THE RELATIONSHIP BETWEEN CORPORATE GOVERNANCE
AND FINANCIAL PERFORMANCE OF STATE OWNED
COMMERCIAL ENTERPRISES IN KENYA

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DECLARATIONS

I hereby declare that this research project is my original work and has not been submitted for examination in any other university.

Signature…………………… Date……………………

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Supervisor

I hereby declare that this research project has been submitted with my approval for examination as the University Supervisor.

Signature…………………… Date……………………

Mr. Cyrus Iraya.
ACKNOWLEDGEMENT

The journey that made this project work a dream come true in my academic sojourn has not been easy. It has been a blend of tireless efforts, sleepless nights and challenges meant to make me a whole person. I was able to attain this through the contributions and support from some very special persons to whom I offer my greatest gratitude;

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Above all, is to the Almighty God for the good health and favor in this wonderful world.
DEDICATION

I dedicate this work to my dear parents Mr. & Mrs. E. U. Amadi, who nurtured in me the desire to work hard and for giving me an inspiration to pursue my education to this level. Dad and Mum I will be forever grateful for your constant unselfish love and care.

To my siblings Lydia, Abby, Eva, Jeff, Josy, Mike and Daddy for their love, generous support and constant encouragement throughout my Master of Business Administration course at the University of Nairobi.
ABSTRACT

The environment in which the state owned commercial enterprises operate is not static; it is made up of radically changing internal and external behavior patterns. The aim of this study was to establish whether there is a relationship between the corporate governance and financial performance of state owned commercial enterprises in Kenya. The study was conducted using data from 127 state owned enterprises. The sample was selected based on the percentage of the Government of Kenya (GoK) shareholding. Half (50%) of both the majority (between 51% to 99% ownership) and minority (50% and below ownership) GoK shareholdings commercial enterprises were selected, this made a sample of 42 state owned commercial enterprises. The questionnaires were administered to senior officers of the sampled 42 state owned commercial enterprises in Kenya; these are the Directors, CEOs, Managers and Chief Officers. Out of the 42 questionnaires distributed; 33 questionnaires were received back fully answered, making a response rate of 78.50%. This was an excellent response as per the case of Mugenda (2003). The corporate governance elements employed in the study were the size of BODs, their gender, their educational level, their working experience, their independence, the audit committee’s competence and the duality of the CEOs, which were all found to be directly related to the financial performance of the state owned commercial enterprises. Regression model was employed in the analysis of data to estimate the quantitative effect of corporate governance on the financial performance of the state owned commercial enterprises in Kenya. The study established a Pearson correlation value R of 0.5713 which depicts that there is a linear dependence of corporate governance elements on return on assets (ROA). R square revealed that governance attributes influenced about 76.85% of variation in return on asset. The value of adjusted R square was established to be of 77% which clearly brought out that the relationship between the ROA of the state owned commercial enterprises and corporate governance is strongly positive. Generally, the study came to a conclusion that there exists a positive relationship between corporate governance and financial performance of the state owned commercial enterprises in Kenya. This implies that a good corporate governance practices (a bigger size of BODs of at least 12 members with an inclusion of female members, ensuring the directors are well educated and have a good experience in their respective area of study, the audit committee’s independence and competence and allocation of the positions of the CEO and COB to different parties) enhances good financial performance of the enterprises. Therefore, the policy makers and the management of the enterprises need to ensure that the tenets of good corporate governance are applied to the latter so as to enable them realize a better financial performance.
# TABLE OF CONTENTS

DECLARATIONS ........................................................................................................................... ii  
ACKNOWLEDGEMENT .............................................................................................................. iii  
DEDICATION ................................................................................................................................ iv  
ABSTRACT ..................................................................................................................................... v  
TABLE OF CONTENTS ................................................................................................................ vi  
ABBREVIATIONS ........................................................................................................................ ix  
LIST OF TABLES ........................................................................................................................... x  
CHAPTER ONE .............................................................................................................................. 1  
INTRODUCTION ........................................................................................................................... 1  
  1.1 Background of the Study ....................................................................................................... 1  
    1.1.1 Corporate Governance .................................................................................................. 2  
    1.1.2 Financial Performance .................................................................................................. 3  
    1.1.3 Corporate Governance and Financial Performance ...................................................... 4  
    1.1.4 State Owned Commercial Enterprises ........................................................................ 6  
  1.2 Research Problem ............................................................................................................... 8  
  1.3 Research Objective ........................................................................................................... 10  
  1.4 Value of the Study ............................................................................................................. 10  
CHAPTER TWO ........................................................................................................................... 12  
LITERATURE REVIEW ................................................................................................................ 12  
  2.1 Introduction ....................................................................................................................... 12  
  2.2 Theories of Corporate Governance .................................................................................... 12  
    2.2.1 Agency Theory ............................................................................................................ 12  
    2.2.2 Stakeholders Theory ..................................................................................................... 14  
    2.2.3 Stewardship Theory ..................................................................................................... 15  
    2.2.4 Resource Dependency Theory ..................................................................................... 16  
  2.3 Determinants of Financial Performance on the State Owned Commercial Enterprises ...... 17  
  2.4 Empirical Studies .............................................................................................................. 18  

vi
2.4.1 Local Empirical Studies ................................................................. 18
2.4.2 International Empirical Studies .................................................. 20

2.5 Summary of the Literature Review .................................................. 21
CHAPTER THREE .................................................................................. 23
RESEARCH METHODOLOGY ................................................................ 23
3.1 Introduction ................................................................................... 23
3.2 Research Design ........................................................................... 23
3.3 Target Population........................................................................... 23
3.4 Sample and Sampling Design ....................................................... 23
3.5 Data Collection ............................................................................. 25
  3.5.1 Data Collection Procedure ......................................................... 25
3.6 Data Analysis ............................................................................... 26
  3.6.1 Analytical Model ...................................................................... 27
  3.6.2 Test of Significance .................................................................. 27
CHAPTER FOUR ..................................................................................... 29
DATA PRESENTATION AND ANALYSIS ............................................ 29
4.1 Introduction .................................................................................. 29
4.2 General Information about the Respondents .................................. 29
4.3 The Analysis of the Corporate Governance Elements ..................... 30
  4.3.1 The Size of the Boards of Directors ......................................... 30
  4.3.2 The Gender of the Board of Directors ..................................... 31
  4.3.3 The Highest Level of Education of the Boards of Directors ....... 32
  4.3.4 The Working Experience of the BODs ..................................... 34
  4.3.5 The Independence of the Boards of Directors ......................... 35
  4.3.6 The Audit Committees ............................................................. 37
  4.3.7 The Duality of the Chief Executive Officers .............................. 39
4.4 Inferential Statistics ....................................................................... 42
  4.4.1 Correlation Analysis ................................................................. 42
  4.4.2 Regression Analysis ................................................................. 44
4.5 Discussions ....................................................................................................................................... 47
  4.5.1 Comparison with the Previous Studies in the Same Area......................................................... 48
  4.5.2 Response to the Study Objective .............................................................................................. 49

CHAPTER FIVE ...................................................................................................................................... 50
SUMMARY, CONCLUSION AND RECOMMENDATIONS ............................................................... 50
  5.1 Introduction................................................................................................................................... 50
  5.2 Summary of the Study .................................................................................................................... 50
  5.3 Conclusion of the Study .................................................................................................................. 52
  5.4 Policy Recommendations.............................................................................................................. 52
  5.5 Limitations of the Study ................................................................................................................ 53
  5.6 Suggestions for Further Research ................................................................................................. 54
REFERENCES ........................................................................................................................................ 55
APPENDICES ....................................................................................................................................... 58
  APPENDIX I: LETTER OF INTRODUCTION .................................................................................. 58
  APPENDIX II: RESEARCH QUESTIONNAIRE ............................................................................... 59
  APPENDIX III: STATE OWNED ENTERPRISES IN KENYA .......................................................... 62
ABBREVIATIONS

AGM – Annual General Meeting

ANOVA – Analysis of Variance

BODs – Board of Directors

CEO – Chief Executive Officer

COB – Chairman of the Board

CMA – Capital Market Authority

GOC – Government Owned Corporations.


IPO – Initial Public Offer

KPA – Kenya Ports Authority

NGOs – Non Governmental Organizations

NSE – Nairobi Stock Exchange

ROA – Return on Assets

ROE – Return on Equity

ROI – Return on Investments
LIST OF TABLES

Table 3.1 Sampling Table.................................................................22
Table 4.1 Response Rate.................................................................26
Table 4.2 Gender of the BODs.........................................................29
Table 4.3 The Highest level of education of the BODs.......................30
Table 4.4 Average Highest Level of working experience of BODs...........31
Table 4.5 Independence of the BODs...............................................33
Table 4.6 Audit Committee...............................................................35
Table 4.7 Duality of the CEOs.........................................................37
Table 4.8 Correlation Coefficient of Financial Performance...................39
Table 4.9 Model Summary...............................................................41
Table 4.10 Regression Coefficient Results.........................................42
CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

Over the past two decades, the governance of companies in Kenya has attracted much attention. Following a number of high profile corporate collapses, a number of regulatory changes aimed at improving corporate governance have been implemented. Corporate governance has become an important topic for investors, state owned enterprises and the government as they recognise the need to compete domestically as well as globally. Corporate governance is now recognised as a key business discipline in promoting the investor’s confidence and the general economic growth. A company’s corporate governance structure influences the setting and implementation of its objectives, monitoring and assessment of risks and the performance optimisation. The presence of an effective corporate governance system helps in providing the confidence necessary for the proper functioning companies in an economy (Wamalwa, 2003).

According to Chiggai (2013), good corporate governance must be applicable to all organizations in order to ensure that organizational goals and objectives are realized through good stewardship of resources. Principles of good corporate governance are the fundamental foundations on which effective and successful enterprises are built and managed. In the public sector, corporate governance stands out to be more important than in the private sector as the Board of Directors (BODs) is the trustee of the “public assets” and the institutions have a dual economic and social objective. Effective corporate
governance in the public sector is essential for the optimization of resources, improving management and service delivery and for strengthening the accountability.

Kihumba (1999) confirmed that corporate Governance always acts as a set of structure and behavior by which a business entity is directed and managed. These set of structures and behaviors guides how the entity sets its objectives, develops strategies and business plans, reports on performance and manages risks. They also guide how directors and managers meet all expectations that they are responsible and accountable for. Inefficiency, financial impropriety and mismanagement have characterized most public sector financial management. Therefore, corporate governance needs to be emphasized as a means of revitalizing government's investment and increasing profitability of the state owned commercial enterprises.

