THE EFFECT OF CORPORATE GOVERNANCE ON THE PERFORMANCE OF STATE CORPORATIONS IN KENYA

BY

CHRISTINE NGINA KYONDU

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DECLARATION

This research project is my original work and has not been submitted anywhere else for the Purpose of Examination.

Name: CHRISTINE NGINA KYONDU REG.NO: D61/75377/2012

Signature……………………………………… Date ……………………..

This research project proposal has been submitted for examination with my approval as the University Supervisor.

Signature……………………………………… Date ……………………..

Name: MR. HERRICK ONDIGO

Lecturer,

Department of Finance and Accounting,

School of Business,

University of Nairobi, Kenya.

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DEDICATION

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LIST OF ABBREVIATIONS

AGM	Annual General Meeting
CEO	Chief Executive Officer
CMA	Capital Markets Authority
GDP	Gross Domestic Product
GOEs	Government Owned Agencies
GoK	Government of Kenya
KCC	Kenya Cooperative Creameries
MDAs	Ministries, Departments and Agencies
M&E	Monitoring and Evaluation
OECD	Organization for Economic Cooperation and Development
PCs	Performance Contracts
SCAC	State Corporations Advisory Committee
SCs	State Corporations
UK	United Kingdom
USA	United States of America

ABSTRACT

Corporate governance is a concept that involves practices that entail the organization of management and control of companies. It reflects the interaction among those persons and groups, which provide resources to the company and contribute to its performance such as shareholders, employees, creditors, long -term suppliers and subcontractors. It has been generally agreeable from many studies in the recent past that companies that have corporate governance systems in place also exhibit good performance. Thus corporate governance is increasingly being recognized as an important aspect of an efficient and effective board of directors, enhancing investment performance. This study sought to examine how Corporate Governance affects performance of state Corporations in Kenya. Well-governed firms have higher firm performance. Mismanagement, bureaucracy, wastage, incompetence and irresponsibility by directors and employees are the main problems that have made State corporations (SCs) fail to achieve their performance. The poor performance of SCs in Kenya by 1990 led to outflow from central government to parastatals equivalent to 1 percent of the GDP in 1991. The objective of the study was to identify the relationship between performance, corporate governance and size of state corporations. The study used descriptive survey design. The target population for this study was 178 SCs in Kenya as presented by the report on Evaluation of the Performance of Public Agencies for the financial year 2010/2011 published in March, 2012 by Performance Contracting Department - Office of the former Prime Minister. Sample of 60 state corporations out of 178 was found ideal. Respondents were senior managers at these state corporations. Data were analyzed through descriptive statistics and multilinear regression technique. The findings were that the organizations that scored highly in corporate governance were also ranked highly in yearly ranking of state corporations performance by the performance contracting department at the current ministry of devolution. The empirical findings of this study are consistent with the guidance developed by capital Market Authority that companies should endeavor to attain the highest possible level of corporate governance. The study therefore recommends that financial monitoring should be done thoroughly by the board and that State corporations should consider adopting conduct of regular Corporate Governance Audits and Evaluations.

CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

Corporate Governance is defined as an internal system encompassing policies, processes and people, which serve the needs of shareholders and other stakeholders, by directing and controlling management activities with good business savvy, objectivity, accountability and integrity (Mang'unyi, 2011).

Corporate Governance is the system by which organizations are directed and controlled. It's a set of relationships between company directors, shareholders and other stakeholder's as it addresses the powers of directors and of controlling shareholders over minority interest, the rights of employees, rights of creditors and other stakeholders (Muriithi, 2004). The concept of Corporate Governance has also been defined as "dealing with the ways in which suppliers of finance to corporations assures themselves of getting a return on their investment" (Shleifer and Vishny, 1997). It deals precisely with problems of conflict of interest, design ways to prevent corporate misconduct and aligns the interests of stakeholders using incentive mechanism. Corporate Governance is viewed as ethics and a moral duty of firms. A variety of Corporate Governance frameworks have been developed and adopted in different parts of the world. According to Wong and Mwanzia (2010), countries that followed civil law (such as France, Germany, Italy and Netherlands) developed corporate frameworks that focused on stakeholders. On the other hand, countries that had a tradition of common law (e.g. Australia, United Kingdom, USA, Canada and New Zealand) developed frameworks that focused on shareholders returns or interests.

Corporate Governance has become a topical issue because of its immense contribution to the economic growth and development of nations. The absence of good Corporate Governance is a major cause of failure of many well performing companies. The economic well-being of a nation is the reflection of the performance of its companies. Thus the low level of development of developing nations is attributed to the low level of good Corporate Governance practices. Hence

the emphasis placed on good Corporate Governance in the existing literature as the most important problem facing the development of countries, such as Kenya.

In Kenya, the Capital Markets Act Cap 485A (2002) stipulates the best practice guidelines for corporate governance in public companies based on recommendations and reports from the Organization for Economic Cooperation and Development (OECD), the Commonwealth Association for Corporate Governance and the Private Sector Corporate Governance Trust, Kenya. The measures recommended include; the separation of CEO and Chairman position , board of directors of not more than 14 and not less than 5 members in number, board composition that include at least one third independent and non-executive directors of diverse skills and expertise with gender and racial balance being taken into consideration, establishment of an audit committee of at least three independent and non-executive directors who shall report to the board, establishment of an internal audit function which should be independent of the activities they audit and should be impartial and proficient in their operations, board to meet at least quarterly though the frequency can be increased as per the needs of the company and the meeting dates in a calendar year agreed in advance (CMA Act, 2002).

Performance in the public sector is measured by the economy, efficiency and the effectiveness of resource utilization to meet the set objectives. The surplus financial returns is remitted to the government through the treasury as dividends or where authorised, carried forward for expensing in the subsequent financial years (Bradbury, 1999). Controls must be applied to ensure that surpluses resulting from inefficiency and non-effective utilization of resources are not declared and used as an indication for good financial performance (Bradbury, 1999)

1.1.1 Corporate Governance

This can broadly be defined as the systems and processes by which a government manages its affairs with the objective of maximizing the welfare of and resolving the conflicts of interest among the stakeholders. (Carmichael, 2003) broadly put governance in state corporations as the way the Government proposes to reconcile the conflicting interests of its various stakeholders and the structures it puts in place to ensure that these objectives are met which encompasses both policy and practice.

