implementation of guidelines and mechanisms to ensure good behavior and protect shareholders. Another key focus is economic efficiency, meaning that corporations should aim at optimizing economic results. A midst growing reliance worldwide in the private sector the issue of corporate governance has similarly risen in prominence (OECD, 1999). Corporate governance has become an issue of world wide importance. Recently there has been considerable interest in the corporate governance practices of modern corporations, particularly since the high profile collapse of Large United States firms such as Enron Corporation and Worldcom (Marco et al, 2004). The corporation has a vital role to play in promoting economic development and social progress. It is the engine of growth internationally and increasing responsible for providing employment, public and private services, goods and infrastructure. The efficiency and accountability of the corporation is now a matters of both public and private interest and governance has thereby, come to the head of the international agenda (PSCGT, 2002).

Corporate governance is necessary in order to attract investors, create competitive and efficient business enterprises, enhance the accountability and performance of those entrusted to manage companies and promote efficient and effective use of limited resources. A country needs efficient and effective companies to create wealth. Every country today needs well managed and governed companies that can compete favorably in the global market to enhance economic development. Good corporate governance has therefore become an ingredient for national development. One key structure of corporate governance is the board of directors. The focus on corporate governance has placed more scrutiny on the board of directors (Page, 2005). A board of directors often plays a key role in corporate governance (Blair, 1995).

2.1.2 Development of Corporate Governance

The concept of corporate governance is as old as the 15th century but it was not until the 19th century that it gained importance. The Global Corporate Governance forum was established by the World Bank and OECD in 1996 to coordinate and disseminate corporate governance practices and activities. The forum was also mandated to spearhead the training and capacity building of human resources in the field. The Commonwealth Association for Corporate Governance (CACG) was established in 1999 due to the recognition that, first, capacity needed to be established in all common wealth countries to promote good corporate governance and secondly, codes of good practices establishing standards of behavior in public and private sector should be agreed to secure greater transparency and reduce corruption. The CACG came up with the guidelines for all Commonwealth countries on good corporate governance.

The World Bank, OECD and the Commonwealth Secretariat extended awareness on good corporate governance in Africa to countries such as Cameroon, Botswana, Zambia, South

Africa, Uganda, Kenya among others. The earliest and most developed code for practices of corporate governance was the Kings report and Code of best practice for corporate governance in South Africa published in 1994. During a forum for all member states in East Africa held in September, 1999 in Kampala, Uganda, it was agreed that all member states develop a code of best practice for corporate governance which should be harmonized with the rest of the world.

In 1999 the Private Sector Initiative for Corporate Governance was established in Kenya to develop a code of best practice for corporate governance and coordinate development of corporate governance in Kenya with other initiatives in the world. A code of best practice for corporate governance was formally adopted in Kenya during the same year.

2.1.3 Pillars of Good Corporate Governance

Corporate Governance is founded on five basic attitudes, ethics, practices and value to the socicty (PSCGT, 2002). The first one is accountability, which means that those to whom power has been vested are responsible to those who have bestowed power on them and that such power must be exercised to promote their well being. Leaders must therefore be ready to account to the society for the resources that have been placed on them (Colley et al, 2005).

The second principle is effectiveness and efficiency. Leaders must manage the resources that have been entrusted to them right and in the right way. They must manage the resources to achieve results and while doing so optimize value. This means that both the end and the means are crucial. The quest is for results oriented leaders. The third principle is that leaders must observe high integrity, fairness and probity. In the stewardship of the resources placed upon them, the leaders must exercise honesty, faithfulness and diligence. They must in so doing manage the resources as if they were their very own, avoiding misapplications and corrupt practices.

The fourth principle of governance is transparency and openness. Leaders must disclose information both economic and on the activities of the organization to the people they serve in an accurate and timely manner. Reporting and disclosures have become a great measure of governance in today's world. The fifth principle of corporate governance is the need for leaders who are responsible. The leaders must have the capability and the competence that it takes to do the job. They must be prepared to take responsibility for their actions, be conscious of their responsibilities and represent the organizations that they serve responsibly (Pearce and Robinson, 2002).

Leadership in organizations is cxcrciscd by the board of directors. There is therefore need to have members who are themselves competent, capable, objective, open minded, honest, selfless and of high integrity (Drucker, 1974).

2.1.4 Benefits of Good Corporate Governance

Good corporate governance assures companies of increased profitability and ultimately good returns for owners of capital. This is because the resources are optimally utilized, costs of production reduced and hence higher net profits. Good corporate governance promotes wealth creation by ensuring higher yields on investments.

With greater profitability and wealth creation, organizations therefore benefit the society. The organizations arc able to produce goods and services at lower costs due to reduced costs of production. This means that the society gets a higher disposable income. Wealth creation and profitability comes with growth of organizations. Once the organizations grow, there's employment creation. Societies which have low unemployment levels enjoy higher standards of living. Good corporate governance no doubt assures economic growth. This is because with optimal utilization of resources, wastage is avoided and capital becomes available for other sectors. As previously observed, national development of a country is determined by the growth of the companies within it (Page, 2005).