1.1.1 Corporate Governance

Brown and Lisa (2012) defined corporate governance as the host of legal and non-legal principles and practices affecting control of publicly held business corporations. It is most often viewed as both the structure and the relationships which determine corporate direction and performance. The board of directors is typically central to corporate governance. The corporate governance framework also depends on the legal, regulatory, institutional and ethical environment of the community. Whereas the 20th century might be viewed as the age of management, the 21st century is predicted to be more focused on governance. Both terms address control of corporations but corporate governance has always required an examination of underlying purpose and legitimacy.
Corporate governance is significant to the growth, expansion and stability of the enterprises. It enhances investors’ confidence as well as provides platform for ensuring that duty of loyalty by managers to shareholders exist and that managers efficiently and effectively strive to maximize the firm’s general performance and the shareholders wealth. According to McKinsey (2000), more than 80% of the firm’s investors are willing to pay for the shares of well governed firms than poorly governed firms of comparable financial performance; this is because the investors will always do as much as they could to minimize the risks attached to their investments.

Bebchuk and Farrel (2004) through their analysis of corporate governance and firm performance provided the measure of corporate governance through the following elements: the size of BODs, their gender, their educational level, their working experience, their independence, the audit committee’s competence and the duality of the CEOs.

1.1.2 Financial Performance

Financial Performance is a subjective measure of how well an enterprise uses assets from its primary mode of business and generates revenues. This term is used as a general measure of a firm's overall financial health over a given period of time and can be used to compare similar firms across the same industry or to compare industries in aggregation. Financial Performance can also be viewed as the level of performance of a business over a specified period of time, expressed in terms of overall profits and losses (Stanwick, 2002).
The financial performance evaluation of a business allows the decision makers to judge the results of business strategies and activities in objective and monetary terms. This shows whether the management and the BODs continue to contribute effectively and if they are really committed to the role assigned to them. Good corporate governance provides improving efficiency and establishes an interactive investment climate. Among the most important benefits of implementing high standards of company’s management are: resource efficiency, lower cost of capital, increase investor confidence due to the reduction of sensitive discretionary attitude of managers and reducing corruption (Stanwick, 2002).

Pandey (2010) provided financial measures in terms of return on assets (ROA). The study uses ROA as a key performance indicator for state owned commercial enterprise’s in Kenya. This measure is an indicator of how profitable an enterprise is relative to its total assets. The ROA portrays how efficient management is at utilizing its asset to generate earnings. It is calculated by dividing net income by the average total asset. The result is then converted to percentage. The higher this percentage the more an enterprise has generated from smaller investment. On the other hand, a smaller ROA indicates that despite a higher investment of resources, an enterprise’s profit generated is low.

1.1.3 Corporate Governance and Financial Performance

The motivation to investigate the relationship between corporate governance and the financial performance of an enterprise can be seen from a dual perspective. In accordance with theories of costs, managers have an incentive to choose a level of governance to ensure compliance with all regulations for investor’s protection. Also it should be considered that the best governance practices such as improved communication and a low
level of vulnerability may cause investors to demand a lower risk premium. Managers can obtain an incentive to increase the efficiency on a voluntary basis of the company's governance practices with some low implementation costs. Enterprise’s performance is significantly influenced by the form of implemented corporate governance and the decision maker’s ability to identify and harmonize the interests of the most significant social partners. For developing the activity under high competitiveness, management should by all means avoid potential conflicts (Brymes, 2003).

Bebchuk and Farrel (2004) argued that a well governed entity has a higher financial performance. Their argument has been transformed time and again that the governance structure of any corporate entity greatly affects the entity’s ability to respond to the external factors that have some bearing on its performance. In this regard it has been noted that well governed entities largely perform better and that good corporate governance is of essence to all entities. The major objective of corporate governance is to ensure that among other things the strategic decisions are made in the interest of those with a stake in successful outcomes. The boards of directors have increasingly become focused on corporate shareholders, but a shift may be beginning to occur. The interests of shareholders such as customers, potential customers and non customers impacted by the decisions of a company may begin to get attention as corporate governance plays an increasingly strategic role.

Corporate governance has been seen from various theoretical perspectives. The theories address the cause and effect of corporate governance variables. Hence, it is argued that corporate governance is more of a social relationships rather than process orientated structure. In addition, these theories focused on the view that the shareholders’ aim to
effect good financial performance and profit maximization. Corporate governance is constantly changing and evolving and changes are driven by environmental dynamics. The environment has a fixed mindset of shareholders’ relationship with stakeholders and maximizing profits. The current corporate governance theories cannot fully explain the complexity and heterogeneity of corporate business. Governance varies due to its cultural values, political, social and historical circumstances. In this sense, governance for developed countries and developing countries can vary due to the culture and economic contexts of individual country (Donaldson and Preston, 1995).

For good financial performance, it is the responsibility of the corporate board to review and understand the financial statement and the position of the company so as to guide the prudent investment of funds to maximize the corporate net income and returns. Especially since the Sarbanes –Oxley Act of 2002 which introduced new responsibilities for financial reporting. Corporate boards must be vigilant regarding the strategic impact of the new requirement for the internal controls. Corporate boards must also review and understand the product portfolios and support the executive management team. Offering strategic oversight regarding adjustment to the product mix, approving or shifting capital investment to product categories will always be the most potential to maintain and grow revenue streams and manage expenses (Chiggai, 2013).

1.1.4 State Owned Commercial Enterprises

State owned commercial enterprises are legal entities that are created by the government in order to partake in commercial activities on its behalf. They are partially owned by the government and typically earmarked to participate in commercial activities.
Commercially oriented State Corporations do not depend only on the Exchequer funding to meet their operations but they have other financial sources, they are run for profit. Those that receive exchequer funding as the only source of fund, are wholly owned by the government and by nature they are not for profit but perform functions funded by the Government. State owned enterprises are also known as Government Owned Corporations (GOC) or Parastatals (Stanwick, 2002).

The Kenyan Government, through Sessional Paper No. 10 of 1965 on African Socialism and its Application to Planning in Kenya, resolved to establish state corporations with a view to: accelerate economic and social development, redress regional economic imbalances, increase Kenyan citizen’s participation in the economy, promote indigenous entrepreneurship and promote foreign investments through joint ventures. The Policy envisaged that the nationalized operations would operate efficiently, cover costs and earn profits. This marked the beginning of government investments in manufacturing and agricultural sectors that came to be referred to as state owned enterprises. State owned enterprises are established for implementation of government policies for socio-economic development. The principles for their establishment are operational autonomy, flexibility, results-orientation, value for money and greater accountability and transparency that are difficult to realize in mainstream government bureaucracy.

According to Leslie (2003), to ensure successful corporate governance in the state owned commercial enterprises the role of shareholders, directors and other employees must be clearly defined. The directors must be made accountable to somebody above them and be clearly aware that failure to give a good account will not go unpunished. Good corporate governance in the state owned commercial enterprises will ensure the following; First,
ensure entities are managed efficiently and effectively to ensure prosperity and survival. Secondly, ensure entities are led on the premise that the highest standards of integrity and ethics are maintained. Abuse of powers, corruption, laziness, conflict of interest and other such vices can all ruin organizations. Lastly, ensure employee’s participation in decision making. That is the employee empowerment.

1.2 Research Problem

Lefort and Walker (2005) provided the link between the corporate governance and the Firms performance. The poor performance of the corporate sector in Kenya and the world at large have made the concept of corporate governance a catch phrase in the development debate. This calls for attention to be paid on the demographic characteristics of the BOD, what kind of experience each of the board member has and the type of behavior that they portray. The quality of information that the board gets is also a key determinant of its effectiveness. This has to do with whether the information is timely, presented in the right context with the benchmarks and alternatives on different stakeholders have been taken into account. It will have significant impact on the quality of board’s decision.

Corporate governance involves focusing on the interest of directors, shareholders, employees and other stakeholders and how these interest can be expressed, aligned and reconciled to enhance the financial performance of the firm and to achieve long term strategic goals to satisfy its stakeholders. These desires in today’s society have made prompted a lot of studies on the field of corporate governance. Intermittent turmoil in the business environment, market failures, willful misrepresentation of material facts and financial crises owing largely to governance issues, coupled with changing circumstances
in the business environment continue to necessitate the drive for more research in corporate governance (Muthukumar, 2009).

There is need for the researchers to pay a special attention in this field of corporate governance since there are cases which are still pending to be investigated. The unresolved cases include the following: the research on corporate government practices have been concentrated on the quoted companies. Conclusions drawn from these studies are bound to be biased based on the size and may not have given accurate answers to questions asked about corporate governance practices. Further research work need to be conducted on the relationship between the size and corporate government practices to obtain a more inclusive study and the relationship’s specific categories for example, in NGOs, in government organizations and in family companies.

Several studies have been carried out in the area of corporate governance. Jebet (2001) examined the governance practices of the companies quoted in Nairobi Stock Exchange (NSE), Mwangi (2002) examined the governance practices in insurance industries while Mucuri (2002) examined the governance practices in the insurance industries in Kenya. Gakuo (2003) and Wang’ombe (2003) carried out their study on the corporate governance practices among the Non Governmental Organizations (NGOs) in Nairobi and in Kenya respectively. Mwangi (2004) looked at the factors that influence the BODs composition. Hussein (2003) based his study on the audit chapter, composition frequency of meetings and the effectiveness of the audit committees. This study however was only based on the whether the audit committees complies with the Capital Market Authority (CMA).
The corporate failures, managerial inefficiency, political instability, acts of terrorism and
general insecurity continue to pose serious challenges in the Kenyan economy today.
Events involving major corporate and business failures continue to impact the importance
of good corporate governance as a catch phrase necessary for ensuring the financial
health and viability of business entities. Therefore, one can hypothesize that there must
be a relationship between corporate governance quality and financial performance. As
evident in the above paragraph, the previous studies on corporate governance in Kenya
have mainly concentrated on insurance industries, Non Governmental Organizations
(NGOs) and the firms listed in the Nairobi Stock Exchange (NSE). The researchers have
to a large extent ignored the governance practices and financial performance of state
owned enterprises. This study therefore sought to address this knowledge gap and answer
the following question: how does corporate governance relate to financial performance of
the state owned commercial enterprise in Kenya?

1.3 Research Objective

To establish the relationship between corporate governance and the financial performance
of state owned commercial enterprises in Kenya.

1.4 Value of the Study

To the directors and management of state owned commercial enterprises, the study will
provide overall direction since it entails specification of the state owned commercial
enterprise’s objectives, developing policies and plans designed to achieve the set
objectives. It also enables the management to achieve and sustain superior performance
by overcoming business challenges, understanding industry trends and linking tangible actions to a clear corporate vision of the enterprises.

To the policy makers, the study will play a good role in making them gain a deeper understanding on the effects of the corporate governance on the financial performance of the state owned commercial enterprise’s as a whole. Thus they will come up with the policies that will help to improve their performance and the general performance of the Kenyan economy.

To the Academicians, the study will help them to develop numerous models and framework to assist in decision making and in understanding infinitely complex state owned commercial enterprise’s environments. It also acts as a contribution to the literature by filling the gap in the body of knowledge.
CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter provides information from other publications on the topics that are related to the research. It examines what the various scholars and authors have said about the effects of corporate governance on the financial performance of state owned commercial enterprises. It recognizes the fact that the previous works have broken the ground in this area of study and that new knowledge can be accumulated by recognizing and building on that. Research in this view is aimed at making new contribution to knowledge by adding on to the existing theories developed.