Agency costs are the major cause of conflict between stakeholders and corporations. These conflicts arise when the principal in any operation or transaction appoints an agent to look after their interest. To identify the principals and the agent, the ultimate principals are the public who benefit from good regulation and who suffer when the regulation fails short. The public will delegate their interests to the government as their agent; the government in turn will delegate the responsibility to regulatory authority where there may be multiple levels of delegation. This will create several levels of delegation between principal/agent delegations and therefore multiple levels at which governance issues may arise.

The argument has been advanced time and time again that the governance structure of any corporate entity affects the firm's ability to respond to external factors that have some bearing on its performance (Donaldson, 2003). In this regard, it has been noted that well governed firms largely perform better and that good corporate governance is of essence to firm’s performance.

1.1.2 Performance of State Corporations.

Performance of state corporations means the extent to which state corporations have achieved the agreed performance targets. Thomas & Palfrey (1996) conceive that citizens are the clients and main beneficiaries of public sector operation and therefore should be involved in the process of performance evaluation. Evaluation of the performance of Public agencies entails the rating of actual achievements against performance targets negotiated and agreed upon at the beginning of the financial year. The resultant differences are resolved into raw scores, weighted scores and ultimately denominated into composite scores.

The performance rating of the institutions is based on the following attributes and criteria based on the set targets indicated in appendix 3 table 1.1, Excellent meaning an achievement between 30% and 100% above target, Very Good meaning an achievement of the set target in the performance contract up to 129.99% of the target, Good meaning an achievement between 70% and 99.99% of the set target. Fair meaning an achievement between 50% and 69.99% ofthe target and poor meaning an achievement between 0% and 49.99% of the target. Performance rated as Excellent, Very Good, Good, Fair or poor is accordingly translated into a composite score as

shown in appendix 3 table 1.2, reached at by adding up the weighted scores of all the performance indicators in the performance contract. The composite ranges from 1.00 to 5.00.

1.1.3 The Effect of Corporate Governance on Performance

Agency theory by Jensen and Meckling (1976) holds that managers will not act to maximize returns to shareholders unless appropriate corporate governance structures are implemented in the large corporation to safeguard the interest of the shareholders. The stewardship theory by Donaldson and Kay (1976) suggests that the problem of governance may lie not in the self-interest of the executive but rather in the assumptions that distant others - notably investors and regulators - make as to their self-interested motives. The danger it highlights is that negative investor assumptions may inadvertently distort or weaken the leadership of a company. The resource dependence theory by Pfeffer and Salancik (1978) sees the non-executive Directors primarily as a context specific resource to support the performance of both the executives and the company. Empirically, Miring'u & Muoria (2011) sought to examine how Corporate Governance affects performance of commercial SCs in Kenya and found out there is a positive relationship between ROE, board size and board composition of all SCs sampled.

Therefore, for the performance of state Corporations to be positively related to good Corporate Governance practices, measures must be put in place to ensure that managers act in the interests of the shareholders. The investors and regulators should not assume that the executive is only pursuing self-interest motives and they should also see the board as a source of resources for the company.

1.1.4 State Corporations in Kenya

State Corporations are legal entities created by a government to undertake business on behalf of the government. They are established under Section 2 of the State Corporation Act (1987), which defines a state corporation as a body corporate established by or under an Act of Parliament or other written law; a bank or other financial institution or other company whose shares or a majority of whose shares are owned by government or by another State Corporation, and; a subsidiary of a state corporation.

Solomon et al., (2003) emphasized the importance of good corporate governance and claim that corporate governance involves a set of relationships between a state owned enterprises" management, its board, its shareholders and other stakeholders, with increasingly acceptance of good corporate governance practices. In developing countries, the state-owned enterprise sector is an integral part of socio - economic activity. Most state owned enterprises were established to fulfill the social objectives of the state rather than to maximize profits. However, rising stakeholder expectations have forced governments in many countries to reform the corporate governance systems of state-owned enterprises, with expectations of improving their operations to reduce deficits and to make them strategic tools in gaining national competitiveness (Dockey and Herbert, 2000).

State corporations in Kenya have gone under a lot of reforms through government task forces and session papers to make them more efficient, effective in the performance of their mandate and to reduce the financial burden of the corporations on the public coffers. A lot of effort has gone in trying to make these corporations not only self-reliant but to make sure they can fund the government through the residual surplus after covering their costs of operations from the revenue they earn. Effective and functioning corporate governance is at the core in ensuring this is achieved as this would be to the benefit of the whole country as it moves towards the achievement of Vision 2030 (SCAC, 2010).

1.2 Research Problem

A country's capacity to achieve sustainable prosperity, that is progressive economic growth and social development over a prolonged period of time, depends on the decisions of allocation, utilization and investment of resources. Strategic decisions about the allocation and utilization of corporate resources are the foundations of investments in productive capacities that can make innovation and economic development possible. Private Sector Initiative for Corporate Governance (October 1999).

Lack of adequate corporate governance in state corporations has been evidenced by the collapse of several state corporations that were set up in the early 1970's. Some of the documented evidence just to mention a few include lack of review of Board performance, the Board never met frequently as required, the Board never got performance based contracts, misappropriation

of state corporation assets, declining financial performance, late or lack of performance of statutory audits by the Auditor General office, lack of prosecution of fraud and misappropriating agents of the state corporations and unwillingness of the government to take action to curb the gross misappropriation of state assets. This slowly led to the deterioration of the financial performance, loss of market share, loss of public faith in the institution, loss of revenue to the exchequer and eventually the collapse of all corporate governance systems in place of such government institutions. Over time closure of branches, divisions was evidenced and eventually the collapse of the entire institution. Private Sector Initiative for Corporate Governance (October 1999)

Otiti (2010) who studied on Corporate Governance and Performance in the Heritage Insurance Company Limited found out that the Company has a strong governance system in place and a correspondingly steady growth in their performance even in hard times of premium undercutting, and economic downturn. Thus there is a link between the corporate governance practices and organizational performance.

Gitari (2008) while carrying out a case study of new KCC sought to find out if there is any relationship between Corporate Governance and the Financial Performance of state corporations. The study established that the Board of New Kenya Cooperative Creameries adopted practices of good corporate governance which were reviewed and improved over time and had yielded improved financial performance.

To the best understanding of the researcher, no study has been conducted in Kenya on the relationship between corporate governance and performance of state corporations in Kenya using the variables to be used in this study. The study intends to address the research question, what is the effect of Corporate Governance on Performance of State Corporations in Kenya?

1.3 Objective of the Study

To determine the effect of Corporate Governance on Performance of State Corporations in Kenya.