2.2 Board of Directors

2.2.1 Role of Directors

Directors are agents of the company with powers and duties of carrying on the business subject to restrictions imposed by the articles and the Act. They make contracts for the company and are not personally liable if they do not exceed their powers (Husain, 1993). A director is any person holding the position of a director by whatever name called (GoK, 1978). The ultimate legal authority in businesses is that of the board of directors (Jason and Brown, 1975)

The chief strategic role of an organizations board of directors is to exercise oversight and see that the five tasks of strategic management are done in a manner that benefits shareholders (Thompson and Strickland, 1993). In general the major responsibilities of the board of directors are, establishing and updating the company mission, electing the company's top officers the foremost of who is the CEO, establishing the compensation levels, human resources management and setting long term goals of the company (Pearcc and Robinson, 2002). It is the responsibility of the Board of directors to endorse the organization strategy, develop directional policy, appoint supervise and remunerate senior executives and to ensure accountability of the organization to its owners and authorities (Conger et al, 1998).

The board of directors should assume a primary responsibility of fostering the long term business of the corporation consistent with the fiduciary responsibility to the shareholders. The board should accord sufficient time to their functions and operate in a fully informed basis while treating all shareholders fairly, in the discharge of their responsibilities. The primary responsibility of the board of directors is defining the company's mission and vision. They should set goals and strategies for achieving their mission. It is the responsibility of the board of directors to set risk policies and objectives, approve annual budgets, oversee the corporate management and operations, identify the corporate business opportunities and risks, develop appropriate staffing and remuneration policy, appoint senior manager, review on a regular basis the integrity of internal controls, establish and implement a system that provides necessary information to the shareholders, monitor the effectiveness of the corporate governance practices and always take into consideration the interest of the company's stakeholders in its decision making process (GoK, 2002).

Directors must act with that degree of diligence, care and skill which ordinary 'people' would exercise under similar circumstances in like position (Jason and Brown, 1975). The board should be the principal agent of the enterprise risk taking and commercial judgment. The board should be the body that considers and decides which matters will determine a company's prosperity. These matters are to do with the direction in which the company should be heading, how it will get there, how it performs and how it is perceived.

In broad terms, the board of directors determines the firm's mission, acquire and allocate the firms resources, monitor the firm's success in the competitive market place to determine whether the strategic plan was well designed and activated and declare the firms sense of values. The board of directors in the current business environment is accepting the challenge of shareholders and other stakeholders to become active in establishing the strategic initiatives of the companies that they serve (Pearce and Robinson, 2002). The directors are answerable to the shareholder for the stewardship of the organization that they govern. The success or failure of the board of directors is determined by the practices that they adopt.

Expectations of boards of directors are changing. The popular media as well as corporate governance experts have characterized boards largely as rubber stamps for management. However a large number of high profile cases have shown non-executive directors flexing their muscles while at the same time, those slumbering giants, the institutional investors have also received a wake up call following instances of corporate malfeasance or incompetence. In the past board of directors were seen as a body which received proposals and just approved. Most of them sat on the fence and limited their role to approving proposals from the management. Indeed boards were not actively involved in strategic management of firms except in crisis when their major act was to replace the

CEO. It was observed that in the 1970s boards declined to function due to dominance by top management (Drucker (1974). However the Board as a rubber stamp of the CEO or as a bastion of the 'old boy' selection system is being replaced by more active more professional boards (Drucker (1998). The belief that managers control boards rather than boards controlling management has been a dominant theme in acadcmic and practitioner's writings (Stiles and Taylor, 2001). Managers are seen as insufficiently constrained by owners and the board of directors (Conger et al, 1998).

The key purpose of the board is to seek to ensure the company's prosperity by collectively directing the company's affairs, whilst meeting the appropriate interest of its shareholders and relevant stakeholders. Research shows that boards operate in ways different from conventional teams, especially in fashioning creative solutions out of the competing and conflicting views which different directors can bring to board discussions. The board of directors leads the company and whether it does this well or badly depends in part upon the personal attributes of its members. Ideally boards, should have the following characteristics of competences of members strategic perception, decision making, analysis and use of information, communication interaction with others and achievement of result. However it is appreciated that all directors cannot have all the above competences but it is expected that a board member should have at least one. Ideally there should be a good balance of individuals whose strength and weaknesses are complementary (Renton, 2001).

A board can be composed of brilliant individuals and yet be ineffective. It can only fulfill its true potential as a board if it is properly selected, collectively organized and led.