The specific areas covered in this chapter are corporate governance theories, the determinants of financial performance of state owned enterprises and the empirical evidences on the earlier works.

2.2 Theories of Corporate Governance

The theories of corporate governance discussed herein are; the agency theory, the stakeholders theory, the stewardship theory and the resource dependency theory.

2.2.1 Agency Theory

According to Jensen and Meckling (1976), agency is the relationship between the owners (Principals) and the management (Agents). The principals engage the agents to perform services on their behalf. As applied to corporate governance, the theory suggests a fundamental problem for absent or distant owners or shareholders who employ
professional executives to act on their behalf. The root assumption informing this theory is that the agent is likely to be self-interested and opportunistic, which raises the prospect that the executives (Agents) will serve their own interests rather than those of the owners (Principals). To counter such problems the principal will have to incur “agency costs”. Agency cost is the costs that arise from the necessity of creating incentives that align the interests of the executive with those of the shareholder. It is incurred by the necessity of monitoring executives’ conducts to prevent the abuse of shareholder’s interests.

It is important to note that agency theory is deductive in its methodology. Its assumptions have been the subject of extensive empirical research but this has typically relied on the testing of various propositions in relation to large data sets. The agency theorists have dealt more with exploring the effectiveness of the various mechanisms designed to make executives self interest serve shareholders interests. To date such studies have proved entirely equivocal in terms of the relationship between good governance and the firms’ performance. Agency theory assumptions have nevertheless been highly influential in shaping the reform of corporate governance systems. The first is the market for corporate control, the potential for takeovers to discipline executives by providing a mechanism whereby ineffective executive teams can be displaced by more effective executive teams. The second is the managerial labor market operates at an individual level; poor executive performance will threaten an individual's future employment potential whilst good performance will have positive reputational and hence career-enhancing effects (Jensen and Meckling, 1976).
2.2.2 Stakeholders Theory

According to Donaldson and Preston (1995), the stakeholder model was originally developed by Ed Freeman in the 1980s. Stakeholder theory challenges agency assumptions about the primacy of shareholder interests. Instead it argues that a company should be managed in the interests of all its stakeholders. The employee is obviously a key stakeholder and there have been arguments amongst governance academics such as Margaret Blair, that the employees just as much as shareholders are residual risk takers in a firm. An employee's investment in specific skills of a firm means that they too should have a voice in the governance of the firm. But stakeholder theory would also insist that other groups such as suppliers and customers have strong direct interests in company performance while local communities and the environment have legitimate indirect interests. According to stakeholder’s view, it is argued that it is hard to operationalize because of the difficulties of deciding what weight should be given to different stakeholder interests. On corporate governance, were the executives made accountable to all of a company's stakeholders they would, in effect be answerable to none. Enlightened stakeholder theory therefore suggests practical accountability to shareholders even if a board takes other interests into account in its conduct of the firm.

Kaplan and Norton's (1992) acknowledged the power of measurement on performance and the potential distortions on operational effectiveness that can arise from purely financial accounting measures like earnings per share or return on investment. In relation to company performance stakeholder theory has made a number of key contributions. The recent profusion of interest in business ethics can be traced to stakeholder ideas. Excessive levels of executive pay and the way these have often gone hand in hand with
company downsizing undermine the legitimacy of the demand for shareholder value. Corporate failures and associated pension fund collapses threaten both the basis of the traditional psychological contract as well as the license to operate that underpins the privileges afforded by society to corporate entities. Globalization has also brought with it the use of child labour, environmental damage and corruption. These might formerly have remained hidden from sight. The importance that is now given to corporate value statements, corporate ethics codes and social reporting reflect an acknowledgement of a wider set of corporate obligations beyond the delivery of shareholder value.

2.2.3 Stewardship Theory

Donaldson and Kay (1976) made a related set of observations about the motives of senior executives. Contrary to agency theory’s pessimistic assumptions about the self interested and self-serving motives of executives, stewardship theory suggests the potential for what it calls the “pro-organizational” motives of directors. What drives performance here is not the aligned greed of an executive but their personal identification with the aims and purposes of the organization. Stewardship theory refutes the assumption that executive aims and motives are opposed to those of the shareholders; both have an interest in maximizing the long-term stewardship of a company and are therefore already well aligned. This theory suggests potentially negative impact of a division of responsibilities between COB and chief CEO which negatively affects performance.

This theory assumes that managers are stewards whose behaviors are aligned with the objectives of their principals. The theory argues and looks at a different form of motivation for managers drawn from organizational theory. Managers are viewed as loyal to the company and interested in achieving high performance. The dominant motive,
which directs managers to accomplish their job is their desire to perform excellently. Specifically, managers are conceived as being motivated by a need to achieve, to gain intrinsic satisfaction through successfully performing inherently challenging work, to exercise responsibility and authority and thereby to gain recognition from peers and bosses. Therefore, there are non-financial motivators for managers (Donaldson and Kay, 1976).

2.2.4 Resource Dependency Theory

Pfeffer and Salancik (1978) originally developed the resource dependency theory. Unlike agency theory, their original ideas were inductively derived from empirical studies. Their key contribution is the observation that the board and in particular the constitution of the non-executive element of a board, can provide the firm with a vital set of resources. When an organization appoints an individual to a board, it expects the individual will come to support the organization, will concern himself with its problems, will variably present it to others, and will try to help it. Seeing the board as a source of resources for a company opens up a very different way of thinking about the board's role in creating high performance. Resources can take a variety of forms each of which can be argued to increase the company’s capital.

Non-executive directors can be a source of expertise which executives can draw upon, both in the form of specific skills as well as advice and counsel in relation to strategy and its implementation. They can also serve as an important source of contacts, information and relationships that allow executives to better manage some of the uncertainties in the environment. These relational resources can be both practical and symbolic; the
association of particular individuals with a company has the potential to enhance the reputation or perceived legitimacy of an executive team. Resource dependence theory allows us to think of the very different needs that companies have at different stages of their life cycle. The young entrepreneurial firm, even if owner managed, can look to its non-executive directors as a source of skills and expertise that it cannot afford to employ full time. Once a firm is publicly listed, then the provision of expertise will have to be blended with a “grown up governance”. Here the value of the non-executive lies not only in their expertise but also through their networks that give the company ready access to new markets (Pfeffer and Salancik, 1978).

2.3 Determinants of Financial Performance on the State Owned Commercial Enterprises

Pace of change and adaptation to innovations have become the key of performance and survival of the entities. In order to study the link between governance and performance, it is important to take into account the structure of the enterprise in accordance with the legal system in which it operates. As companies bearing the costs of implementing governance systems, they must understand how the financial system interacts with the law, since it is a key factor influencing the performance registered. Performance measurement systems were introduced, initially for leadership and then for public responsibility, which put difficulties in implementation. Various reports show how the shortcomings of such systems can adversely affect performance monitoring and responsibility practices. In such circumstances, the corporate governance system should cover internal control systems, performance measurement and quality assurance. In other
words, systems of responsibility and corporate governance need to manage any exposure of the company at risk (Bauer, 2003)

Performance measures implemented in a company should act as references for investor perceptions to internal changes and financial situation. Agency theory, as well as some specialists in the field says that a company's financial performance is inversely proportional to the size of the management structure. Thus, the increased number of directors of a company is negatively related to its financial performance. Performance evaluation was not included in the original code of corporate governance. There is only one principle which states that individual performance evaluation should show whether each manager continues to contribute effectively. Good corporate governance provides improving efficiency and establishes an interactive investment climate.

2.4 Empirical Studies

The empirical studies discussed herein includes; the local empirical studies and the international empirical studies

2.4.1 Local Empirical Studies

Makena (2013) sought to establish the influence of corporate governance on the performance of public organizations. A case of Kenya Ports Authority (KPA) was used. The factors considered included; Board composition, Management compensation, Governance structure and Board size. The sample size was 251 respondents of KPA’s employees. The study used primary data collected using questionnaires which were given to the respondents at their places of work. The data was then analyzed using multiple regression technique where the relationship between the independent and dependent
variable was determined. The study concluded that it was necessary to embark on good board composition in public organizations which would support them in achieving better performance. Further, the study established that most public organizations had opted to have relatively large board numbers with the different group compensation system.

A study by Ongore and K’Obonyo on Effects of Selected Corporate Governance Characteristics on Firm Performance examined the interrelations among ownership, board and manager characteristics on firm performance in a sample of 54 firms listed at the Nairobi Stock Exchange (NSE). These governance characteristics designed to minimize agency problems between principals and agents were operationalized in terms of ownership concentration, ownership identity, board effectiveness and managerial discretion. Reliability analysis was used to assess internal consistency. The results of the current study showed that managers should be protected from unnecessary direct interference by the shareholders. There was a positive relationship between insider ownership and the firm performance.

A study by Aduda, Chogii and Magutu (2013) with an objective of investigating from the point of two corporate governance theories (Agency Theory and Stewardship Theory), whether there is relationship between Board attributes and performance. The population of interest was all companies quoted at the NSE. The study covered a period of four years from 2004 to 2007. The study utilized secondary data based on the annual financial statements and reports of all the companies. Data on leadership structure, Board composition and directorate interlock was obtained from companies annual reports filed with the CMA library. The Conclusion of the study was that surveyed firms tended to favour outside directorships over inside directorships. The prevalence of outside
directorships was twice as much as for inside directorships. This tends to favour the competing theory of Agency Theory over Stewardship Theory.

Leslie (2003) studied whether or not the CEO and board chair roles were held by the same person and financial performance. They carried out a study on the effect of the duality of the CEO on the financial performance of the entities in the Nairobi Stock Exchange. They found a significant statistical association on Return on Equity (ROE), which was only one out of the three financial performance indicators they examined.

**2.4.2 International Empirical Studies**

Kiel and Gavin (2003) conducted a study on board composition and corporate governance. They examined the relationship between board demographics and corporate performance in 348 of Australia’s largest publicly listed companies and describe the attributes of these firms and their boards. They found that, after controlling the firm size, the board size is positively correlated with the firm’s value. They also found a positive relationship between the proportion of inside directors and the market-based measure of the firm’s performance. This confirms the stakeholders’ theory extends the definition of stakeholders to include even the employees.

Masulis (2007) examined the relation between CEO duality and organizational performance in Africa. Their study supports agency theory expectations about inferior shareholder returns from CEO duality. They studied a random sample of corporations from the Fortune 500. They identified corporations which had remained as either dual or independent chair CEO structures for each year of a six-year period (1978–1983). They found that corporations which had independent chair i.e. CEO structures had higher
return on equity (ROE), return on investment (ROI) and profit margins. It is thus desirable to assess effects of structure on shareholder returns controlling for industry effects. Thus, there is need for a further study of the relation of CEO duality and its effects.