1.4 Value of the Study

The Government would get an insight to the effect of Corporate Governance on performance of State Corporations. This may help the government when making policy decisions regarding State Corporations and also assist in assessing whether this has positively impacted on the economy. The study would also be instrumental in providing information to the State Corporations' management on the effects of good corporate governance practices within their jurisdictions. The study findings would also add to the academic field by laying a foundation for further research and understanding of the relationship between corporate governance and performance of state corporations as a basis of policy decisions.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter presents the available literature on corporate governance that has been reviewed for the study. Specific areas covered include the main corporate governance theories, empirical literature on the relationship between corporate governance practices and firm performance, and determinants of performance of state Corporations in Kenya and a summary of the literature reviewed.

2.2 Theoretical Review

The main theories reviewed in this section include the agency theory, stakeholder's theory, stewardship theory, and the resource dependence theory.

2.2.1 The Agency Theory

Agency theory having its roots in economic theory was exposited by Alchian and Demsetz (1972) and further developed by Jensen and Meckling (1976). This theory holds that managers will not act to maximize returns to shareholders unless appropriate governance structures are implemented in the large corporation to safeguard the interest of the shareholders. According to Jensen and Meckling (1976), the relationship between the owners and the management is defined as 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/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. This raises the prospect that the executive, as agent, will serve their own interests rather than those of the owner principal. To counter such problems the principal will have to incur 'agency costs'; costs that arise from the necessity of creating incentives that align the interests of the executive with those of the shareholder and costs incurred by the necessity of monitoring executive conduct to prevent the abuse of owner 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 executive self-interest serve shareholder interests. To date such studies have proved entirely equivocal in terms of the relationship between good governance and firm performance. Agency theory assumptions have nevertheless been highly influential is shaping the reform of corporate governance systems. Here it is essential to distinguish between external, market-based governance mechanisms and board-based mechanisms.

In relation to market governance then clearly the openness and integrity of financial disclosures is vital to the operation of the stock market in determining a company's share-price and its underlying market valuation. Market governance relies for its effectiveness on the remote visibility such financial information creates, and, as importantly, on the effects on the executive mind of the knowledge of such visibility. Agency theorists point to the important disciplinary effects of two further market mechanisms. 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 - 'the managerial labour 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.

To these external 'market' mechanisms must be added to the disciplinary effects on company and executive performance of external monitoring, both direct and indirect. Formally, it is the Annual General Meeting that provides an opportunity for directors to report face-to-face to their shareholders. In practice, however, the formal accountability of the AGM has been augmented and diverted by a variety of other mechanisms. At the time of results announcements, companies will typically conduct presentations for sell-side analysts who then serve as key intermediaries between companies and their investors. These general briefings are then supplemented by a large number of (typically annual) private face-to-face meetings between executives and their key investors.

In addition to these external market and monitoring mechanisms, agency theory has also informed the internal reform of boards of directors. One of its most significant direct contributions came in the form of the widespread adoption of executive share-option schemes. Such schemes follow directly from the agency assumption that the exercise of executive self-interest must be aligned with the interests of shareholders.

The 'independence' of the non-executives directors who must now constitute 50 per cent of the board, their lead role on audit, nominations and remuneration committees where conflicts of interest between executive and shareholder are potentially most acute, along with progressively more stringent provisions around the separation of the roles of chairman and chief executive, are all consonant with agency theory's assumption that the interests of the owner/ shareholder are potentially at risk from executive self-interest, in the absence of close monitoring by independent non-executives.

2.2.2 Stewardship Theory

Stewardship theory by Donaldson and Kay (1976) makes 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 shareholder; both have an interest in maximizing the long-term stewardship of a company and are therefore already well aligned. From this stewardship theory suggests the potentially negative impact of a division of responsibilities between a chairman and chief executive. The roles, it suggests, should remain combined in order to protect a key aspect of high performance; the strength and authority of executive leadership. Arguably the key contribution of stewardship theory lies in its questioning of agency theory's pessimistic assumptions about human nature. Like Douglas MacGregor's contrast between theory X and theory Y managers, it suggests that the problem of governance may lie not in the self-interest of the executive but rather in the assumptions that distant others - notably investors and regulators –

make as to their self-interested motives. The danger it highlights is that negative investor assumptions may inadvertently distort or weaken the leadership of a company.

2.2.3 Resource Dependence 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 aid it' (1978:173). Seeing the board as a source of resources for a company opens up a very different way to think about the board's role in creating high performance. Resources can take a variety of forms each of which can be argued to add to the 'capital' of a company, Hillman and Dalziel (2003).

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 what one of our participants called '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 or to sources of finance, as well as in the reputation benefits that arise from an individual's association with the company.

More mature businesses might draw upon the non-executive as a source of relevant market or managerial experience, and board composition would hence be managed primarily in terms of the relevance for the company of the non-executive's past experience rather than in terms of formal independence. But even in a more mature business, the non-executive directors who are needed to manage radical processes of organizational change might be very different from those needed to support the roll-out of a successful business model. The non-executive might be vital as a source of expertise in relation not only to the delivery of financial performance but also in the management of other key sources of business risk; for example in relation to regulation or government policy, or consumer confidence or their knowledge of campaign or pressure groups. In summary, whereas the agency view of the non-executive emphasizes their local policing role on behalf of investors, resource dependence theory sees the non-executive primarily as a context specific resource to support the performance of both the executives and the company.

2.3 Determinants of Performance of State Corporations

Analysis of the determinants of state corporations' performance is essential for all the stakeholders, but especially for investors. The Anglo-Saxon corporate governance focuses on maximizing shareholder value. This principle provides a conceptual and operational framework for evaluating business performance. The size of the company can have a positive effect on performance because larger firms can use this advantage to get some financial benefits in business relations. Large companies have easier access to the most important factors of production, including human resources. Also, large organizations often get cheaper funding. All of these are major factors influencing the market value of a company.

2.3.1 Corporate Governance

Corporate governance is a combination of corporate policies and best practices adopted by the corporate bodies to achieve their objectives in relation to their stakeholders (Mallin, 2007). It has been increasingly recognized in public organizations that appropriate corporate governance arrangements are a key element incorporate success (Meredith & Robyn, 2005). They form the basis of a robust, credible and responsive framework necessary to deliver the required accountability and bottom line performance consistent with an organization's objectives. Corporate governance in Kenya has been an important topic because of corporate scandals such

as the recent complaints on the composition of the board members in the state corporations against the tribal lines basis. Mismanagement, bureaucracy, wastage, pilferage, incompetence and irresponsibility by directors and employees are pointed out in the sessional paper 4 of Government of Kenya as the main problems that have made SCs fail to achieve their objectives (Reuters, 2004). Kenya's entities have had a history of poor governance system with about 70% of the scandals attributed to weak corporate governance practices, lack of internal controls, and weaknesses in regulatory and supervisory systems as well as conflict of interest.