Effectiveness of a board of directors can be measured by: deciding board composition and organization, clarifying board and management responsibilities, planning and managing board and board committee meetings and developing the effectiveness of the Board. Indications of good practices are establishing and maintaining vision, mission and values, deciding strategy and structure, delegating to management, exercising accountability to shareholders and being responsible to relevant stakeholders (Renton, 2001). The board of directors is unlikely to play a more active role in corporate strategic management in the future. However boards vary from phantom boards with no real involvement to catalyst boards with high degrees of involvement. However change will be more evolutionary than revolutionary. Different boards are at different levels of maturity and will not change in the same direction or at the same speed (Whellen and Hunger, 1995)

Working boards will not only actively support, advice and assist management but also monitor and evaluate management's performance in the attainment of planned objectives (Andrew, 1987). One way that the boards can achieve this is by use of committees. There is no limit on how many committees a corporation can have but some examples of board committees include audit, finance, nomination and remuneration (Drucker 1998). When faced with strong competition an organization will be at risk if either its directors or senior management are not capable persons (Drucker 1974). For boards to remain relevant, they must clearly understand their role and put in place systems and practices that enable them to achieve their objectives.

2.2.2 Corporate Governance Practices in Kenya

The Capital Markets Authority in its realization of the importance of Corporate Governance put in place a code of practice for all the companies in Kenya quoted at the Nairobi Stock Exchange. Under these guidelines the companies are expected to report annually to the stakeholders, review the appointment of the top management, review risk management policies, monitor communications, disclose their social responsibility policies, enhance internal controls, and disclose financial reporting systems (GoK, 2002). A breach of these conditions may lead to exclusion from the stock exchange market. These standards of reporting have become a requirement for annual reports.

The Centre for Corporate Governance (CCG) has come up with a code of best practices for state owned corporations in Kenya (PSCGT, 2002). Though the code has not been formally adopted, the Government of Kenya has continuously encouraged State corporations to adopt their own code of best conduct in line with CCG. The Government of Kenya introduced the Performance Contracts in the public sector in June 2004. The aim of the Performance contracts signed between parent Ministries and the Board of Directors of State corporations is to ensure that the boards of directors are accountable to the stakeholders and operate the affairs of the corporation which they oversee in an efficient and effective manner. The Board of directors should implement budgets approved by Treasury and the parent Ministry, recruit staff including the CEO. develop and negotiate performance targets with parent ministry, manage the assets of the corporation, enter into implementation contracts with CEO, develop, maintain and review- on a regular basis the strategic plan of the corporation, report on the corporations performance (Gok, 2004).

Corporate governance practices in Kenya have been entrenched in the private and public sector. The private sector's growth is dependent on the growth of the public sector. There are all efforts to eradicate poverty and create wealth in Kenya through improvement of governance in the public sector. To win the war, there is need for all organizations public and private to embrace practices of good corporate governance.

CHAPTER THREE - RESEARCH METHODOLOGY

3.1 Research Design

This study was conducted through a case study. A case study was selected as it gives the researcher an insight into the objectives of the organization since it involves an in-depth examination of a single instance or event. It provides a systematic way of looking at events, collecting data, analyzing information and reporting the results. A case study assists in structuring the thinking of the researcher. A case study design is most appropriate when a detailed analysis of a single unit of study is desired as it provides focused and detailed insights to phenomena that may otherwise be unclear.

A case study is a method of study that drills down rather than cast wide (Mutuku 2004). One of its major advantages was enabling an in-depth understanding of the behavioral pattern of the concerned unit and facilitating intensive study of the concerned unit. A case study was the most appropriate design since KRB is a distinct institution offering unique services and cannot be compared with any other institution.

3.2 Data Collection

Primary and secondary data was collected. Primary and Secondary data sources are the most appropriate sources of information in a case study. This is because a case study requires that several sources of information be used for verification and comprehensiveness (Cooper and Schindler, 1998).

Secondary data was collected from materials available in the organization mainly, the strategic plan, annual reports and various guidelines. Primary data was collected through personal interviews of the board of directors and the general managers of KRB.

The respondents were interviewed with the assistance of the interview guide (Appendix 1) which is a set of open ended questions. This enabled oral administration of the questions in a face to face encounter therefore allowing collection of in depth data. Additional questions were introduced to the respondent either to clarify a response or to get further information.

3.3 Data Analysis

The data collected was summarized and analyzed according to the identified study themes namely, involvement in strategic planning. Resource allocation, monitoring of top management, internal controls, disclosures and reporting, management of meetings, social responsibility, risk management and succession planning. Data was analyzed using content analysis. Content analysis is to study existing information in order to determine factors that explain specific phenomena. Data was coded on the theme basis. The response/opinion of the respondents was analyzed to determine the practices that the board of directors has adopted. This method has been used successfully by Kamathi (2003), Wang'ombe (2003) and Mutuku (2004).