Okeahalam and Akinboade (2003) reviewed the issues and challenges of corporate governance in Africa. They presented the reason for their review that many of the non-financial entities failed in Africa, United States and Asia due to the non-efficient corporate governance. They said that the countries of Africa can learn from the experience of those countries and may improve the governance for its corporate sector. The developing countries are now increasingly embracing the concept of corporate governance knowing that if well practiced it will lead to a sustainable economic growth.

2.5 Summary of the Literature Review

The theories of corporate governance range from Agency, Stakeholders, Stewardship and Resource dependency theories. The prevailing theory is the Agency Theory which is the dominant philosophical base behind the relationships between shareholders and the enterprises’ management. These theories lay emphasis on the major objective of the entities to maximize shareholder wealth through productive and dynamic efficiency which will end up attaining the major objective of the enterprise which is to maximize profits. Managers and directors have an implicit obligation to ensure that firms are run in the interests of shareholders wealth maximization. Therefore, it is important to re-visit corporate governance in the light of the convergence of these theories and with a fresh angle, which has a holistic view and incorporating subjectivity from different perspectives.
Generally, many empirical studies have been conducted over the last two decades to investigate the relationship between corporate governance and the entity’s financial performance in the world. From the various empirical studies reviewed good corporate governance contribute significantly to increasing profitability of organizations. It was also revealed that the posts of the CEO and COB should be occupied by different persons in order to achieve good corporate governance. Special attention need to be paid on the board composition so as to instill good performance.

Literature review and previous empirical studies from overseas have been referenced to develop research framework and research hypotheses on the relationship between corporate governance and a firm’s performance. Further research could explore the relationship in more specific categories for example, in NGOs, in GOC and in family companies. Such research could address the similarities and differences of the roles in different organizations. There is also need to go beyond the quantitative research, which is yielding a mixture of results, to perhaps a more qualitative approach. Expanding this current research into a wider study of board dynamics and decision making would be a start in developing a better understanding of corporate governance.
CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter presents the methodologies that were used in the collection and analysis of data so as to answer the research question. The methodology guided the study objective and considers in detail the methods that were used to collect the data used in the study.

In this chapter the researcher discusses the research design, the target population, the sample and sampling design and the data collection procedures. The researcher also talks about how the data was analyzed giving details of the analytical models and programmes that were used in the analysis with reasons as to why they were used.

3.2 Research Design

The study adopted a descriptive research design. This design allowed the researcher to study the elements in their natural form without making any alterations. This made the researcher to obtain information of high quality thus enhancing the success of the study.

3.3 Target Population

The target populations were the 127 state owned enterprises currently operating in Kenya. The entire 127 formed the target population for this study, and it is from them that the researcher sampled out the ones that were considered for the study.

(SOURCE: http://www.afribiz.info/content/government-state-corporations-in-kenya)

3.4 Sample and Sampling Design
The sample method was used due to the widespread of the targeted population. This called for the study of the sample population as a representative of the whole.

The research was done in a total of 127 state owned enterprises in Kenya. The sample was selected based on the percentage of the Government of Kenya (GoK) shareholding. Out of the 127 state enterprises there are 44 enterprises which the government owns wholly (100% ownership), 52 enterprises which the government is a major shareholder (between 51% to 99% ownership) and 31 enterprises which the government has minority shareholding (50% and below ownership).

The enterprises which the government owns wholly (100% ownership) are those that only depend on the exchequer funding to finance their operations, they are not for profit therefore they were not be considered in the study. The enterprises which the government has partial ownership (Less than 100% ownership) not only depend on the exchequer funding but also from their own operations, they are for profit and also called Commercial enterprises from which the samples were selected.

Table 3.1 Sampling Table

<table>
<thead>
<tr>
<th>GoK Shareholding</th>
<th>Number of State Owned Enterprises</th>
<th>Sample Size (50%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Wholly (100%)</td>
<td>44</td>
<td>0</td>
</tr>
<tr>
<td>Major (Between 51% and 99 %)</td>
<td>52</td>
<td>26</td>
</tr>
<tr>
<td>Minor (50 % and below)</td>
<td>31</td>
<td>16</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>127</strong></td>
<td><strong>42</strong></td>
</tr>
</tbody>
</table>

(Source: see appendix III)

As from the sampling table above, the researcher randomly selected 50% (half) of both the majority and minority GoK shareholdings commercial enterprises. This made a
sample of 42 state owned commercial enterprises. The respondents only included the senior officers of the commercial enterprises.

3.5 Data Collection

The major tool for data collection in this study was a questionnaire. The researcher opted for the method mainly because; it was cheaper to administer compared to other methods, it did not require trained researcher to distribute and collect the data and it eliminated interactions between the interviewer and the respondents which reduced biasness.

The secondary data were obtained from text books, journals, management reports and the state owned commercial enterprise’s websites.

3.5.1 Data Collection Procedure

The first step was to seek authorization of the letter of introduction from the University of Nairobi, a step which enabled the researcher to gain confidence and trust from the respondents.

The second step was to pilot test the data collection instrument. The result from the pilot testing helped restructure and modify the research instrument. The two respondents who participated in the pilot testing were exempted from the final actual study.

The third step was to distribute the questionnaire. This was made easier by accompanying each of the questionnaires with a copy of an authorized letter of introduction from the university so as to act as an introduction and also to indicate the value of the research to the respondent.
The questionnaire had the following contents; the size of BODs, their gender, their educational level, their working experience, their independence, the audit committee’s competence, the duality of the CEOs and the profit after tax and the total assets of the state owned commercial enterprises.

The validity and reliability of the data collected was controlled through formulation of the research questions by considering the research questions that expressed the relationship between variables and the questions was stated in an unambiguous form. The appropriate data collection methods were used to suit the study questions, sampling technique were chosen that ensured that the sample was a representative of the whole and minimizes bias.

The study was for the previous three financial years i.e. 2010/11, 2011/12 and 2012/13.

3.6 Data Analysis

After the field work, the collected data was coded and analyzed to form a bridge from the research questions to a conclusion.

Regression model was employed in the analysis of data. This is a statistical tool for investigation of effect of one variable to another. To explore such data was assembled and regression was used to find the quantitative effect of one variable to the other.

A multiple regression analysis was conducted in order to determine the relative impact of the corporate governance elements (BODs size, BODs gender, BODs educational level, BODs working experience, BODs independence, Audit committee competence and Duality of CEOs) on the financial performance i.e. return on assets (ROA).
The test was whether the independent variable (corporate governance) had some effects on the dependent variable (financial performance).

### 3.6.1 Analytical Model

The regression model used was as shown below:

\[ Y = \beta_0 + \beta_1 (X_1) + \beta_2 (X_2) + \beta_3 (X_3) + \beta_4 (X_4) + \beta_5 (X_5) + \beta_6 (X_6) + \beta_7 (X_7) + Er \]

Where;

- **Y** – Is the dependent variable i.e. Financial Performance measured by the ROA,
- **X_1** – Is the board size measured by the number of directors,
- **X_2** – Is the board gender measured by the number of female directors,
- **X_3** – Is the education level of the board measured by their highest qualifications,
- **X_4** – Is the working experience of the board measured by the years worked,
- **X_5** – Is the independence of the board,
- **X_6** – Is the audit committee’s competence,
- **X_7** – Is the duality of the CEO i.e. the CEO being twofold (also chairs board),
- \( \beta_0, \beta_1, \beta_2 \ldots \beta_7 \) – are the coefficients of corporate governance elements,
- **Er** – Is the error term i.e. other factors that influence the dependent variable (Y) other than the corporate governance elements (X_1– X_7) mentioned above.

### 3.6.2 Test of Significance

Regression analysis also produced correlation coefficient of determination and analysis of variance. Correlation sought to show the nature of relationship between dependent and independent variables and coefficient of determination showed the strength of the relationship. Analysis of variance was done to show whether there was a significant mean
difference between the variables. The analysis of variance was conducted at a 95% confidence level.
CHAPTER FOUR

DATA PRESENTATION AND ANALYSIS

4.1 Introduction

This chapter presents the results of the research as described in chapter three. It covers data analysis, findings of the research and also seeks to analyze the data that was obtained from the sampled respondents of the state owned commercial enterprises in Kenya.

4.2 General Information about the Respondents

The questionnaires were administered to 42 state owned commercial enterprises in Kenya. The respondents in each of the enterprises were given a questionnaire to answer.

Table 4.1 below shows that out of the 42 questionnaires distributed; 33 questionnaires were received back fully answered, making a response rate of 78.50%. This was an excellent response as per the case of Mugenda (2003) who said that for generalization, a response rate of 50% is adequate for analysis and reporting, 60% is good and a response rate of 70% and over is excellent.

Table 4.1 Response Rate

<table>
<thead>
<tr>
<th>ITEMS</th>
<th>FREQUENCY</th>
<th>PERCENTAGE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Returned Questionnaires</td>
<td>33</td>
<td>78.50</td>
</tr>
<tr>
<td>Unreturned Questionnaires</td>
<td>9</td>
<td>21.50</td>
</tr>
<tr>
<td>Distributed Questionnaires</td>
<td>42</td>
<td>100.00</td>
</tr>
</tbody>
</table>

SOURCE: Research Findings
4.3 The Analysis of the Corporate Governance Elements

A study as to whether there is a relationship between corporate governance and financial performance of state owned commercial enterprises in Kenya was carried out. Statistical significance at 95% confidence level was tested for the various correlation coefficients.

The following are the overall results and findings of the questionnaires on the corporate governance elements and the return on assets (ROA) of the state owned commercial enterprises in Kenya. The evaluations of the results were based on the respondents who were mainly the senior officers of the targeted population of study.

4.3.1 The Size of the Boards of Directors

This section aimed at establishing the number of members in of the Boards of Directors of each of the state owned commercial enterprise in Kenya. From the research findings, the size of the board of directors of the entities range from 8 to 12 members. This means that the highest number of members of the BODs of the entities is 12 and the lowest number is 8 members making up an average of 10 members.

The study established the highest number of the board members enhances very good performance compared to the lowest number of the board of directors. This brings out a positive relationship between the number of the board of directors and the general financial performance of the state owned commercial enterprises.

From the knowledge obtained during the study, organizations with large number of the board of directors have variety of thinking which make them to most often have to the ability to deal with more conflicts among board members since they have a wide range of
opinions from the different board members thereby able to sort challenges easily compared to small boards.

From the findings of the study, it was concluded that large boards always supports and advices the management of the entity more effectively. This is because of the complexity of the business environment and the organizational culture. Moreover a large board size always gathers much more information which plays a good role in decision making and the general management. As a result the large board sizes appear to be more beneficial to the entity’s financial performance.

In conclusion, there is a positive relationship between the size of the BODs of the state owned commercial enterprises and the returns on assets (ROA) of the entities. This means that the higher the number of directors the better the financial performance and vice versa.