2.3.2 Size of Corporation

The size of a firm affects performance in many ways. Key features of a large firm are its diverse capabilities, the abilities to exploit economies of scale and scope and the formalization of procedures. These characteristics, by making the implementation of operations more effective, allow larger firms to generate superior performance relative to smaller firms (Penrose, 1959). Alternative points of view suggest that size is correlated with market power (s, 1986), and along with market power x-inefficiencies are developed, leading to relatively inferior performance (Leibenstein, 1976). Theory, therefore, is equivocal on the precise relationship between size and performance

2.4 Empirical Review

Gitari (2008) while carrying out a case study of new KCC sought to find out if there is any relationship between Corporate Governance and the Financial Performance of state corporations. He looked into the Board of Directors role in Governance of the state corporation who are also mandated to oversee the running of the corporation.

The study established that the Board of New Kenya Cooperative Creameries adopted practices of good corporate governance which were reviewed and improved over time and had yielded improved financial performance. Some of the corporate governance principles that were identified include appointment and leadership of the Board, structure of the organization, purpose and values, balance of power in the Board, corporate communication, assessment of the performance of the Board, responsibility to stakeholders and social and environment responsibility.

Though some practices of good corporate governance were found and have yielded improved financial performance, it was found out that there is need for more structured mechanisms of handling various issues that arise. This study concluded that the relationship between the Board and the management needs to be continuously monitored to ensure that the corporation remains cordial to realize the mission and objectives set out.

Miring'u and Muoria (2011) while studying on the effect of Corporate Governance on Performance of Commercial State Corporations in Kenya sought to examine how Corporate Governance affects performance in commercial state corporations in Kenya. . The objective of the study was to identify the relationship between financial performance, board composition and size. The study used descriptive survey design. The target population for this study was 41 commercial SCs in Kenya as presented by Inspectorate of SCs. Respondents were 30 human resource officers. Data was analyzed through descriptive statistics and multilinear regression technique. The findings were that the board size mean for the sample was found to be ten while a minimum of three outside directors is required on the board. The study thus concluded that there is a positive relationship between RoE and board size and board compositions of all SCs.

Ong'wen (2010), while studying on Corporate Governance and Financial Performance of Companies quoted in the Nairobi stock exchange, sought to establish whether listed firms which adopted corporate governance provisions which exceeded the minimum provisions significantly outperformed those which stuck to the minimum.

Data was obtained from 43 companies and analyzed on a multiple linear regression model using SPSS version 17.0.The data analyzed showed that there was a positive relationship between corporate governance attributes which exceeded the minimum level prescribed by law and common practice, and firm performance. It was therefore concluded that it would be beneficial for a firm to institute corporate governance practices that exceed the minimum levels.

Otieno (2010), while studying on Corporate Governance and Firm Performance of Financial Institutions listed in Nairobi Stock Exchange examined whether the performance of Financial Institutions listed in Nairobi Stock Exchange is affected by the corporate governance practices put in place. The analysis was done by constructing a Governance Index as per Globe & Mail rankings using Data from the Financial Institutions and performance measure from annual

reports. The findings of the study established that there is a positive relationship between firm performance and Board composition, Shareholding and Compensation, Shareholder Rights, Board Governance Disclosure issues.

Miniga (2013), while carrying out a study on the relationship between Corporate Governance practices and Performance of Regulatory State Corporations in Kenya sought to determine the relationship between corporate governance practices and financial performance in regulatory state corporations in Kenya. The corporate governance practices included board of directors composition and size, independence of board committees, role of internal audit function, frequency of board meetings, CEO duality and board diversity. The researcher used a descriptive correlation research design to determine the relationship between corporate governance practices and financial performance. The sample comprised of 18 regulatory state corporations in Kenya. The data set comprised of both secondary and primary data. Primary data on corporate governance practices was collected through questionnaires while Secondary data was obtained from the financial reports filled at the auditor general's office. A multiple regression model of financial performance and corporate governance practices characteristics was applied to examine the relationship between the variables. The study established that financial performance of regulatory state corporations in Kenya is influenced by corporate governance practices. The findings concur with previous evidence from empirical studies on corporate governance, indicating that adoption of the various corporate governance practices by regulatory state corporations plays a part in the improvement of their financial performance.

2.5 Summary of Literature Review

From the above literature, research has been carried out in either one state corporation or a certain homogeneous sector like the Commercial state corporations, regulatory state corporations and focuses mostly on the best practice guidelines for corporate governance in public companies which include size and structure of the board, ownership structure, number and frequency of board meetings.

Similar studies to the current one include Corporate Governance and the performance of SCs, a case of new KCC by Gitari (2008), relationship between Corporate governance and financial performance of regulatory state corporations in Kenya by Miniga (2013).Therefore, no

comprehensive study has been carried out to specifically explain the effects of corporate governance on performance of State Corporation, concentrating on aggregate corporate governance scores and composite scores attained by SCs during the annual performance evaluations in a representative number of state corporations. This research study therefore seeks to investigate the effects of Corporate Governance on performance State Corporations in Kenya using the above mentioned more representative sample of the state corporations in Kenya.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter examines the research design, population of interest, data collection methods, data analysis and limitations of the study.

3.2 Research Design

Research design is a master plan that specifies the methods and procedures for collecting and analyzing the needed information. It's a structure for investigating so conceived as to obtain answers to research questions and for testing hypothesis (Kothari, 2004). This study intends to use quantitative research design.

Survey method was used to collect data. Survey approach is the group of methods which emphasizes quantitative analysis, where data are collected, from many organizations through methods such as questionnaire, interview, or from published statistics, and these data are analyzed though statistical techniques. Survey approach, by studying a representative sample of organizations, aims at discovering relationships that are common across organizations, and hence to provide generalizable statements about the object of study (Gable, 1994).