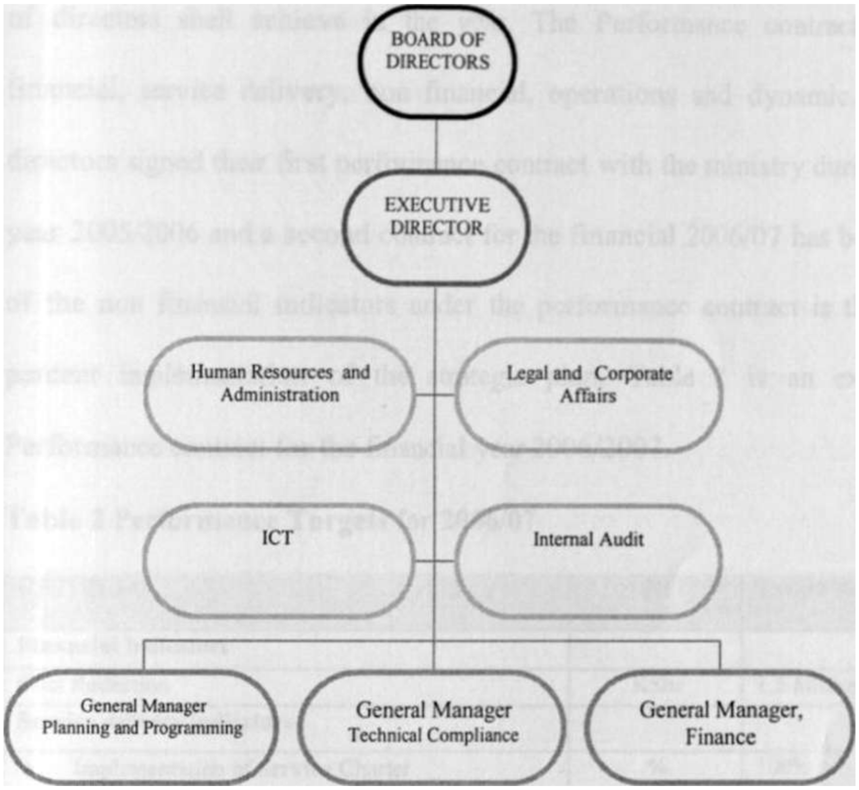
CHAPTER FOUR - FINDINGS AND DISCUSSION

4.1 Involvement in Strategic Planning

Most of the directors indicated that they were involved in the strategic planning process especially the formulation of the organizations strategic plan. In particular they set the mission and vision of the organization while the mandates are as provided for by the KRB Act. Most of them understood well the mandates of the organization.

The strategic planning process in KRB involves the setting and/or review of the vision, mission and core values, stakeholder's analysis, situation analysis, objectives and strategies setting. A strategic plan for five years was set in 2003 but the plan is reviewed every year. During the review of the strategic plan, targets for the coming year are set, the vision, mission, core values, objectives, stakeholder analysis and situation analysis are reviewed. Strategy formulation process involves directors, senior and medium management. The targets set for each given year are assigned to all the departments and sections. KRB has three departments and four sections. The departments are planning and programming, Technical Compliance, performance and financial audits and Finance and Administration. The sections are Human Resources and Administration, Legal and Corporate Affairs, Internal Audit and Information and Communication Technology. Figure 1 shows the organization structure of Kenya Roads Board

Figure 1: Organization Structure KRB



Source: KRB Strategic Plan, 2003-2008

Once the targets are set at the corporate level, each of the departments and sections then develops a departmental/section plan which carries along the strategies and activities contained in the corporate plan. After strategy formulation and implementation, the management gives quarterly reports of the quarterly targets to the Finance and Management Committee of the Board. The Board of directors then evaluates the implementation of the plan at the end of each quarter.

KRB board of directors has also signed a performance contract with the Ministry of Roads and Public Works. The performance contract sets out the targets that the board of directors shall achieve in the year. The Performance contract indicators arc financial, service delivery, non financial, operations and dynamic. The Board of directors signed their first performance contract with the ministry during the financial year 2005/2006 and a second contract for the financial 2006/07 has been signed. One of the non financial indicators under the performance contract is the one hundred percent implementation of the strategic plan. Table 2 is an extract from the Performance contract for the financial year 2006/2007.

Table 2 Performance Targets for 2006/07

	CRITERIA	UNIT	Target 06/07
A	Financial Indicators		
	Cost Reduction	KShs	1.S Million
B	Service delivery indicators		
	• Implementation of Service Charter	%	100%
	• Customer Satisfaction	%	-Status report (implementation) 20%improvcment
C	Non-financial Indicators		
	• Compliance with strategic plan	%	100
	• Systems Analysis (for ISO certification)	Status/%	-ISO implementation plan 25% plan implemented
D	Operations		
	• Annual Public Roads Programme(APRP)		
	- Approved APRP FY 06/07:	Date	1/08/06
	- Publish APRP FY 06/07	Date	30/08/06
	• Audits of KRB Agency funding	Compl.	02/03,03/04
	• Technical, Performance & Financial Audits - For FY 06/07		4 qtr rpts (including annual rpt for year 05/06
F.	Dynamic Indicators		
	• Organizational capacity		
	Skills Development	%	100% training programme implemented
	• Work Environment - Conduct baseline survey - Implement baseline survey results	Time %	- Dec 2006 - 40% improvement satisfaction achieved
	• Employee Satisfaction	%	20% above survey satisfaction level

Source: KRB, Performance Contract 2006/07

The board of directors has set itself to achieve the above targets. As outlined above, the organization is set to satisfy its stakeholders, improve on financial management, improve standards of service, improve operations and improve the welfare of the human resources. The above indicators lead to a well governed institution.