4.3.2 The Gender of the Board of Directors

This section aimed at establishing the gender sensitivity of the BODs of the state owned commercial enterprises in Kenya. As discussed above in section 4.3.1, the sizes of the individual state owned commercial enterprise range from 8 to 12 members.

However from the findings as evident in table 4.2 below concerning the gender of the BODs of the 33 state owned commercial enterprises whose questionnaires were fully answered, the study established that they all had a total of 347 BODs. Out of the 347 BODs of the 33 entities, 255 of them were male and 92 of them were female. The researcher did the analysis of the same and found out that the 33 state owned commercial
enterprises are made up of 73.5% male directors and 26.5% female directors, this brought out a conclusion that majority of the directors these entities are male.

Table 4.2 Gender of the BODs

<table>
<thead>
<tr>
<th>GENDER</th>
<th>FREQUENCY</th>
<th>PERCENTAGE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Male Directors</td>
<td>255</td>
<td>73.50</td>
</tr>
<tr>
<td>Total Female Directors</td>
<td>92</td>
<td>26.50</td>
</tr>
</tbody>
</table>

SOURCE: Research Findings

Smith and Verner (2006) clearly brought out three importances of females in boards. First, female board members usually have a better understanding of a market in comparison with male. As such, this understanding enhances the decisions made by the board. Secondly, female board members will bring better images in the perception of the community for a firm and this will contribute positively to the firm’s performance. Thirdly, BODs will have enhanced understanding of the business environment when female board members are appointed. Finally, the study also indicated that female board members can positively influence the career development of the junior female staff.

In conclusion, in support of the findings of Smith and Verner (2006) the study came into a conclusion that there is a positive relationship between the numbers of female directors of the state owned commercial enterprises and their returns on assets (ROA). This means that the more the number of female directors the better the financial performance.

4.3.3 The Highest Level of Education of the Boards of Directors

This section aimed at establishing the highest level of education of the Board of Directors of the state owned commercial enterprises in Kenya. The study opted to find out if there is a relationship between the level of education of the BODs and the financial
performance of the state owned commercial enterprises. This made the researcher to find out the general average of the highest level of education of the BODs of the state owned commercial enterprises in Kenya and compare the same to the enterprises’ financial performances.

The study as analyzed in table 4.2 below established that the number of directors having certificates and diplomas as their highest level of education was nil, but most of the state owned enterprises’ directors possess either bachelor degrees or master degrees in their respective areas of specialization as their highest level of education. Those with bachelor degrees were 57.58% and those with master degrees were 33.33%. It was rather very few directors who have the PhDs in their respective areas of specialization; this was at about 09.09%.

Table 4.3 Average Highest Level of Education of the BODs

<table>
<thead>
<tr>
<th>EDUCATION LEVEL</th>
<th>FREQUENCY</th>
<th>PERCENTAGE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Certificates</td>
<td>0</td>
<td>0.00</td>
</tr>
<tr>
<td>Diplomas</td>
<td>0</td>
<td>0.00</td>
</tr>
<tr>
<td>Degrees</td>
<td>19</td>
<td>57.58</td>
</tr>
<tr>
<td>Masters</td>
<td>11</td>
<td>33.33</td>
</tr>
<tr>
<td>PhDs</td>
<td>3</td>
<td>09.09</td>
</tr>
</tbody>
</table>

**SOURCE: Research Findings**

Fama and Jensen (1983) argued that the role of the BODs is the internal corporate governance of a firm and control system in a business. The BODs supervising management decisions in an efficient manner will improve the firm’s performance. Doing
so requires each board member to be fully equipped with the management knowledge which plays a big role in decision making.

In conclusion, in support of Fama and Jensen (1983) the study established that there is a positive relationship between the education levels of the directors of the state owned commercial enterprises and the returns on assets (ROA) of the entities. This means that the more educated the directors of the entities the better the financial performance and vice versa.

### 4.3.4 The Working Experience of the BODs

This section aimed at establishing the working experience of the BODs of the state owned commercial enterprises in Kenya. The study opted to find if there is a relationship between the working experience of the BODs and the financial performance of the entities. This made the researcher to find out the highest level of working experience of the directors on their respective areas of specialization.

The study as analyzed in table 4.3 below, established that all the directors of the state owned commercial enterprises have over 5 years working experience in an area of specialization. It was also clear that 03.03% of the boards of directors have a working experience of less than 10 years and 39.40 % have a working experience of between 10 and 20 years in an area of specialization. However majority of the BODs, that is 45.44% have a working experience of between 20 and 30 years, but just a few at 12.13% have a working experience of more than 30 years in their respective areas of specialization. This is clearly brought out in table 4.4 below.

**Table 4.4 Average Highest Level of Working Experience of the BODs**
Carlson and Karlsson (1970) argued that the incompetence of board members through their minimal working experiences in an area of study results in risky decision making, which undermines a firm’s performance. In addition, board members with higher level of working experience may face more limited pressures to a changing business environment and this effects better implementation of strategic decisions.

In conclusion, in support of the findings of Carlson and Kalsson (1970) the study established that there is a positive relationship between the working experiences of the directors of the state owned commercial enterprises and the returns on assets (ROA) of the entities. This means that the more experienced the directors the better the financial performance and vice versa.

4.3.5 The Independence of the Boards of Directors

This section aimed at establishing the independence of the Board of Directors of the state owned commercial enterprises in Kenya. The study aimed at finding out how independent the boards of directors are, if they clearly know their personal liability and disciplinary actions and if any of the directors is suspended whenever his or her ethical or professional conduct is called into question.
The study as evident in table 4.4 below established that 72.73% of the boards of directors participate in the appointment of the directors of their respective state owned commercial enterprises and only 27.27% are not informed or even called upon to air their views in the appointment of directors. It was also clear that 63.64% of the directors of these state enterprises clearly know and understand the extent of their personal liability to the entity’s affairs and only 36.36% don’t have a clear understanding of the same. If ethical and professional conduct of any director is called into question, in about 57.56% of the state owned commercial enterprises the party is suspended and investigations are done while in 42.44% no suspension is effected on the said director and also no investigations are done to establish the base of the claims.

**Table 4.5 Independence of the BODs**

<table>
<thead>
<tr>
<th>ITEMS</th>
<th>FREQUENCY</th>
<th>PERCENTAGE</th>
</tr>
</thead>
<tbody>
<tr>
<td>The board is involved in the appointment of directors.</td>
<td>24</td>
<td>9</td>
</tr>
<tr>
<td>Directors understand extent of their personal liability to the entity’s affairs.</td>
<td>21</td>
<td>12</td>
</tr>
<tr>
<td>If ethical and professional conduct of any director is called into question, such a director is suspended pending investigations.</td>
<td>19</td>
<td>14</td>
</tr>
</tbody>
</table>

**SOURCE: Research Findings**

In conclusion, there is a positive relationship between the independence of the board of directors of the state owned commercial enterprises in Kenya and the returns on assets (ROA) of the entities. This means the higher the independence of the board of directors the better the financial performance and vice versa.
4.3.6 The Audit Committees

This section aimed at establishing the existence and effectiveness of the audit committees and the relationship of the audit committees to the financial performance of the state owned commercial enterprise in Kenya.

The study as analyzed in table 4.5 below established that 84.85% of the state owned enterprises’ BODs have set up and appointed the audit committees whose major duty is to improve the state owned enterprises’ performance and competitiveness and only 15.15% do not have the audit committees. Most of the audit committees were also realized to be focusing on the general company performance and competitiveness. Despite the set-up of the audit committees, it is only very few of them at 57.58% that are independent, competent, and comply with the conventional audit guidelines, while 42.42% of the committees are neither fully independent, competent nor conversant with the audit guidelines.

The study found out that an effective audit committee positively correlates with the returns on assets of the state owned commercial enterprises. The Audit Committee plays an important role in monitoring the entity’s operation and internal control system with the aim of protecting the interest of the shareholders. As a result, it recognized that an effective audit committee would focus on improving the entity’s financial performance. The study also came to a conclusion that 63.64% of the audit committees are adequately resourced and have adequate techniques necessary for fraud prevention, this therefore effects transparency in the entity’s operations. This is compared to the 36.36% of the entities which do not have the necessary resources to enable them realize their set objectives.
It was also noted that 78.79% of the audit committees are expected to oversee corporate governance, financial reporting, internal control structure, internal audit functions and external audit services of the state owned commercial enterprises compared to 21.21% which were not liable to ensure good financial reporting and the internal control functions. The study found out that almost all, at 75.76% of the audit committees are expected to participate in evaluating performance and recommending changes to improve operation efficiency of the state owned enterprises, and only 24.24% of the audit committees are not involved in the general evaluation of performance and the recommendation of the changes which would bring out efficiency of the entity.

**Table 4.6 Audit Committee**

<table>
<thead>
<tr>
<th>ITEMS</th>
<th>YES</th>
<th>NO</th>
<th>YES</th>
<th>NO</th>
</tr>
</thead>
<tbody>
<tr>
<td>The board has established and appointed an Audit Committee</td>
<td>28</td>
<td>5</td>
<td>84.85</td>
<td>15.15</td>
</tr>
<tr>
<td>The audit committee focuses on improving the company performance and competitiveness</td>
<td>26</td>
<td>7</td>
<td>78.79</td>
<td>21.21</td>
</tr>
<tr>
<td>The audit committee is independent, competent and complies with conventional audit guidelines and best practice</td>
<td>19</td>
<td>14</td>
<td>57.58</td>
<td>42.42</td>
</tr>
<tr>
<td>The audit committee is adequately resourced and has adequate techniques for fraud prevention.</td>
<td>21</td>
<td>12</td>
<td>63.64</td>
<td>36.36</td>
</tr>
<tr>
<td>The audit committee is expected to oversee corporate governance, financial reporting, internal control structure, internal audit functions and external audit services of the state owned commercial enterprises</td>
<td>26</td>
<td>7</td>
<td>78.79</td>
<td>21.21</td>
</tr>
</tbody>
</table>
functions, and external audit services

<table>
<thead>
<tr>
<th></th>
<th>The audit committee participates in evaluating performance and recommending changes to improve operation efficiency of the entity</th>
</tr>
</thead>
<tbody>
<tr>
<td>6</td>
<td></td>
</tr>
<tr>
<td></td>
<td>25</td>
</tr>
</tbody>
</table>

**SOURCE: Research Findings**

In conclusion, as per the findings, despite the fact that most of the entities have their own internal audit committees they cannot realize their own set objective due to the fact that the committees are not well resourced with the necessary material and knowledge. The study established that there is a positive relationship between the independence, competence and effectiveness of the Audit Committees and the returns on assets (ROA) of the state owned commercial enterprises in Kenya. This means that the more independent, effective and competent the audit committees of the entities the better their financial performance and vice versa.