3.3 Target Population

According to Saunders et al. (2003) population is the full set of cases from which a sample is taken. Population can therefore be defined as the total collection of elements about which we wish to make some references. The target population of this study consists of all State corporations in Kenya. For the purposes of this study, the sampling frame consisted of the 178 state corporations that had signed PCs as listed in report on Evaluation of the Performance of Public Agencies for the financial year 2010/2011 published in March, 2012 by Performance Contracting Department - Office of the former Prime Minister.

3.4 Sample

This study employed stratified random sampling which is a method of sampling that involves the division of a population into smaller groups known as strata. In stratified random sampling, the strata are formed based on members' shared attributes or characteristics. A random sample from each stratum is taken in a number proportional to the stratum's size when compared to the population. These subsets of the strata are then pooled to form a random sample. The study will employ this sampling technique to select sixty (60) State Corporations which have their headquarters in Nairobi.

3.5 Data Collection

This study required the collection of both primary and secondary data. In carrying out this study, the researcher collected primary data using the questionnaire method. The advantages of using this method include: It is not expensive, gives respondents' time to complete the instrument and reduces Hawthorne effects given its anonymity. However, some drawbacks in using this method that could be experienced includes: some respondents may not be literate, lack of opportunity to probe respondents, low reply rate and ambiguity of questions. In mitigation, the researcher used the following guidelines to maximize response rate: Careful design of individual questionnaire; Clear layout of the questionnaire form; lucid explanation of the purpose of the questionnaire (Saunders et al., 2003).Secondary data will be collected on the net book Values of the SCs assets.

Part A of the questionnaire contained the bio data of the respondent; Part B contained questions aimed at attaining a corporate governance score for the corporate governance practices employed by the state corporations. The data collection period ranges from 2006 to 2011.

3.5.1 Data Validity and Reliability

Reliability and validity tests will used as the key determinants for soundness of the research instrument. According to Kothari (2004), validity indicates the degree to which an instrument measures what it is supposed to measure while Reliability is a measure of the degree to which a measuring instrument provides consistent results.

Pilot testing of the data collection instruments was carried out to test validity and reliability of data and ambiguous questions identified and removed or amended. The administration of instruments was planned and executed carefully by developing a scale that completely measures the constructs of interest and yet do so in as parsimonious or economical a manner. For ethicality, the researcher sought to maintain the details of the respondents confidential. All relevant information was disclosed to the respondents as far as possible.

3.6 Data Analysis

Data was analyzed using SPSS Version 20.0. In analyzing the data collected, the researcher screened the completed questionnaires for errors, incomplete and missing items and then organized, coded and analyzed the data using descriptive statistics and multiple regression analysis. Descriptive statistics such as mean and standard deviation were also used to delineate variable characteristics.

3.6.1 Data Analysis Model

Regression analysis was used to establish the relationship between the independent and dependent variables.

$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \varepsilon$

Where:-

Y = Performance of State Corporations as measured by the composite scores allocated in annual performance evaluations.

B_0 = It is the intercept explaining the level of performance. It is the Y value when the predictor values equal to zero.

β_1, β_2 = the regression coefficient representing the contribution of the independent variable to the dependent variable.

ε = is the error term representing variations in the model not explained by the independent variables (Model error).

X_1 = Corporate Governance as measured by the corporate governance score attained by each State Corporation.

X_2 = Size of the state corporation as measured by the natural logarithm of the assets at net Book Value.

3.6.2 Test of Significance

The researcher used the regression coefficient (coefficient of determination) to assess the strength of the relationship between performance of State Corporation (quantified dependent variable) and Corporate governance and state corporation size (quantifiable independent variables) at 95% level of confidence. R Squared which is a measure of the proportion of the variation in a dependent variable (performance of State Corporations that can be explained statistically by the independent variables will be used to measure the predictive ability of the model. The value of R squared ranges from 0 to 1. The close the value is to 1, the better the regression equation fit to the data. Beta value (β) was used to measure the strength of the relationship between performance of State Corporation and corporate governance and the size of the state corporation. The close β is to 1, the stronger is the relationship.

CHAPTER FOUR

DATA ANALYSIS, RESULTS AND DISCUSSION

4.1 Introduction

This chapter presents analysis and findings of the study as set out in the research methodology. The study findings are presented on the effects of corporate governance on the financial performance of the state corporations. The data was gathered exclusively from the questionnaire as the research instrument. The questionnaire was designed in line with the objectives of the study.

4.2 Descriptive Statistics

This section explains the characteristics of corporate governance factors and size of state corporation that affects the performance of corporations. Some demographic variables of corporate governance including, duality of the CEO, size of the board of the directors, composition of the board of directors were tested using T-tests, ANOVA.

Table 4.1: Descriptive Data Analysis

Year	Board Size	Board Composition	CEO Duality	Audit Committee	PERF	Assets
2006/07	8.3	0.5	0	0.78	0.037	25.021
2007/08	9.1	0.38	0	0.84	0.035	25.042
2008/09	10	0.38	0	0.84	0.038	24.907
2009/10	9.7	0.25	0	0.82	0.06	24.925
2010/11	9.3	0.38	0	0.82	0.046	24.929

Source: Research Findings

Secondary data was collected from the state corporations' financial statements and report for the years between 2006/07 and 2010/11. The study collected data on perfromance contracting composite score which measures the state corporations perfromance, thevarious independent variables were corporate governance measured through analysis of Board Size which was measured by the number of directors , Board Composition which was measured as the ratio of outside directors to total number ofdirectors, CEO Duality which was measured as dummy

variable 1 if CEO and Chairman are thesame person; 0 if CEO and Chairman are different persons and Audit Committee independence.The control variable was size of state corporation as measured by the natural log of the state corporations assets at their net book value. In order to test for multicollinearity the researcher conducted a Pearson Product Moment correlation.

4.3. Inferential statistics

This form of statistics tries to make conclusions about a whole group from one sample from that group.

4.3.1 Correlation Matrix

Pearson correlation and multiple regressions were performed to determine the degree of relationship between independent variable- Corporate Governance (Board size, Audit committee, CEO duality) and size of the state corporation.

Table 4.2: Correlation Matrix

	Performance	**Corporate Governance Score**	**Total Assets**
Performance	1		
Corporate Governance Score	0.824*	1	
Total Assets	0.623**	0.127	1

**. correlation is significant at the 0.01 level (2- tailed)
*. correlation is significant at the 0.05 level (2-tailed)

Source: Research Findings

Performance contracting composite score showed a very good and positive correlation with corporate governance score given a r-value of 0.824 and correlation of 0.623 with total assets value.