4.2 Resource Allocation

The financial year for KRB is July to June of every year. Kenya Roads Board receives 100% of the Road Maintenance Levy Fund collected in the Republic of Kenya. KRB utilizes a maximum of 3% of the fund towards its operations while the balance is allocated in accordance to laid down percentages to the road agencies (KRB, 1999). KRB maintains an annual operations account and the agencies account. The agencies allocations are consolidated into an annual public roads programme (APRP) which is submitted to the Minister for finance and Minister for roads and public works for approval. The approved APRP forms the basis for funds allocation in the coming financial year. The operations budget and the APRP are revised in December of each year to accommodate changing conditions and needs. The operations accounts of KRB shows the funds allocated to the road agencies as a line item. Table 3 shows an abstract of KRB budget.

Table 3 - KRB Budget 2006/07

EXPECTED REVENUES KRBK		
Road Maintenance Levy Fund		15,081,000.000
Toll Collection		266,500,000
Produce Cess		60,000,000
TOTAL FUND REVENUE		**15.407,500.000**
PROJECTED CEILINGS KRBF		
KRB Operations	2.0%	301,620,000
ROADS MAINTENANCE NCC	1.0%	150,810,000
ROADS UNDER CLASS A. B AND		
Roads Department	57.0%	8,596,170,000
Transit Toll		266,500,000
		8,862,670,000
URBAN ROADS		
MOLG for urban roads	7.0%	1,058,100,000
PARK ROADS		
Kenya Wildlife Service	0.7%	100,000,000
DISTRICT ROAD COMMITTEES		
MOR&PW FOR CLASS D, E & OTHER ROADS	11.4%	1,720,000,000
DRC - EQUITABLE	4.9%	741,340,000
DRC- (PRODUCE CESS)		60,000,000
DRC - ROADS IN CONSTITUENCIES	16.0%	2,412,960,000
TOTAL	**100.0%**	**15,407,500.000**

Source: KRB Budget guidelines 2006/07

KRB operations accounts further shows how the funds for the year allocated to KRB operations shall be utilized. It is mainly divided into two, namely recurrent and capital expenditure. Table 4 is an extract of KRB operations budget.

Table 4. - KRB operations budget 2006/07

ITEM	DESCRIPTION	FORECAST	FORECAST
		2005/2006	2006/2007
INCOME			
	Funds from RMLF	279,000.000.00	301,620,000.00
	Interest	3,500,000.00	
	Sale of Tender	100,000.00	
TOTAL AVAILABLE FUNDS FOR KRB OPERATIONS		**282.600.000.00**	**301.620.000.00**
EXPENDITURE			
CAPITAL INVESTMENT		10,000,000.00	6,600,000.00
RECURRENT COSTS		268,842,229.15	295,020.000.00
	TOTAL BUDGET	**278,842,229.15**	**301,620.000.00**

Source: KRB Budget guidelines 2006/07

Capital investments included purchase of computers, office equipments and office partitioning. Recurrent expenditure included staff costs, director's costs, office running expenses, advertising and publicity, Research and development and contingent liability. The directors were conversant with the constitution of the budget and understood the funds allocations well. This is a clear indication that the budgeting practices in the organization are clear and enhance transparency. The greatest challenge is accountability for the funds.

4.3 Monitoring of top Management

The Chief Executive Officer and the senior managers are appointed by the Board. The Chief Executive Officer referred to as the Executive Director is recruited through a competitive process. The board of directors invites applicants for the post through the print media. The applicants are interviewed by the board of directors and the best three candidates are recommended to the Minister for Roads and Public works for selection. The Board of directors then appoints the Executive Director in consultation with the Minister for Roads and Public Works. The senior managers are also recruited by the board of directors through a competitive process.

The Board of directors signs a performance contract with the Executive Director every year. The first time this was achieved was in the financial year 2005/2006. The targets in the performance contract are primarily the same as those contained in the Performance Contract between the Board of directors and the Ministry for roads and public works. The Executive Director sets quarterly targets on the performance contract and report to the Finance and management committee on a quarterly basis.

The Executive Director also signs performance contracts with the Heads of Departments whose targets are anchored on his performance contract. The Heads of Department report on a monthly basis to the Executive director on the extent of the targets. The Heads of Departments and Sections sets targets for the staff working under them. The performance of the Executive Director at the end of the year is then evaluated on the basis of the agreed targets. The Board of directors conducts a board evaluation exercise after three years to evaluate their own performance and that of the Executive Director on corporate governance issues.

The directors are concerned with the welfare of the human resources within the organization. Indeed they recognize them as the most important resource and one ol the core values under the Strategic Plan is concern for staff welfare. However it appeared that the board of directors only discussed human resources matters when the CEO brings the matters into the agenda of the Board. The board is not proactive on human resources matters.