**4.3.7 The Duality of the Chief Executive Officers**

This section aimed at establishing whether there is CEO’s duality in the state owned commercial enterprise in Kenya, it was also to find out whether there is an established clear job description of the Chief Executive Officers (CEO) and the Chairman of Board (COB) of the entities.

The study as analyzed in table 4.6 below found out that whether the CEOs of the state owned commercial enterprises also acts as the chairman of the board and if the roles of the CEOs and that of the Chairmen of the board are separated and held by different persons were not factors to be consider in the state owned enterprises in Kenya. This is because there is a clear separation of the powers between the CEOs and the COBs of all...
the state owned enterprises in Kenya. The two positions are occupied by separate individuals in all the entities in Kenya. Hence the agency conflict inherent in one individual occupying both positions which may have subsequently had an impact on performance cannot come up.

The study realized that very few of the state owned commercial enterprises have the performance of their CEOs annually evaluated, at 45.46% and most of them at 54.54% do not evaluate the individual performance of the CEO, only to evaluate the performance of the entity as a whole after sometime but not annually. This prevents the entities from rating the general performance of their CEOs. In most of the enterprises that is 87.88% there is an established clear job description for the COBs and members which are different from those of the CEOs and the management teams. This brings out a good job description and specialization. However, this doesn’t exist in only 12.12% of the state owned commercial enterprises.

Most of the respondents who were targeted in this study at 93.93%, they don’t hold the view that separating the roles of CEO and Chairman of the board (COB) potentially leads to confusion and lack of clarity, both internally with employees and externally with other stakeholders in the management of the entities. It is only 6.07% who are of the opinion that if the CEOs and the COBs roles are held by one person then the state enterprises will perform better financially.

Table 4.7 Duality of the CEO

<table>
<thead>
<tr>
<th>ITEMS</th>
<th>FREQUENCY</th>
<th>PERCENTAGE</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>YES</td>
<td>NO</td>
</tr>
</tbody>
</table>

40
<p>| | | | | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>The performance of the CEO is evaluated annually.</td>
<td>15</td>
<td>18</td>
<td>45.46</td>
</tr>
<tr>
<td>2</td>
<td>The CEO is the chairman of the Board of Directors.</td>
<td>0</td>
<td>33</td>
<td>00.00</td>
</tr>
<tr>
<td>3</td>
<td>The role of the CEO and that of the Chairman of the board are separated and held by different persons.</td>
<td>33</td>
<td>0</td>
<td>100.00</td>
</tr>
<tr>
<td>4</td>
<td>There is an established clear job description for the COB and members which is different from that of the CEO and Management Team.</td>
<td>29</td>
<td>4</td>
<td>87.88</td>
</tr>
<tr>
<td>5</td>
<td>Separating the roles of CEO and COB potentially leads to confusion and lack of clarity, both internally with employees and externally with other stakeholders</td>
<td>2</td>
<td>31</td>
<td>06.07</td>
</tr>
<tr>
<td>6</td>
<td>Separating the CEO’s and Chairman’s roles does not necessarily guarantee a strong monitoring function if the collective board is otherwise weak</td>
<td>5</td>
<td>28</td>
<td>15.16</td>
</tr>
</tbody>
</table>

**SOURCE: Research Findings**

Fama and Jensen (1983), confirmed that duality would reduce a board’s supervision of the management of a company. This reduction results in decrease of agency cost. The case of the separation of responsibility between the Chief Executive Officer (CEO) and the Chairman of the Board (COB) brings up a better performance, in many businesses with a duality structure, there has been an abuse of power at the expense of the company and the shareholders.

In conclusion, there is a negative relationship between the duality of the CEOs of the state owned commercial enterprises in Kenya and the returns on assets (ROA) of the
entities. This means that where the roles of the Chief Executive Officer (CEO) and the Chairman of the Board (COB) are held by different parties the financial performance of the entity is good compared to the case where the role of the CEO and the COB are held by the same person.

4.4 Inferential Statistics

This section aimed at establishing the relationship between the corporate governance and financial performance of the state owned enterprise in Kenya. It played a critical role in the analysis of the performance of the enterprises compared to the elements of corporate governance discussed in sub-sections 4.3.1 to 4.3.7 above. The data of the state owned commercial enterprises’ profitability and the total assets comprised of the previous 3 financial years, that is financial years 2010/11, 2011/12 and 2012/13.

4.4.1 Correlation Analysis

The correlation sought to show the nature of relationship between dependent variable (financial performance) and independent variables (corporate governance elements) while the coefficient of determination showed the strength of the relationship. Analysis of variance was done to show whether there is a significant mean difference between dependent and independent variables.

The Pearson correlation coefficient is a measure of the strength of a linear association between two variables and is denoted by r. The Pearson correlation coefficient, r, take a range of values from +1 to -1. A value of zero indicates that there is no association between the two variables. A value greater than zero indicates a positive relation, that is, as the value of one variable increases so does the value of the other variable. A value less
than zero indicate a negative relationship, that is, as the value of one variable increases the value of the other variable decreases and vice versa.

**Table 4.8 Correlation coefficient of financial performance**

<table>
<thead>
<tr>
<th></th>
<th>CEO duality</th>
<th>Audit committee competence</th>
<th>Board size</th>
<th>Level of education of the board</th>
<th>Working experience</th>
<th>Independence of the board</th>
<th>Gender of the board</th>
<th>Financial performance</th>
</tr>
</thead>
<tbody>
<tr>
<td>CEOs duality</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Audit committee</td>
<td>0.013</td>
<td>0.129</td>
<td>0.034</td>
<td>0.571</td>
<td>0.279</td>
<td>0.761</td>
<td>0.691</td>
<td></td>
</tr>
<tr>
<td>competence</td>
<td>5</td>
<td>7</td>
<td>5</td>
<td>8</td>
<td>2</td>
<td>2</td>
<td>3</td>
<td></td>
</tr>
<tr>
<td>Board size</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>BODs education level</td>
<td>0.713</td>
<td>0.656</td>
<td>0.573</td>
<td>0.839</td>
<td>0.846</td>
<td>0.821</td>
<td>0.843</td>
<td></td>
</tr>
<tr>
<td></td>
<td>5</td>
<td>8</td>
<td>9</td>
<td>3</td>
<td>3</td>
<td>9</td>
<td>4</td>
<td></td>
</tr>
<tr>
<td>Working experience</td>
<td>0.713</td>
<td>0.456</td>
<td>0.517</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>7</td>
<td>3</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Independence of the board</td>
<td>0.571</td>
<td>0.329</td>
<td>0.761</td>
<td>0.756</td>
<td>0.761</td>
<td>0.729</td>
<td>0.756</td>
<td></td>
</tr>
<tr>
<td></td>
<td>7</td>
<td>3</td>
<td>6</td>
<td>3</td>
<td>3</td>
<td>4</td>
<td>8</td>
<td></td>
</tr>
<tr>
<td>Gender of the board</td>
<td>0.279</td>
<td>0.750</td>
<td>0.832</td>
<td>0.432</td>
<td>0.761</td>
<td>0.729</td>
<td>0.867</td>
<td></td>
</tr>
<tr>
<td></td>
<td>2</td>
<td>1</td>
<td>1</td>
<td>8</td>
<td>2</td>
<td>8</td>
<td>9</td>
<td></td>
</tr>
<tr>
<td>Financial performance</td>
<td>0.691</td>
<td>0.791</td>
<td>0.843</td>
<td>0.867</td>
<td>0.761</td>
<td>0.756</td>
<td>0.784</td>
<td></td>
</tr>
<tr>
<td></td>
<td>3</td>
<td>4</td>
<td>1</td>
<td>9</td>
<td>3</td>
<td>8</td>
<td>2</td>
<td></td>
</tr>
</tbody>
</table>

**SOURCE:** Analysis of findings

The analysis in table 4.8 above shows that almost all the predictor variables have a positive relation between them at a significant level of 0.05 and hence included in the analysis. There was a strong positive relationship between CEO duality and Financial performance (correlation coefficient 0.6913), financial performance and size of the Board of directors (correlation coefficient 0.8431), financial performance and competence of the audit committee (correlation coefficient 0.7914), financial performance and level of education of the board members (correlation coefficient 0.8163) and Financial performance and working experience (correlation coefficient 0.7568), financial
performance and independence of the board of directors (correlation coefficient 0.8679) and lastly between financial performance and Gender of the board of directors (correlation coefficient 0.7842).

4.4.2 Regression Analysis

A multiple regression analysis was conducted to determine the relative impact of the corporate governance elements (the size of BODs, their gender, their educational level, their working experience, their independence, the audit committee’s competence and the duality of the CEOs) discussed in sub-sections 4.3.1 to 4.3.7 above on enterprises’ financial performance measured using the returns on assets (ROA). Correlation sought to show the nature of relationship between dependent and independent variables and coefficient of determination showed the strength of the relationship. Analysis of variance was done to show whether there is a significant mean difference between dependent and independent variables. The ANOVA was conducted at 95% confidence level.

The regression model used was as shown below:

\[ Y = \beta_0 + \beta_1 (X_1) + \beta_2 (X_2) + \beta_3 (X_3) + \beta_4 (X_4) + \beta_5 (X_5) + \beta_6 (X_6) + \beta_7 (X_7) + \varepsilon \]

Where;

- \( Y \) – Is the dependent variable i.e. Financial Performance measured by the ROA,
- \( X_1 \) – Is the board size measured by the number of directors,
- \( X_2 \) – Is the board gender measured by the number of female directors,
- \( X_3 \) – Is the education level of the board measured by their highest qualifications,
- \( X_4 \) – Is the working experience of the board measure by the years worked,
- \( X_5 \) – Is the independence of the board,
- \( X_6 \) – Is the audit committee’s competence,
X7 – Is the duality of the CEO i.e. the CEO being twofold (also chairs board),

\[ \beta_0, \beta_1, \beta_2 \ldots \beta_7 \] – are the coefficients of corporate governance elements,

Er – Is the error term i.e. other factors which influence dependent variable (Y) other than the corporate governance elements (X1–X7) mentioned above.

The following are the results of regression analysis.

**Table 4.9 Model Summary**

<table>
<thead>
<tr>
<th>Model</th>
<th>R</th>
<th>R Square</th>
<th>Adjusted R Square</th>
<th>Std. Error of the Estimate</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>.5713^a</td>
<td>.7685</td>
<td>.7681</td>
<td>.42127</td>
</tr>
</tbody>
</table>

*Predictors: (Constant), board size, board gender, education level, working experience, independence of the board, audit committee’s competence, duality of the CEO.*

*Dependent Variable: financial performance*

*SOURCE: Analysis of findings*

Analysis in table 4.9 above shows that the coefficient of determination (the percentage variation in the dependent variable being explained by the changes in the independent variables) R square equals 0.7685, that is, the board size, gender of the board, education level of the board, working experience of the board, independence of the board, audit committee’s competence and the duality of the CEO.

