

**EFFECT OF CORPORATE GOVERNANCE ON
ORGANIZATIONAL PERFORMANCE OF STATE
CORPORATIONS IN KENYA**

By

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DECLARATION

This research project report is my original work and has not been submitted to any other university for award of a degree.

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D61/68727/2013

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

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DEDICATION

This research project is dedicated to my entire family. To my parents Ali and Fatuma Haji who despite not having the opportunity themselves, had hope, and sacrificed to take me to school to ensure I got the best foundation for succeeding in life.

I will be forever grateful.

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ABSTRACT

The objective of the study was to determine the effect of corporate governance on organizational performance of State Corporations in Kenya. The study population was 184 state corporations out of which 60 state corporations were selected for the study. The study used secondary data from published annual reports and financial statements for the year 2010-2014. The study used a regression model to analyze the relationship between organizational performance and corporate governance practices. Control variables namely firm size and age of the firm were used in the regression model. The study findings showed a positive relationship between corporate governance practices and organizational performance of state corporations in Kenya. The coefficient of correlation (R) shows a strong positive relationship between variables (0.895). As for the corporate governance variables, the most influential is board size with a regression coefficient of (0.366) while insider shareholding had the least impact on organizational performance with a regression coefficient of (0.018) and a p-value of (0.097). Among the control variables, firm size had a strong correlation (1.213) while age of the firm had a weak one (0.412). It can be concluded that corporate governance affects the organizational performance of state corporations in Kenya. Therefore corporate governance is necessary to achieve proper functioning of State Corporation and achieve its stated vision and mission if well implemented.

CHAPTER ONE: INTRODUCTION

1.1 Background of the Study

Corporate governance is a phrase denoting the system by which companies are directed and controlled (Cadbury Report, 1992). It is concerned with structures and the allocation of responsibilities within companies. Knell (2006) defines corporate governance as a set of processes, customs, policies, laws and institutions affecting the way a corporation is directed, administered or controlled. The principal players in corporate governance includes the shareholders, management, the board of directors and other stakeholders including the employees, suppliers, customers, banks and other lenders, regulators, the environment and the community at large (Knell, 2006).

Several theories have emerged expounding on corporate governance. The agency theory advanced by Berle and Means (1932) characterizes the relationship between the agent and the principal to be that of mistrust and competing interests. Conversely, the Stewardship theory replaces mistrust with goal congruence. It suggests that managers' need for achievement and success can only be realized when the organization performs well. The Stakeholders theory (Clarkson, 1994) recognizes existence of other stakeholders including suppliers, customers, other organizations, employees and the community. The Resource dependence theory (Pfeffer, 1972) introduces organization's accessibility to resources in addition to separation of ownership. Information resource and strategic linkages with other organizations through the Board are considered to be critical resources for a firm's good performance.

Kenyan state corporations are also referred to as parastatals. These are institutions or businesses owned by the government either fully or as a majority shareholder. They are formed by the Kenyan government to meet both social and commercial needs while some exist to correct for market failures. This is the case, where, for instance, the service they offer cannot be profitably provided by the private investors. These entities are critical for promoting and accelerating national growth and development through creation of employment opportunities as well as social economic transformation in the form of delivery of public service (Akaranga, 2008; Government of Kenya (GoK), 2012). Performance of Kenyan state corporations, therefore, is of great concern to the government, general public and other stakeholders.

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. Clark (2004) 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.

Adams and Mehran, (2003) define corporate governance as "the mechanism through which stakeholders (shareholders, creditors, employees, clients, suppliers, the government and the society, in general) monitor the management and insiders to safeguard their own interests." Morin and Jarrel (2001) define it as follows: "It is a

framework through which monitors and safeguards the concerned actors in the market (managers, staff, clients, shareholders, suppliers and the board of administration." It is management through which the company is guided and monitored for the purpose of striking a balance between its interests, on the one hand, and the interests of other related parties such as investors, lenders, suppliers and clients in addition to the environment and society."