4.4 Internal Controls

KRB has the internal audit unit. The Head of the unit reports to the Audit Committee of the Board. The audit finings are then addressed by the Board. KRB has a financial manual that prescribes how internal financial transactions shall be handled. It prescribes what document is to be filed and the authorizing and payments receipts. In all cases the user departments signs payment vouchers which is countersigned by the finance department. Procurement of goods and services is initiated by the user department and processed by the procurement unit.

The utilization of funds is monitored closely by use of management accounts which are presented to the Board of directors every quarter. Funds allocated to the road agencies are monitored through the use of technical compliance, performance and financial audits which are carried out every quarter and as report submitted to the board of directors for consideration. Though the above is the ideal situation, it was apparent that the system had not been achieved. The audits were below schedule and sometimes the management accounts took as long as six months to be considered by the board of directors. The final accounts are audited by the controller and auditor general. Though the directors note that the ideal position is where the accounts were audited and reported on within six months from the end of the financial year, they acknowledged that the system had not been achieved. The latest audited accounts were for the financial year 2002/2003. The directors a admitted that the late auditing resulted in weak monitoring of funds by the board.

KRB was set up with the mandate of managing the RMLF. Other than allocating funds they would be expected to ensure that the funds were properly utilized. This would be achieved through close monitoring and audits. KRB is accountable to the public and the Government of Kenya for the funds that have been entrusted on them. The board of directors must therefore ensure that there is effective monitoring and audits of the funds. Most directors acknowledged that KRB had commissioned auditors to enhance the audit and monitoring of funds. However, they admitted that the reports of the utilization. This as most directors admitted was an area that needed improvements.

4.5 Disclosures and reporting

The Board does not have in place a documented policy on reporting and disclosures. However the Performance Contract between KRB and the Ministry of Roads and Public Works requires the board of directors on a quarterly basis to report the achievements on the performance contract against the set quarterly target.

KRB is expected to inform the public of their activities on a regular basis. To this end the Annual Public Roads Public is supposed to be published through the print media every year. The Annual Public Roads Programme (APRP) 2005/06 was published during the year while the one for the financial 2006/07 was expected to be published in the year 2006/07. Liaison with stakeholders was not entrenched in the activities of the board of directors. Although the Annual Public Roads Programme was published the mechanism for receiving feedback and discussing issues with the stakeholders on the programme was not well developed. Most of the directors acknowledged that although KRB had organized and participated in various forums with stakeholders, the feedback mechanism was also not well developed. A deliberate move should be made to dialogue with stakeholders more often and more effectively.

4.6 Board Meetings

The board of director meets every month and sometimes more than once in a month. The Act that establishes KRB requires the board of directors to meet at least once every month (KRB, 1999). Every month the board meets to allocate and disburses available funds to the road agencies and for its own operations. Every three months the board considers the management accounts and the performance contract achievements of the Executive Director. The Board also receives reports every month from Committees that may have met during the month. Decisions in the board meetings are taken by consensus. All the directors are given opportunity to air their views during discussions. Issues are discussed in an open manner and in a free atmosphere.

If any director has an interest in a matter before the deliberations by the board, they declare such interests and disqualify themselves from taking part in the discussion of the matter. Though the issue of conflict of interest had not arisen, the board charter indicated that if a matter poses obvious conflict of interests the director should leave the meeting during its deliberations. At about February of every month, the board discusses the annual budgets. At about September of each year the board considers and discusses the accounts for the previous year for submission to the Controller and Auditor General for audit.

The board of directors has four functional and standing committees namely, tender, technical, finance and management and audit. The Committees have clear terms of reference and report to the board of directors on a regular basis the deliberations and recommendations for adoption. The Committees are composed of members of the Board and the senior management staff. Committees are supposed to meet on a quarterly basis but they meet whenever the business of the organization dictates and when directed by the board of directors. Ad hoc or special committees are formed to discuss specific matters after which they are disbanded.

The directors did not regularly receive papers for the meetings on time. In most cases they did not receive papers before the meeting. The lack of receipt was attributed by management to the frequency of the Board meetings leaving very little time to prepare minutes, circulate them and prepare and circulate papers on time before the meeting. In isolated cases, papers were sent to the directors but only a few days to the date of the meeting. Directors felt that though the meetings appeared frequent the business of the organization dictated more time for meetings. Indeed they pointed out that few were the meetings that they exhaustively discussed the agenda. In almost all meetings some items in the agenda have been carried forward. Most directors believed that the issue before them for discussion were policy issues and required a decision by the board. They however felt that the lengthy and frequent meetings would be reduced if

Committees were given more autonomy to handle most of the issues. Matters requiring lengthy deliberations are discussed during special meetings convened for that purpose only. This is to give time for in depth analysis of the matter. Such matters are budget and works programme approval, setting performance targets, evaluating performance and approval of annual plans

The board had developed a board charter. They believed that the board charter was a good document to guide the affairs of the board of directors. Though the directors recommend their allowances to the Minister for Roads and Public Works, the upper limits of the allowances are given by the Office of the President. They can only recommend allowances that are contained in circulars from the office of the President ad provided that they do not surpass the upper limits. They however send ad hoc requests to the office of the President on several issues on their entitlements both remunerative and non remunerative and some have been approved. The directors felt that the sitting allowance paid to them was sufficient but perhaps other allowances would be introduced to cater for other duties outside meetings like field trips.