4.3.2: Regression Analysis

The researcher sought to establish if there is a relationship between the variables in the study .Corporate governance and size of State Corporation being the independent variables with Performance of state corporations being the dependent variable.

Table 4.3: Regression Results and Analysis

R	R Square	Adjusted R Square	Std. Error of the Estimate
.895a	.801	.721	.0615

Source: Research Findings

Adjusted R squared is coefficient of determination which tells us the variation in the dependent variable due to changes in the independent variable. From the findings in the above table, the value of adjusted R squared was 0.801, an indication that there was variation of 80.1% on the performance of state corporations due to changes in corporate governance score. This was determined at 95% confidence level. This shows that 80.1% changes inthe performance of state corporations as measured by the performance contracting score would be caused by the changes in the corporate governance score. R is the correlation coefficient which shows the relationship between the study variables. The findings show that there was a very good positive relationship between the study variables as shown by 0.895.

Table 4.4: Regression Coefficients

	Unstandardized Coefficients		**Standardized Coefficients**		
	B	**Std. Error**	**Beta**	**t**	**Sig.**
Constant)	0.613	0.411		1.612	0.091
Corporate Governance Score	4.751	0.917	4.315	5.721	0.003
Ln(Assets)	1.213	0.654	1.012	4.231	0.017

Source: Research Findings

From the data in the above table the established regression equation was:

Performance = 0.613 + 4.751*Corporate Governance Score + 1.213* Assets

According to the regression equation established as derived from the table above, when all the corporate governance attributes and the coprorations'asset size assumed the value of zero, performance will be 0.613. Holding asset size constant, a unit increase in corporate governance score would lead to 4.751 increase in performance. Holding corporate governance constant, a unit increase in asset size would lead to 1.213 increase in performance. Thus, the beta values of the corporate governance score and the company size indicate that they have a positive impact on performance.

Table 4.5: ANOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	45.981	2	22.991	51.515	.000[b]
	Residual	94.613	212	.446		
	Total	140.594	214			

a. Dependent Variable: Performance contracting score

b. Predictors: (Constant); ln assets, cgi

Source: Research Findings

From the above table the p-value was 0.000 which means that the model was statistically Significant thus rejecting the null hypothesis that all the coefficients of the model are equal to zero.

4.4 Interpretation of the Findings

In summary, this study found that implementation of proper corporate governance is an important element in the performance.From the regression equation it was revealed that Corporate governance as measured through analysis of Board Size, Board Composition, CEO duality and audit committee to a constant zero, performance of state corporations would stand at 1.573. A unit increase in Board Size would lead to decrease in performance of state corporations by a factor of 0.509, unit increase in Board Composition would lead to increase in performance of state corporations by a factor of 3.103, a unit increase in CEO duality would lead to increase

in performance of state corporations by a factor of 1.483 and unit increase in audit committee would lead to increase in performance of the state corporations by a factor of 1.317.

At 5% level of significance and 95% level of confidence, Board Composition had a 0. 040 level of significance; CEO duality had a 0.030 level of significance while Board Size showed 0.011 level of significance hence the most significant factor is Board Size. Overall Board Size had the greatest effect on the performance of state corporations, followed by CEO duality, then audit committee and Board Composition had the least effect to the performance of state corporations. All the variables were significant ($p<0.05$).

Corporate governance has positive relation with performance hence the introduction of various governance policies will improve the performance efficiency. Many different claims by different authors explaining the impact of corporate governance on performance of state corporations have been explored and analyzed vis-à-vis the findings of the study. Competing explanations to the various arguments have also been shown .It was not, however possible to state the relationship between performance of state corporations and some of the prepositions because of lack of relevant comparative data from other groupings of state corporations. Future work should attempt to explore the linkages between transparency, communication, and performance in more depth and by use of different techniques.

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMENDATIONS

5.1 Introduction

The chapter provides the summary of the findings from chapter four, and it also gives the conclusions and recommendations of the study based on the objectives of the study. Theobjectives of this study were to investigate the effects of corporate governance and the performance of the state corporations.

5.2 Summary

The Pearson Correlation and regression analysis were used to find out whether there is a relationship between the variables to be measured (i.e. corporate governance and state corporations' performance) and also to find out if the relationship is significant or not. The proxies that were used for corporate governance are; board size, proportion of non-executive directors on board. In summary the study found that the board size and composition affected the performance to a little extent. The number of non-executive directors affected theperformance of the state corporations.From the study it was revealed that the number of non-executive directors affected the performance of the state corporations to a little extent.

The directors were involved in making the internal corporate governance mechanisms toa great extent. It was established that the authority to determine thecorporate governance practices lies with the government corporate governance policy. However as performance is not an absolute measure, level ofcorporate governance will vary based on a variety of factors and the levels may change from year to year as the state corporations's operation environment changes. Managing the levels ofperformance are therefore key challenges the state corporations have to resolve. The studyalso found that other potential variables which are evidenced by other researchers in other study settings as significant factors affecting performance is turnover and implementation.

5.3 Conclusion

The relevance of corporate governance cannot be over emphasized since it constitutes the organizational climate for the internal activities of a company. Corporate governance brings new

outlook and enhances a firm's corporate entrepreneurship and competitiveness. The government should therefore enforce the measures it has laid down to ensure SCs are following them so that the recommended governance structures are followed. The concerned ministries should also be very keen in their supervisory role through the relevant committees to ensure that all regulations are enforced as required e.g. books of accounts are well kept and audited as they should be.

5.4 Policy Recommendation

The study recommends that in order to have proper monitoring by independent directors, state corporation regulatory bodies should require additional disclosure of financial or personal ties between directors (or the organizations they work for) and the company or its CEO. By so doing, they will be more completely independent. Also, state corporations should be allowed to experiment with modest departures from the current norm of a "supermajority independent" board with only one or two inside directors.

The board needs to comprise of well educated people since they are actively involved inshaping state corporations strategy. The study recommends that non-executive directors be trained on internal corporate governance mechanisms. Ownership concentration needs to be reducedto avoid few people controlling the performance of the organization.Employees should be encouraged to be more active in management aspects ofthe Kenyan state corporations. Finally, the study recommends that financial monitoring should be donethoroughly by the board. A constitution which clearly indicates how to select and replacethe CEO and directors need to be adopted. State corporations should consider adopting conductof regular Corporate Governance Audits and Evaluations. Good Corporate Governance has a positive economic impact on the institution in question as it saves the organizationfrom various losses e.g. those occasioned by frauds, corruption and similar irregularities.