The improvement of corporate governance practices is widely recognized as one of the essential elements in strengthening the foundation for the long-term economic performance of countries and corporations. As is the trend with other countries, corporate governance has gained prominence in the Kenya. Investors are demanding high standards of corporate governance in the companies in which they invest. The need for corporate governance is becoming more pronounced as a way of safeguarding the interests of various stakeholders. The importance of corporate governance for corporate success as well as for social welfare cannot therefore be under estimated (Musaali, 2007).

1.1.2 Organizational Performance

Organizations are instruments of purpose coordinated by intentions and goals. These purposes, intentions and goals may not be consistent across firms or even within a firm. However, talking about the purposes of organizations and evaluating comparative organizational success and failure in fulfilling those purposes are conspicuous parts of conventional discourse (March & Sutton, 1997). The common denominator is that firms are in business or various ventures to succeed. Therefore, performance remains a crucial aspect of the organization and at the heart of financial management. It remains a recurrent

theme of great interest to both academic scholars and practicing managers (Venkatramann & Ramanujam, 1986).

Organizational performance relates to efficiency, effectiveness, financial viability and relevance of the firm. Effectiveness is concerned with the unique capabilities that organizations develop to assure achievement of their missions while efficiency is the cost per unit of output that is much less than the input with no alternative method of the input that can go lower for same output (Machuki & Aosa, 2011). Financial viability is a firm's ability to survive. It means that an organization's inflow of financial resources must be greater than the outflow. According to International Development Research Centre (IDRC) (1999) the conditions needed to make an organization financially viable include multiple sources of funding, positive cash flow, and financial surplus.

The stakeholder based view has since influenced the various measurement tools of performance depending with the metamorphosing influence of the stakeholder. This approach assesses performance against the expectations of a variety of stakeholder groups that have particular interests in the effects of the organization's activities (Hubbard, 2009). The balanced score card performance measurement system by Kaplan and Norton (1992) is based on this theory. It incorporates financial, internal processes, the customer/market and learning and growth.

This is a new trend toward sustainable balanced score card while reporting. However, it is yet to crystallize given the challenges related to quantifying social and environmental

performance. A few organizations as well as industries are yet to develop formulae that would yield to a performance index that carries on board every indicator of performance. Thus, performance remains complex in definition, practice and operationalization. Unresolved issues still revolve around how performance should be observed as well as what and how to measure it. What is generally agreeable though is that an organization's performance cannot be explained by a single factor. The resources a firm possesses and control may lead to superior performance. Resources possessed form basis of unique value creating strategies and their related activity systems. These address specific markets and customers in distinctive ways which may eventually lead to competitive advantage. How the resources influence performance could be subject to a number of other factors among them corporate governance structures (Hubbard, 2009).

1.1.3 Corporate Governance and Organizational Performance

Good corporate governance shields a firm from vulnerability to future financial distress (Bhagat & Black, 2002). 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 financial 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 organizational performance.

The presence of an effective corporate governance system, within an individual company and across an economy as a whole, helps to provide a degree of confidence that is necessary for the proper functioning of a market economy. As a result, the cost of capital is lower and firms are encouraged to use resources more efficiently, thereby underpinning

growth (OECD, 2004). Good corporate governance contributes to sustainable economic development by enhancing the performance of companies and increasing their access to outside capital. For emerging market countries, good corporate governance reduces vulnerability to financial crisis, reinforces property rights, reduces transaction costs and cost of capital and leads to capital market development. Weak corporate governance framework reduces investor confidence and discourage outside investor. Also pension funds continue to invest more in equity markets, good corporate governance is crucial for preserving retirement benefits (The World Bank, 2008). There are two reasons why good corporate governance increases firm value. First, good governance increases investor trust. Investors might perceive well-governed firms as less risky and apply a lower expected rate of return, which leads to a higher firm valuation. Secondly, better-governed firms might have more efficient operations, resulting in a higher expected future cash-flow stream (Jensen & Meckling, 1976).