A board meeting every month and in some cases two meetings may be burdensome on the CEO and management. The board should consider ways of reducing the frequency of the meetings without compromise of their role. A meeting per quarter for a board is considered adequate to enable management to implement the decisions. The CEO on the other hand should as much is possible ensure that directors receive papers for deliberation before the meeting to enable them to prepare.

4.7 Social Responsibility

KRB had in place a draft Social responsibility policy. The policy had not been implemented. Social responsibilities activities were limited to the end of year visitations to destitute homes mainly by the staff and directors using personal donations.

However one of the objectives in the organizations Strategic Plan was to enhance social responsibility under which several activities had been suggested for example participation in HIV-Aids awareness activities and implement the social responsibility programme. The social responsibility programme was not in place. The boards of directors need to take up issues of social responsibility forward due to the growing demand for organizations to be responsive to the needs of the society. KRB like all other organizations operate in an open system. It depends on the environment or society for inputs and consumption of its output. It should therefore promote the society in order to survive in the now growing turbulent environment.

4.8 Succession Planning

The appointment of the Board of directors of KRB was provided for by the Kenya Roads Board Act. The Act does not give any framework for the rotation of the directors particularly those from the private sector. In practice when the first board of directors retired in June 2003 one director out of the eight from the private sector was retained. When the second board retired in August, 2006, three out of the eight directors were retained for a further term of three years.

The Executive Director has three deputies' namely the general managers. While he is away, he leaves any of them to handle the duties of his office. The selection criteria for the acting General Managers are not documented. The General Managers have deputies who handle their officers while away. Again the selection criteria are not documented. The Board of directors should pursue the matter for the succession of the Board of directors particularly to ensure that the directors retire at different time. This will avoid the disruption of the organizations business. They should further ensure that there is a succession plan for the top management. This would be achieved by training and development of the personnel deputizing the top management.

4.10 Risk Management

Most respondents felt that the greatest risk that faces KRB was the possible scrapping of the RMLF and the dissolution of KRB by parliament. Though other sources of funds were identified KRB seemed to rely heavily on RMLF. If the levy was abolished the Board would not have any source of funds and would collapse. There was no documented policy on the risks management within the organization. While the risk areas had been identified, most respondents admitted that the issues of risks and their management have not been given a lot of attention by the board of directors.

Risk management today's is a must for survival. Though it is general agreed that not all the risks that face organizations will occur, it is good practice to develop strategies to counter or manage any one of they should they arise. The strategic plan contains one strategy of widening the financial base of KRB by getting other sources of road funds to be managed by KRB. This strategy did not have well developed activities to achieve it. It is unclear

activities within the organization.

CHAPTER FIVE - SUMMARY CONCLUSION AND RECOMMENDATIONS

5.1 Summary

Good corporate governance practices ensure firms profitability and long term sustainability. One of the key structures of corporate governance is the board of directors. KRB is the only organization in Kenya that oversees the road network. It is a unique state corporation in that it is charged with the responsibility of ensuring that the funds set aside by the Government of Kenya for roads maintenance, rehabilitation and development are utilized in a prudent manner to get value for money. It acts as an abiter between the road users, that is, those who pay the fuel levy and the road works implementation agencies. It is a watchdog for the road users to ensure that the funds they pay as fuel levy for maintenance of roads are applied for the intended purpose. The road sector receives a sum in excess of 4% of the country's Gross Domestic Product. Due to the importance of road in economic development of Kenya, the practices of the oversight body needs to be such that they ensure efficiency and effectiveness.

The study sought to determine and assess the corporate governance practices of the board of directors of KRB. Various practices were identified namely, involvement in strategic planning processes and resource allocation, monitoring of top management on a continuous basis, formation of board committees especially the audit committee and regular meetings of the board and limited disclosures and reporting. The board of directors was closely involved in strategic planning right from the formulation of the plan through to evaluation and monitoring of the plan. They set the mission and vision of the organization as well as formulate policies. The Board of directors ensures that all the directors take a course on principles of good corporate governance. The Chairman also ensures that all directors undergo an induction programme. By the above training the directors are prepared to put in place good corporate practices. The study establishes that though some practices had not been entrenched into the practices of the board of directors, directors were aware that they needed to be in place. The relationship between the management and the board of directors was found to be cordial but needed effective communication to build teams. The board of directors closely monitored the performance of the top management, appointed them and determined their remuneration. The board approved budgets and periodically monitored the utilization of the funds. Stakeholder's analysis and response to the changing needs appeared inactive though documented. Succession planning had not been put in place while social responsibility was practiced at a low scale. Risk management issues had not been adequately addressed but the board of directors was sensitive to them.