5.5 Limitations of the Study

Improved survey measures of performance of state corporations and various potential performance determinants such as inflation, religion, marginal taxrates, market competition and culture could improve the reliability of the empirical results and further reduce the risk of measurement error. This study was unable to include those variables at the same time.

The types of approaches used in measuring corporate governance and performance (i.e. by using a survey instrument) might provide limited results, and different research designs (such as interviews or an experiment) could produce different results.The researcher encountered various limitations that were likely to hinder access to information sought by the study. The researcher encountered problems of time as there search was being undertaken in a short period with limited time for doing a wider research.

The respondents approached were reluctant in giving information fearing that the information they give might be used to intimidate them or print a negative image about the institution. The researcher handled the problem by carrying an introduction letter from the University and assured the respondents that the information they gave was to be treated confidentially and it was to be used purely for academic purpose.

5.6 Suggestions for Further Research

The area of education related to corporate governance's knowledge and levels of performance offers opportunities for additional research. Instead of using asurvey, other methods of data collection i.e. interviews may provide different results. It is expected that two-way communication via an interview could produce other meaningful results; however, non-anonymous methods such as interviews can be problematic in revealing the truth, especially when questioning respondents regarding governance matters, as failure to appropriately address the questions would harm or embarrass respondents.

Further study should also be undertaken on corporate governance legislation reforms asan environmental base for strategic position taken to generate funds, and at the same time manipulate social as well as political demands of the nation.The same study should be carried out in other companies besides state corporation for example banks and microfinance institutions to find if the same results willbe obtained.

Further research is also required on the behavioral aspects of boards. There is therefore the need to go beyond the quantitative research, which is yielding a mixture of results, to perhaps a more qualitative approach as to how boards work. 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.

Due to constraints, this study could not exhaust all corporate governance practices influencing the performance of state corporations. First, the study focused only on certain set of board characteristics for their impact ton performance. While the characteristics covered are important, there are other diversity variables such independence of directors, capital structure and disclosure which could not be included. Furthermore, the performance of a company is influenced by more factors than just good corporate governance. Issues of social, legal, economic and the political environment are equally important. It is therefore suggested that future research should consider some of these factors in exploring the impact of corporate governance on corporations' performance.

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Appendices

Appendix I: Questionnaire

INTRODUCTION

The purpose of this questionnaire is to help the researcher collect data for a research thesis leading to the partial fulfillment of a Master's in Business Administration (MBA) at University of Nairobi. You are requested to give accurate and independent responses. Please note that the questionnaire will remain STRICTLY confidential and will be used by the researcher for academic purposes only.

PART A: BIO- DATA

1. You Name (Optional) ……………………………………………….
3. Name of your Organization ……………………………………
4. Your position…………………………………………………..

Part B: Data Collection sheet questions

1. Board Size

a) What is your current board size? …………………

2. Board Composition

a) How many of the Board members are employees of the firm or affiliates of the firm, including who are state employees in other organizations?..................

C) How many board members are non-executive? …………………

3. CEO Chairperson Duality /Independent Chairman

a) Is the chairman of the Board also the CEO? Choose yes or no as appropriate.

Yes [ ] No [ ]

4. Independence of Audit Committees

a) How many of the audit committee members are independent directors? I.e. not employees of the authority or the Government……………………………

Appendix II: State Corporations in Kenya as at March 2013

No.	State Corporation	Functional Category
1	University of Nairobi	Public University
2	Kenyatta University	Public University
3	Nyayo Tea Zones Development Corporation	Commercial/Manufacturing
4	Kenya Veterinary Vaccines Production Institute	Service
5	Rural Electrification Authority	Service
6	Kenyatta International Conference Center	Commercial/Manufacturing
7	Bondo University College	Public University
8	Kenya Literature Bureau	Commercial/Manufacturing
9	Jomo Kenyatta University of Agriculture and Technology	Public University
10	Kisii University College	Public University
11	Kenya National Library Services	Service
12	National Water Conservation and Pipeline Corporation	Service
13	Meru University College of Science and Technology	Public University
14	National Irrigation Board	Regulatory
15	Coffee Research Foundation	Training and Research
16	Kenya Seed Company Ltd.	Commercial/Manufacturing
17	Maseno University	Public University
18	South Eastern University College	Public University
19	Jomo Kenyatta Foundation	Commercial/Manufacturing
20	Kenya Railways Corporation	Commercial/Manufacturing
21	Kenya Broadcasting Corporation	Commercial/Manufacturing
22	Nzoia Sugar Company	Commercial/Manufacturing
23	South Nyanza Sugar Company	Commercial/Manufacturing
24	Kenya Safari Lodges and Hotels	Commercial/Manufacturing
25	Geothermal Development Company Ltd	Service
26	Lake Victoria North Water Services Board	Service
27	Kenya Power and Lighting Company Ltd	Commercial/Manufacturing
28	Kenya Dairy Board	Regulatory
29	Masinde Muliro University of Science and Technology	Public University
30	Dedan Kimathi University	Public University
31	Kenya Education Staff Institute	Tertiary Education
32	Kabianga University College	Public University
33	Retirement Benefit Authority	Regulatory
34	Water service Trust Fund	Service
35	Capital Market Authority	Regulatory
36	Egerton University	Public University
37	Sports Stadia Management Board	Service

38	National Campaign Against Drug Abuse Authority	Service
39	Kenya Tourist Board	Service
40	Moi University	Public University
41	Industrial and Commercial Development Corporation	Financial
42	National Council for Persons with Disabilities	Service
43	Kenya Institute of Education	Service
44	Agricultural Finance Corporation	Financial
45	Kenya Revenue Authority	Financial
46	Communication Commission of Kenya	Regulatory
47	Catering and Tourism Training Development Levy Trustees	Regulatory
48	Kenya Films Commission	Regulatory
49	Tea Board of Kenya	Regulatory
50	National Commission on Gender and Development	Service
51	Kenya School of Government	Training and Research
52	National Coordinating Agency for Population and Development	Service
53	Constituency Development Fund	Service
54	Higher Education Loans Board	Service
55	Laikipia University College	Public University
56	Water Service Regulatory Board	Regulatory
57	Kenya Plant Health Inspectorate Services	Regulatory
58	Kenya Urban Roads Authority	Financial
59	Export Promotion Council	Regulatory
60	Pwani University College	Public University
61	Kenya Utalii College	Tertiary Education
62	Kenya Institute for Policy Research and Analysis	Training and Research
63	Tea Research Foundation of Kenya	Training and Research
64	Kenya Ports Authority	Commercial/Manufacturing
65	Kenya Wine Agencies	Commercial/Manufacturing
66	Kenya Roads Board	Financial
67	Kenya Electricity Generating Company Ltd	Commercial/Manufacturing
68	Kenya Pipeline Company Ltd	Commercial/Manufacturing
69	Co-operative College of Kenya	Tertiary Education
70	Coast Development Authority	Regional Development
71	Kenya Medical Research Institute	Training and Research
72	Lake Victoria South Water Service Board	Service
73	Kenya Accountants and Secretaries National Examinations Board	Service
74	Mombasa Polytechnic University College	Public University