The results, as shown in Table 4.9 show a Pearson correlation value (R) of 0.5713 which depicts that there is a fairly linear dependence of ROA on corporate governance. R square reveals that governance attributes influenced about 76.85% of variation in return on asset. The value of 0.7681 (adjusted R square) shows that there is a positive relationship
between the corporate governance elements and the returns on assets of the state owned commercial enterprises in Kenya

**Table 4.10 Regression Coefficients Results**

<table>
<thead>
<tr>
<th>Model</th>
<th>Unstandardized Coefficients</th>
<th>Standardized Coefficients</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>B</td>
<td>Std. Error</td>
</tr>
<tr>
<td>(Constant)</td>
<td>0.4213</td>
<td>0.141</td>
</tr>
<tr>
<td>Size of the board</td>
<td>0.8431</td>
<td>0.337</td>
</tr>
<tr>
<td>Gender of the board</td>
<td>0.7842</td>
<td>0.233</td>
</tr>
<tr>
<td>Education level</td>
<td>0.8163</td>
<td>0.348</td>
</tr>
<tr>
<td>Working experience</td>
<td>0.7568</td>
<td>0.432</td>
</tr>
<tr>
<td>Board independence</td>
<td>0.8679</td>
<td>0.540</td>
</tr>
<tr>
<td>Competence of Audit committee</td>
<td>0.7914</td>
<td>0.245</td>
</tr>
<tr>
<td>CEO duality</td>
<td>0.6914</td>
<td>0.134</td>
</tr>
</tbody>
</table>

**SOURCE: Analysis of findings**

From table 4.10 above, the multiple regression models finally appear as;

\[ Y = 0.4213 + 0.8431(X_1) + 0.7842(X_2) + 0.8163(X_3) + 0.7568(X_4) + 0.8679(X_5) + 0.7914(X_6) + 0.6914(X_7) \]

The regression results above reveal that there is a positive relationship between dependent variable (overall performance) and independent variables (board size, board gender, education level, working experience, independence of the board, audit committee’s competence, and duality of the CEO).

From the above regression model, the researcher observed that holding the size of the board, the gender of the board, the education level of the board, the working experience
of the board, the independence of the board, the audit committee’s competence and the CEO’s duality constant then the financial performance of the state owned commercial enterprises would be 0.4213.

It was established that a unit increase in the size of the board, the gender of the board and the education level of the board would result in an increase in financial performance of the state owned commercial enterprises by a factor of 0.841, 0.7842 and 0.8163 respectively. A unit increase in the working experience of the board, the independence of the board and the audit committees would result in an increase in financial performance of the entity by 0.7568, 0.8679 and 0.7914 respectively. It was also clear that a unit increase in the CEO’s duality would lead to an increase in financial performance of the enterprises by a factor of 0.6914.

The regression results above reveal that there is a positive relationship between dependent variable (financial performance) and independent variables (board size, board gender, education level, working experience, independence of the board, audit committee’s competence, and duality of the CEO) of the state owned commercial enterprises in Kenya.

4.5 Discussions

This section reviews the findings of the study compared to the previous findings by the other researchers in the same area as discussed in empirical studies under section 2.4 of the literature review. It also responds to the research objective highlighted in section 1.3 of the introduction, which was to find out the relationship between the corporate
governance and the financial performance of the state owned commercial enterprises in Kenya.

4.5.1 Comparison with the Previous Studies in the Same Area

Makena (2013) in a study that sought to establish the influence of corporate governance on the performance of the public organizations, a case of Kenya Ports Authority (KPA) was used. The researcher came to a conclusion that it was necessary to effect good board composition in public organizations which would support them in achieving better performance. This study is in agreement with Makena’s study since the researcher established that the BODs educational level and the general working experience in their respective areas of specialization are directly proportional to the enterprises performance.

Leslie (2003) in the study to find out whether or not the CEO’s and the COB’s roles were held by the same person and the relationship with the financial performance. The researcher found a significant statistical association of different ownership on Return on Equity (ROE), which was only one out of the three financial performance indicators examined. According to this study the researcher also established a positive relationship between the different party’s ownership of the two positions and the better performance of the state owned commercial enterprises.

Masulis (2007) examined the relationship between CEO duality and organizational performance in Africa. The researcher found out that corporations which had independent chair had higher return on equity (ROE), return on investment (ROI) and profit margins. This study came to a conclusion that it is more profitable for the state owned enterprises’ CEO’s and COB’s posts be held by different parties and also the need for their respective
duties to be analyzed at least once in a year. This has been realized in Kenya because there is a clear separation of power between the CEOs and COBs of all the state owned enterprises. It is a mandatory requirement by the Kenyan government.

Other studies in the same area such as Aduda, Chogii and Magutu (2013), Kiel and Gavin (2003), Ongore and K’Obonyo (2008) and Gathura (2007) also established a positive relationship between the entity’s corporate governance and their performances. The study by Gathura (2007) which sought to determine the relationship between the various components of corporate governance and the financial performance of the manufacturing firms listed in the Nairobi securities exchange also revealed a linear relationship between the financial performance, the frequency of the board meetings, the CEOs and the BODs compensation thereby making it be in agreement with this study.

4.5.2 Response to the Study Objective

The objective of this study was to find the relationship between the corporate governance and the financial performance of the state owned commercial enterprises in Kenya. From the research findings, the researcher came to a conclusion that there exists a positive relationship between the corporate governance (BODs size, BODs gender, BODs educational level, BODs working experience, BODs independence, Audit committee competence and Duality of CEOs) and the financial performance (ROA) of the state owned commercial enterprises in Kenya. This means that the better the corporate governance of the state owned commercial enterprises in Kenya the better their financial performance and vice versa.
CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

This chapter summarizes the findings of the research projects, draws a conclusion from the findings, highlights the limitations encountered in the field and brings out the general recommendations as brought out by the researcher from the findings. It also makes clear recommendations of the gaps in this area of study.

5.2 Summary of the Study

The major objective of the study was to find out the relationship between the corporate governance and the financial performance of the state owned commercial enterprises in Kenya. The study found out that good corporate governance is a very vital element in the enterprises’ financial performance. The study established that there is a positive relationship between corporate governance and the financial performance of state owned commercial enterprises in Kenya. ROA was used as a measurement of financial performance and it was established that it positively correlates with good corporate governance practices.

The study revealed that there exist a positive relationship between the size of the board of directors and the financial performance. A positive relationship was also established between the number of female directors and the financial performance of the state owned commercial enterprises in Kenya. These means that the BODs should always be made up of the least possible number of directors as recommended by the government laws and
regulations and to a large extent always give the female directors at least one third of the opportunities in the BODs.

The highest level of education and the working experience of the BODs were also confirmed to be directly related to the level of financial performance of the state owned commercial enterprises in Kenya. This is because the experienced directors both educationally and professionally will always tend to carry out a good supervision and make good management decisions based on their experience in their respective areas of specialization.

The study clearly brought out the importance of the independence of the BODs which is directly proportional to the state owned commercial enterprises’ financial performance. It is therefore critical to involve the BODs in the appointment of directors and put a clear understanding on the extent of their personal liability on the entity’s affairs.

The study established that the audit committees are very important in the improving of the state owned enterprises’ financial performance and competitiveness. However to realize this, the committees opt to be independent, competent and comply with conventional audit guidelines of best practice and adequately resourced so as to effect good techniques for frauds detection and prevention.

To do with the duality of the CEOs of the state owned commercial enterprises in Kenya, the study established that it is much better to have two different individuals holding the position of the CEO and that of the COB of the entities with their duties well set out and the duties evaluated annually so as to effect good financial performance of the state owned commercial enterprises in Kenya.
5.3 Conclusion of the Study

The study finally came to a conclusion that there exists a positive relationship between the corporate governance (BODs size, BODs gender, BODs educational level, BODs working experience, BODs independence, Audit committee competence and Duality of CEOs) and the financial performance (ROA) of the state owned commercial enterprises in Kenya. This implies that the enterprises that exhibit higher and good corporate governance standards will automatically realize good financial performance than the ones that have weak corporate governance standards.

5.4 Policy Recommendations

The study recommends that the state owned commercial enterprise in Kenya should always employ good corporate governance so as to realize good financial performance. This has to do with ensuring that the number, the gender, the educational level and the working experience are the key considerations on the appointments not only the BODs but also the management and the senior employees of the state owned enterprises.

The study recommends that the Cabinet Secretaries of the respective ministries under which the State owned commercial enterprises operate, ought to ensure that the entities have good audit committees which are independent, competent and comply with the audit guidelines of best practice so as to improve their performances and reduce the cases of corruption and frauds in Kenya.

The study recommends the implementation of the checks and balances and the general control of duties be put into practice. This is mainly realized by the state owned enterprises not practicing the duality of the CEOs, thus ensuring that the COB’s and the
CEO’s positions are held by different parties. There also ought to be a clear separation of duties among the COB’s, the CEO’s and employees of all the state enterprises in Kenya.

5.5 Limitations of the Study

This section brings out the factors that were present during the study and in one way or the other ended up contributing to the researcher getting inadequate information from the respondents or if otherwise the data collected would have been much better.

The study only paid much attention on the relationship between corporate governance and financial performance of the state owned commercial enterprises in Kenya. The general performance and other factors that tend to inevitably affect the financial and general performance of the entities regardless of the corporate governance were not considered. These factors include the political stability, operational environment, technological changes, social economic aspects, acts of terrorism and general insecurity that continue to pose serious challenges in the Kenyan economy today.

It is also clear that the corporate governance elements that are relevant in the performance equation were not fully exhausted; this is because there are some corporate performance elements which were not considered in this study. These elements include the BODs duties and responsibilities, BODs compensations, the BODs ownership and the BODs structure among many others. It is therefore clear that the system of equations may not be fully exhausted and the corporate theory may not be complete to help in taking into account the relevant mechanisms when estimating a system of equations of the governance mechanisms.
Finally, the researcher was unable to get information from the whole target population of study since it is only 33 out of the targeted 42 state owned commercial enterprises that returned the questionnaires fully answered. This was mainly because some of the state owned commercial enterprises as per the information received from some of the respondents have strictly instructed their employees not to give out any information about the entity to outsiders. This was despite the fact that the researchers had already introduced themselves and even presented to them the signed letters of introduction from the University of Nairobi.

5.6 Suggestions for Further Research

The study suggests a further research study that covers a much longer period of time (than the 3 financial year period of this study) to be done. This study ought to be done on the same state owned commercial enterprises in Kenya. This is mainly aimed at bringing out a clear view if the findings of this research still hold in such a case.

The study majorly focused on the state owned commercial enterprises in Kenya. The study suggests more related research on corporate governance to be done to companies in the private sector. This will play a big role in the contribution to the literature by filling the gap in the body of knowledge and also acts as the base for comparison purposes.