5.2 Limitations of the study

The study respondents came from within the organization making it difficult for the researcher to verify some responses. This posed the risk of getting responses that were dressed. Far and wide however, most of the responses were collaborated by the secondary data. Perhaps if external respondents were interviewed the responses would

have been different. Nevertheless the data collected gave a broad guideline on the practices that the board of directors had adopted.

5.3 Conclusion

From the study it is clear that while the board of directors of KRB has adopted good corporate governance practices, their implementation was a bit staggered and skewed. There is plenty of room for improvement on the management of meetings of the board of directors. In particular there's need to ensure that directors receive papers for discussion well in advance to enable them to prepare adequately for meetings.

There is also need to narrow down issues presented to the board to policy issues. This will save meeting time as directors will not have to discuss the day to day management of the organization. To get this clear division and separation of duties, there's need for education of directors and management on their respective roles. This will save time for management and directors. It will also remove the tendency of management being suspicious of director's intentions and vice versa hence create trust. It will remove "them" against "us" syndrome. There is need for the board of directors to device appropriate policies to guide the monitoring and auditing of funds. This will ensure that the reporting on funds utilization is timely. Such reports should also be disseminated to the stakeholders to enlist their support.

The board of directors need to embrace tenets of good corporate governance, that is, set policies that develop the organization, ensures effectiveness of meetings, set long term goals, monitor and encourage top management, enhance internal controls, arc responsive to the needs of the stakeholders, enhance reporting and disclosure, address issues of risk management. The above will assist the organization to achieve its mandates and give value to the shareowner.

5.4 Suggestion for further study

KRB is a relatively young organization having been formed in the year 2000. KRB is a child of the reform process in the road sub sector. Having been operational for about five years, there is need to assess whether the organization's existence has changed the direction in the road sub sector. If there has been change, there may be need to assess and determine how KRB has contributed to these change.

The summary findings of the study indicate that the board of Kenya Roads Board has substantially put in a place appropriate practices for the management of successful organizations. However what needs to be established is perhaps whether KRB as an organization has discharged its duties and mandates successfully and if yes, whether the success is attributable to the practices that the board of directors has put in place. It is therefore recommended that a further study be undertaken in future to determine the influence of KRB in the road subsector.

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APPENDIX 1

INTERVIEW GUIDE

NAME OF COMPANY.

PART ONE

1. POSITION IN THE BOARD

A. Executive Director

B. Chairman Name

C. Director

D. Management

E. Others (Specify)

2. LEVEL OF EDUCATION

A. Below Degree level [ ]

B. Degree Level [ ]

C. Advanced Degree Level [ ]

3. GENDER

A. Male [ ]

B. Female [ ]

DATE OF APPOINTMENT

4. INTERVIEW GUIDE

1. Do you feel that the directors understand the business of KRB as a whole and success drivers in the road sub sector?

2. To what extent are you involved in the strategic planning process in the Board?

3. Are directors capable of thinking strategically and imaginatively?

4. Do you feel that the Board of directors is in control of the management of KRB?

5. Does the Board meet too often?

6. Do members receive Board papers on time and prepare adequately for meetings?

7. Does the play a constructive role in testing and refining policies brought by management?

8. Do you feel that the directors can raise dissenting views during discussions in meetings in a free atmosphere?

9. Do you feel that all directors discuss issues at the same level or some may have had prior discussions?

10. Does any individual or group dominate the board discussions?

11. Has the board operated effectively in its conduct and management of the Committees?

12. Do you think the resources of the operations of the Board are prudently utilized and that appropriate controls are in place?

13. Is succession for directors and that of top management adequately provided for?

14. Do you feel that the Board has adequately been communicating with its stakeholders?

15. Are decisions in the Board taken by consensus or by voting?

16. Do directors understand the financial statements brought to the board and do you think directors are properly appraised of the financial performance of KRB?

17. Do directors have an effective capacity to identify, analyze and respond to the different types of risks that face KRB?

18. How are issues of conflict of interests handled in the Board?

APPENDIX 2

INTRODUCTION LETTER

Lucy Kabura Gathika
c/o University of Nairobi
P.O. Box 30197,
NAIROBI

RE: **CORPORATE GOVERNANCE: THE PRACTICES OF THE BOARD OF DIRECTORS IN KENYA ROADS BOARD**

I am a student at the University of Nairobi pursuing a course leading to the award of a Masters degree in Business Administration (Strategic Management). As part of the course a students is required to carry out a research project into an area that the student feels will add value to the pot of knowledge.

My area of interest is Corporate Governance: The practices of the Board of Directors of Kenya Roads Board. The study aims at determining and assessing the corporate governance practices of the Board of directors of Kenya Roads Board.

This is to request for your assistance in achieving the above objective by giving me an appointment on when I could discuss the issues related thereto. The information received from you shall not be disseminated to others without your consent. You shall also not be quoted in any part of the project.

A copy of the final project will be made available to you upon request.

Your assistance shall be highly appreciated.

LUCY KABURA GATHIKA