75	Lake Basin Development Authority	Regional Development
76	Rift valley Water Services Boards	Service
77	Tana Water Services Board	Service
78	Kenya Rural Roads Authority	Financial
79	Kenya Forest Service	Service
80	Kenya Forestry Research Institute	Training and Research
81	Kenya Aids Control Council	Service
82	Kenya National Examination Council	Service
83	Brand Kenya Board	Service
84	Kenya Ferry Services Ltd	Service
85	Kenya Polytechnic University	Public University
86	Athi Water Services Board	Service
87	Agro Chemical and Food Company Ltd	Commercial/Manufacturing
88	Kenya Sugar Research Foundation	Training and Research
89	Ewaso Ng'iro South Development Authority	Regional Development
90	National Oil Corporation of Kenya	Commercial/Manufacturing
91	Ewaso Ng'iro North Development Authority	Regional Development
92	Kenya Copyright Board	Regulatory
93	Privatization Commission of Kenya	Service
94	Kenya Animal Genetic Resources	Service
95	Kenya National Assurance Company (2001) Ltd	Financial
96	ICT Authority	Service
97	Bomas of Kenya	Service
98	Horticultural Crops Development Authority	Regulatory
99	Kenya Bureau of Standards	Regulatory
100	Agricultural Development Corporation	Service
101	Kenya Sugar Board	Regulatory
102	Kenya Medical Supplies Agency	Service
103	Kenya Maritime Authority	Regulatory
104	Kenya Coconut Development Authority	Regulatory
105	Kenya Electricity Transmission Company	Commercial/Manufacturing
106	Cotton Development Authority	Regulatory
107	NHIF	Financial
108	Kenya Water Institute	Tertiary Education
109	Kenya Post Office Savings Bank	Financial
110	Kenya Industrial Research and Development Institute	Training and Research
111	Bukura Agricultural College	Tertiary Education
112	Local Authority Provident Fund	Service
113	Postal Corporation of Kenya	Commercial/Manufacturing
114	SACCO Society Regulatory Authority	Regulatory

115	Youth Enterprise Development Fund	Service
116	Kenya Tourist Development Corporation	Financial
117	Moi Teaching and Referral Hospital	Service
118	Multi Media University College	Public University
119	KARI	Training and Research
120	Kenya Re	Financial
121	Commission for Higher Education	Regulatory
122	TSC	Service
123	Northern Water Services Board	Service
124	Kenya Maritime and Fisheries Research Institute	Training and Research
125	National Council for Children Services	Service
126	KMTC	Tertiary Education
127	Council of legal Education	Regulatory
128	Kenya Civil Aviation Authority	Regulatory
129	Coffee Development Fund	Regulatory
130	Energy Regulatory Commission	Regulatory
131	Kenya Airports Authority	Commercial/Manufacturing
132	Insurance Regulatory Authority	Regulatory
133	Kenya Films Classification Board	Regulatory
134	Kenya National Highways Authority	Service
135	National Housing Corporations	Commercial/Manufacturing
136	Kerio Valley Development Authority	Regional Development
137	National Council for Science and Technology	Training and Research
138	Narok University College	Public University
139	Chuka University College	Public University
140	Consolidated Bank of Kenya	Financial
141	Tanathi Water Service Board	Service
142	Coffee Board of Kenya	Regulatory
143	Kenyatta National Hospital	Financial
144	Kenya Industrial Estates	Financial
145	NGO Coordination Board	Regulatory
146	PPOA	Regulatory
147	Water Resources Management Authority	Service
148	Kenya National Bureau of Statistics	Service
149	Chemilili Sugar Company	Commercial/Manufacturing
150	Tana and Athi Rivers Development Authority	Regional Development
151	NEMA	Regulatory
152	National Museums of Kenya	Training and Research
153	Kenya Investment Authority	Regulatory

154	Export Processing Zones Authority	Regulatory
155	Kenya Institute of Special Education	Service
156	Kenya Yearbook Editorial	Service
157	Pest Control Products Board	Regulatory
158	NSSF	Financial
159	KMC	Commercial/Manufacturing
160	Kenya Ordinance Factories Corporation	Service
161	Coast Water Service Board	Service
162	Kenya Industrial Property Institute	Service
163	Numerical Machining Complex	Commercial/Manufacturing
164	National Crime Research Centre	Training and Research
165	Centre for Mathematics	Service
166	East African Portland Cement Company Ltd	Commercial/Manufacturing
167	Pyrethrum Board of Kenya	Commercial/Manufacturing
168	NCPB	Commercial/Manufacturing
169	National Bio-safety Authority	Regulatory
170	Kenya National Shipping Line	Commercial/Manufacturing
171	New KCC Ltd	Commercial/Manufacturing
172	Water Appeals Board	Regulatory
173	Industrial Development Bank	Financial
174	Kenya National Trading Corporation	Financial
175	Kenya Wildlife Service	Service
176	School Equipment Production Unit	Commercial/Manufacturing
177	Medial Council of Kenya	Regulatory
178	University of Nairobi Enterprise Services	Service

Source: Report on Evaluation of the Performance of Public Agencies for the financial year 2010/2011 published in March, 2012 by Performance Contracting Department - Office of the former Prime Minister.

Appendix III: Performance weights for various criteria/ categories assigned to State corporations in Kenya

	Ministries/ state departments	Tertiary institutions	Non commercial	Public universities	commercial
Finance & Stewardship	10	10	10	10	35
Service Delivery	15	15	15	15	15
Non-Financial	10	10	10	10	10
Operations	55	55	55	55	30
Dynamic/Qualitative	5	5	5	5	5
Corruption eradication	5	5	5	5	5

Source: Report on Evaluation of the Performance of Public Agencies for the financial year 2010/2011 published in March, 2012 by Performance Contracting Department - Office of the former Prime Minister.