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.

Most state owned enterprises were established to fulfil 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 & 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 The Research Problem

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 fulfil the social objectives of the state rather than to maximise 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 (Dockery & Herbert, 2000).

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, 1999).

The association between corporate governance and firms' profitability has been a major focus in corporate governance studies but prior literature shows mixed results. Jensen and Meckling (1976) have proved that better-governed firms might have more efficient operations, resulting in a higher expected future cash-flow stream. Contrast results are seen in Gompers *et al.* (2003) who found no significant relationship between firms'

governance and operating performance. A study by Becht et al. (2002) shows that corporate governance practices positively influences the profitability of the organization while MacAvoy and Millstein (2003) found that board composition does not have any effect on financial performance. Locally, Kasoo (2008) concentrated only on the quoted firms in the NSE. The companies that are not quoted were left out though an inclusion would have provided a more conclusive result. More recently Areba (2012) used the case of commercial state corporations leaving out the regulatory and the non-commercial corporations. None of these studies have focused on the effect of corporate governance on the organisational performance of state corporations in Kenya. This study therefore sought to answer the following research question: what is the effect of corporate governance practices on organizational performance of state corporations in Kenya?

1.3 Research Objective

The objective of the study was to determine the effect of corporate governance on organizational performance of State Corporations in Kenya.

1.4 Value of the Study

The study is useful in guiding the regulators of state corporations on the importance and the impact of the governance policies they make on the organizational performance of state corporations. This is because state corporations are managed and controlled by the state through government policies.

The study will also assist the management of state corporations to evaluate their governance principles to identify which ones participate in the improvement of their performance and which ones needs to be changed or improved on. They will also be able to understand the relationship that may exist between their governance systems and financial performance.

The results of this study will also be invaluable to researchers and scholars as it will form a basis for further research. They will also use it as a basis for discussions on the corporate governance practices by regulatory state corporations and how these affect their financial performance. The findings of this study will also contribute to the body of knowledge on corporate governance practices in state corporations especially in the developing world.

CHAPTER TWO: LITERATURE REVIEW

2.1 Introduction

This chapter reviews literature on the subject matter. First, it looks at the theoretical underpinnings of this study followed by a section on determinants of organizational performance. This chapter also describes the relationship between corporate governance and organizational performance. Finally the empirical review and research gap is discussed.

2.2 Theoretical Foundations of the Study

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

2.2.1 The Agency Theory

Agency theory having its roots in economic theory was expounded by Alchian and Demsetz (1972) and further developed by Jensen and Meckling (1976). Agency theory is defined as the relationship between the principals, such as shareholders and agents such as the company executives and managers. In this theory, shareholders who are the owners or principals of the company, hires the agents to perform work. Principals delegate the running of business to the directors or managers, who are the shareholder's agents (Clarke, 2004).

Much of agency theory, as related to corporations is set in the context of the separation of ownership and control as described in the work of Berle and Means (1932). In this

context, the agents are the managers and the principals are the shareholders, and this is the most important commonly cited agency relationship in the corporate governance context. Indeed, Daily et al. (2003) argued that two factors influence the prominence of agency theory. First, the theory is conceptually simple and reduces the corporation into two participants being the managers and the shareholders. Second, agency theory suggests that employees or managers in organizations can be self-interested.

Such a problem was first highlighted by Adam Smith in the 18th century and subsequently explored by Ross (1973) and the first detailed description of agency theory was presented by Jensen and Meckling (1976). They integrated elements from the theory of agency, the theory of property rights and the theory of finance to develop a theory of the ownership structure of the firm (agency theory).