Finally, the study suggest more research to be conducted so as to find out if the corporate governance elements other than the ones that were the major focus in this research study i.e. (BODs size, BODs gender, BODs educational level, BODs working experience, BODs independence, Audit committee competence and Duality of CEOs) have an impact on the financial performance of the listed state owned commercial enterprises in Kenya.
REFERENCES


Byrnes, N., Dwyer, P., Henry, D. & Thornton, E. (2003). Who’s making the grade; A Performance review for CEO, Boards, Analysts and others, Business Week,


APPENDICES

APPENDIX I: LETTER OF INTRODUCTION

To Whom It May Concern:

Dear Respondent,

RE: RESEARCH QUESTIONNAIRE

I am a postgraduate student at the University of Nairobi, pursuing a course leading to a degree of Master in Business Administration (MBA). In partial fulfillment of the course, I am conducting a research project on The Relationship between Corporate Governance and Financial Performance of State Owned Commercial Enterprises in Kenya.

To achieve this, I am kindly requesting for your contribution through the attached questionnaire. The information will be used purely for academic purpose. Your responses will be kept strictly confidential, only members of the research team will have access to the information and findings of the study will be availed to you upon request.

Thank you for your cooperation.

Yours Sincerely,

James Amadi,

D61/64210/2013,

Research Student,

University of Nairobi.
APPENDIX II: RESEARCH QUESTIONNAIRE

Name of your enterprise (optional) .................................................................

1. What is the size of the BODs (Please Fill in Figures) ..............................

2. What is the gender of the BODs (Please Fill in Figures)

   Male
   Female

3. What is the AVERAGE highest level of education of the BODs (Please Tick √)

   Certificate
   Diploma
   Degree
   Masters
   PhD

4. What is the AVERAGE working experience of the BODs (Please Tick √)

   0 to 5 years
   5 to 10 years
   10 to 20 years
   20 to 30 years
   Above 30 years
5. Independence of directors *(Please Tick √)*

<table>
<thead>
<tr>
<th></th>
<th>YES</th>
<th>NO</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>The board is involved in the appointment of directors.</td>
<td></td>
</tr>
<tr>
<td>2</td>
<td>Directors understand extent of their personal liability to the entity’s affairs.</td>
<td></td>
</tr>
<tr>
<td>3</td>
<td>If ethical and professional conduct of any director is called into question, such a director is suspended pending investigations.</td>
<td></td>
</tr>
</tbody>
</table>

6. The Audit Committee *(Please Tick √)*

<table>
<thead>
<tr>
<th></th>
<th>YES</th>
<th>NO</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>The board has established and appointed an Audit Committee</td>
<td></td>
</tr>
<tr>
<td>2</td>
<td>The audit committee focuses on improving the company performance and competitiveness</td>
<td></td>
</tr>
<tr>
<td>3</td>
<td>The audit committee is independent, competent and complies with conventional audit guidelines and best practice</td>
<td></td>
</tr>
<tr>
<td>4</td>
<td>The audit committee is adequately resourced and has adequate techniques for fraud prevention.</td>
<td></td>
</tr>
<tr>
<td>5</td>
<td>The audit committee is expected to oversee corporate governance, financial reporting, internal control structure, internal audit functions, and external audit services</td>
<td></td>
</tr>
<tr>
<td>6</td>
<td>The audit committee participates in evaluating performance and recommending changes to improve operation efficiency of the entity</td>
<td></td>
</tr>
</tbody>
</table>
7. The duality of the CEO (*Please Tick ✓*)

<table>
<thead>
<tr>
<th></th>
<th>YES</th>
<th>NO</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>The performance of the CEO is evaluated annually.</td>
<td></td>
</tr>
<tr>
<td>2</td>
<td>The CEO is the chairman of the Board of Directors.</td>
<td></td>
</tr>
<tr>
<td>3</td>
<td>The role of the CEO and that of the Chairman of the board are separated and held by different persons.</td>
<td></td>
</tr>
<tr>
<td>4</td>
<td>There is an established clear job description for the board chair and members which is different from that of the CEO and Management Team.</td>
<td></td>
</tr>
<tr>
<td>5</td>
<td>Separating the roles of CEO and Chairman of the board (COB) potentially leads to confusion and lack of clarity, both internally with employees and externally with other stakeholders</td>
<td></td>
</tr>
<tr>
<td>6</td>
<td>Separating the CEO’s and Chairman’s roles does not necessarily guarantee a strong monitoring function if the collective board is otherwise weak</td>
<td></td>
</tr>
</tbody>
</table>

8. Kindly indicate the Profit after Tax and the Total Assets value in figures of your entity for the last 3 financial years (*Please Fill in Millions*).

<table>
<thead>
<tr>
<th>Financial Year</th>
<th>Profit After Tax (PAT)</th>
<th>Total Assets (TA)</th>
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<tr>
<td>2012/13</td>
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</table>

"millions"

…thank you for your time and cooperation…
## APPENDIX III: STATE OWNED ENTERPRISES IN KENYA

<table>
<thead>
<tr>
<th>No.</th>
<th>State Owned Enterprise in Kenya</th>
<th>No.</th>
<th>State Owned Enterprise in Kenya</th>
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<tbody>
<tr>
<td>1</td>
<td>Agricultural Development Corporation</td>
<td>34</td>
<td>Kenya Agricultural Research Institute</td>
</tr>
<tr>
<td>2</td>
<td>Agricultural Finance Corporation</td>
<td>35</td>
<td>Kenya Airways Authority</td>
</tr>
<tr>
<td>3</td>
<td>Agro-Chemical &amp; Food Company Ltd</td>
<td>36</td>
<td>Kenya Anti-Corruption Commission</td>
</tr>
<tr>
<td>4</td>
<td>Athi Water Services Board</td>
<td>37</td>
<td>Kenya Broadcasting Corporation</td>
</tr>
<tr>
<td>5</td>
<td>Bomas of Kenya Ltd</td>
<td>38</td>
<td>Kenya Bureau of Standards</td>
</tr>
<tr>
<td>6</td>
<td>Capital Markets Authority</td>
<td>39</td>
<td>Kenya Bureau of Standards (KEBS)</td>
</tr>
<tr>
<td>7</td>
<td>Catchment Area Advisory Committee</td>
<td>40</td>
<td>Kenya Civil Aviation Authority</td>
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<tr>
<td>8</td>
<td>Catering Tourism and Training Development Levy Trustees</td>
<td>41</td>
<td>Kenya College of Communication &amp; Technology</td>
</tr>
<tr>
<td>9</td>
<td>Central Water Services Board</td>
<td>42</td>
<td>Kenya College of Communications Tech</td>
</tr>
<tr>
<td>10</td>
<td>Chemilil Sugar Company Limited</td>
<td>43</td>
<td>Kenya Dairy Board</td>
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<tr>
<td>11</td>
<td>Coast Development Authority</td>
<td>44</td>
<td>Kenya Electricity Generating Company</td>
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<tr>
<td>12</td>
<td>Coast Water Services Board</td>
<td>45</td>
<td>Kenya Ferry Services Limited</td>
</tr>
<tr>
<td>13</td>
<td>Coffee Board Of Kenya</td>
<td>46</td>
<td>Kenya Forestry Research Institute</td>
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<tr>
<td>14</td>
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<td>Kenya Industrial Estates</td>
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<tr>
<td>15</td>
<td>Commission for Higher Education</td>
<td>48</td>
<td>Kenya Industrial Property Institute</td>
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<tr>
<td>16</td>
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<td>49</td>
<td>Kenya Industrial Research &amp; Development Institute</td>
</tr>
<tr>
<td>17</td>
<td>Consolidated Bank of Kenya</td>
<td>50</td>
<td>Kenya Institute Of Administration</td>
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<td>18</td>
<td>Cooperative College of Kenya</td>
<td>51</td>
<td>Kenya Institute of Public Policy Research and Analysis</td>
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<td>19</td>
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<td>Kenya Literature Bureau</td>
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<td>20</td>
<td>Deposit Protection Fund Board</td>
<td>53</td>
<td>Kenya Marine &amp; Fisheries Research Institute</td>
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<td>21</td>
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<td>Kenya Maritime Authority</td>
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<td>22</td>
<td>Egerton University</td>
<td>55</td>
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<tr>
<td>23</td>
<td>Ewaso Ng’iro South Development Authority</td>
<td>56</td>
<td>Kenya National Assurance Company</td>
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<td>24</td>
<td>Export Processing Zone Authority</td>
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<td>Kenya National Examination Council</td>
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<td>25</td>
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<td>Kenya National Library Service</td>
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<td>26</td>
<td>Gilgil Telecommunications industries</td>
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<td>Kenya National Shipping Line</td>
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<td>27</td>
<td>Higher Education Loans Board</td>
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<td>Kenya National Trading Corporation Limited</td>
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<td>28</td>
<td>Horticultural Crops Development Authority</td>
<td>61</td>
<td>Kenya Ordinance Factories Corporation</td>
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<td>29</td>
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<td>62</td>
<td>Kenya Pipeline Company Ltd</td>
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<td>30</td>
<td>Industrial and Commercial Dvt Corporation</td>
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<td>Kenya Plant Health Inspectorate Services</td>
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<td>Kenya Ports Authority</td>
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<td>Kenya Post Office Savings Bank</td>
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<tr>
<td>33</td>
<td>JKUAT</td>
<td>66</td>
<td>Kenya Railways Corporation</td>
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# STATE OWNED ENTERPRISES IN KENYA

<table>
<thead>
<tr>
<th>No.</th>
<th>Name of Company</th>
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<th>Name of Company</th>
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<tr>
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<td>KASNEB</td>
<td>98</td>
<td>Kenya Re-insurance Corporation</td>
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<td>Kenya Revenue Authority</td>
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<td>National Museums of Kenya</td>
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<td>Kenya Roads Board</td>
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<td>National Oil Corporation of Kenya Ltd</td>
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<td>Kenya Safari Lodges &amp; Hotels</td>
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<td>National Social Security Fund(NSSF)</td>
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<td>71</td>
<td>Kenya Seed Company Ltd</td>
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<td>National Water Conservation and Pipeline Corporation</td>
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<td>National Co-coordinating Agency for Population and Development</td>
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<td>73</td>
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<td>New K.C.C</td>
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<td>Numerical Machining Complex</td>
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<td>Nyayo Tea Zones Development Corporation</td>
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<td>Nzoia Sugar Company</td>
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<td>Retirement Benefits Authority</td>
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<td>School Equipment Production Unit</td>
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<td>South Nyanza Sugar Company</td>
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<td>Tana and Athi Rivers Development Authority</td>
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<td>Maseno university</td>
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<td>Teachers Service Commission</td>
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<td>University of Nairobi</td>
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<td>National Council for Law Reporting</td>
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<td>University of Nairobi Enterprises &amp; Services Ltd</td>
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<td>97</td>
<td>National Irrigation Board</td>
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**SOURCE:** [http://www.afribiz.info/content/government-state-corporations-in-kenya](http://www.afribiz.info/content/government-state-corporations-in-kenya)