The theory is based on principal-agent framework. In the framework, one party, the principal, delegates another, the agent. Jensen and Meckling (1976) the key proponents of this theory, view organizations as a set of explicit and implicit contracts with associated rights and thus separation between ownership and control of corporations. This theory espouses the existence of agency relationship between the board (representing shareholders) and management who represent the board and other stakeholders. The proponents of agency theory perceive corporate governance-with specific bias to board of directors-as being an assessment and monitoring device. Corporate governance, to them, tries to ensure problems that may be brought about by principal-agent relationship are minimized (Fama & Jensen, 1983). The owners who pool together resources for the

production process have to grapple with the decision between managing their own organizations and hiring agents. Such agents with the required skills and expertise are the managers. However, according to Blair (1995) as well as Fama (1989), managers as agents must be monitored and institutional arrangements made to ensure checks and balances are in place thus avoiding abuse of power. Shareholders incur agency costs including costs of monitoring and disciplining managers. Other agency costs are incurred through residual losses occurring from activities of managers.

The theory presupposes that managers, if not checked, will pursue self-seeking interests at the expense of the organization. The most fundamental monitoring device as proposed by agency theorists is the board. Agency theory proposes that board composition should draw from outside the organization directors who are independent from the operations of the firm. Additionally, that the position of the Chief Executive Officer (CEO) and chairman of the board should be separated or else the agency costs become great. This is especially if the chairman is under influence of the CEO. In such circumstances the firm is bound to suffer financial and market control (Balta, 2008). One of the major limitations of application of agency theory to corporate governance is that the organization is viewed in the lenses of the owners only. Other stakeholders are therefore left out in consideration of the running and management of the organization. Such a scenario may lead to decisions that maximize wealth of the shareholder at the expense of employees, customers, the environment and community at large. Organizations that use this model would have their performance measurement and reporting limited to indicators such as returns on investments, profits or surplus and earnings per share.

2.2.2 Stewardship Theory

Stewardship theory has its roots from psychology and sociology. The theory defines a steward as a person who protects and maximises shareholders wealth through firm performance, because by so doing, the steward's utility functions are maximised (Davis et al., 1997). In this perspective, stewards are company executives and managers working for the shareholders, protects and make profits for the shareholders. Unlike agency theory, stewardship theory stresses not on the perspective of individualism (Donaldson & Davis, 1991), but rather on the role of top management being as stewards, integrating their goals as part of the organization.

Although Agency Theory is the dominant perspective in corporate governance studies, it has been criticized in recent years because of its limited ability to explain sociological and psychological mechanisms inherent of the principal-agent interactions (Davis et al., 1997). For example, outside directors as emphasized by Agency Theory, with only legal power, may not possess sufficient expertise and seldom have close social ties with top managers. Stewardship theory is proposed as an alternative perspective to Agency Theory. Stewardship theorists assume that managers are good stewards of the firms. They are trustworthy and work diligently to attain high corporate profit and shareholders' returns (Donaldson & Davis, 1994).

2.2.3 Stakeholder Theory

Stakeholder theory was embedded in the management discipline in the 1970's and gradually developed by Freeman (1984) incorporating corporate accountability to a broad range of stakeholders. Wheeler et al. (2002) argued that stakeholder theory was derived

from a combination of the sociological and organizational disciplines. Indeed, stakeholder theory is less of a formal unified theory and more of a broad research tradition, incorporating philosophy, ethics, political theory, economics, law and organizational science.

Freeman (1999) defines a stakeholder as any group or individual who can affect or is affected by the achievement of the organization's objectives. Unlike agency theory in which the managers are working and serving the stakeholders, stakeholder theorists suggest that managers in organizations have a network of relationships to serve – this include the suppliers, employees and business partners. He further argued that this group of network is important other than owner-manager-employee relationship as in agency theory.

This theory can be looked at side by side with the agency theory. Stakeholder theory examines the organization in the context of a wider range of implicit and explicit constituents also known as stakeholders. These stakeholders have legitimate expectations, urgent claims, purpose, needs and or power, control regarding the firm (Jones & Politt, 2002). They are affected by and affect the activities of the organization. Such stakeholders include employees, creditors, customers, suppliers, government and the community in which an organization operates. This is a broad approach to corporate governance that articulates management policies and attends to diverse stakeholders. This theory argues that while actions of managers may serve the interests of shareholders, there are other players whose interests must be taken care of too. Further, this theory

states that the interconnected networks of stakeholders affect the decision making process and in essence effectiveness and outcomes of the firm (Freeman, 1984). Therefore the theory advocates for board of directors that are drawn from a wide range of these interest groups. This theory has not only influenced corporate governance structures but also performance measurement and indicators within organizations.

2.2.4 Resource Dependency Theory

Whilst the stakeholder theory focuses on relationships with many groups for individual benefits, resource dependency theory concentrates on the role of board of directors in providing access to resources needed by the firm. Hillman et al. (2000) contend that resource dependency theory focuses on the role that directors play in providing or securing essential resources to an organization through their linkages to the external environment.

Johnson et al. (1996) concurs that resource dependency theorists provide focus on the appointment of representatives of independent organizations as a means for gaining access in resources critical to firm success. For example, outside directors who are partners to a law firm provide legal advice, either in board meetings or in private communication with the firm executives that may otherwise be more costly for the firm to secure.

The resource based view of the firm is an influential theoretical framework for understanding how competitive advantage within firms through resources is achieved and how that advantage might be sustained over time (Pearce et al., 2012). The basic

argument of this theory is that different types of resources possessed by a firm can have a significant influence on its performance. Variations in resources across firms will on the other hand, lead to differences in performance. Therefore, possession of unique resources is a source of superior performance.

The foundations of this theory originated from the works of Penrose (1959) and Chandler (1962). These early scholars postulated that organizational resources were the single most important source of organizational performance and competitive advantage. Since then there had been silence on the internal side of the organization, with most theoretical and empirical work emphasizing on the external side of the organization. However, frustrations of scholars in the failure to support the link between industrial structure and the performance of a firm (Tokuda, 2005) led to a relook at the internal side of the organization. Since the mid-1980s, the RBT has emerged as one of the substantial theories of strategic management (Pearce et al., 2012) even though others argue that it does not appear to meet the empirical content criterion for a theoretical system (Priem & Butler 2001).

This theory posits that firms can be conceptualized as bundles of resources. That those resources are heterogeneously distributed across firms and that resource differences persist over time (Wernefelt, 1984). Using these assumptions, researchers have conceptualized that when firms have resources that are valuable, rare inimitable and non-substitutable (VRIN) they can achieve sustainable competitive advantage by

implementing fresh value-creating strategies that cannot be easily duplicated by competing firms (Eisenhardt & Martin, 2000).

The other argument of this theory concerns resource slack in firms. Classic resource based conceptions stress the importance of resource slack as a river of growth rather than the total quality of resources possessed by the firm (Penrose, 1959). Slack is a dynamic quality that represents the difference between resources correctly possessed by the firm and the resource demands of the current business. Two firms can possess the same level of resources but differ in resource need of their current business (Mishina et al, 2004). The difference in slack will lead to further growth since those with high slack will be endowed with ability to take advantage of the opportunities afforded by the environment (Mishina et al., 2004). Increased attention to firm's resources by researchers seems to be beneficial in helping clarify the potential contribution of resources to organizational performance. The RBT's growing influence or swing of pendulum has provoked a significant debate on its strategy in the actual market. Some researchers report that the resources controlled by a firm generally enhance growth (Eisenhardt & Martin, 2000) and represents innovation. Other scholars posit that it continues to lack definition; it is conceptually vague and lacks explanatory power (Priem & Butter, 2001). They argue further that the theory is tautological with inattention to the mechanism by which resources actually contribute to firm performance. What remains crucial for the RBT proponents is to continuously get empirical backing and definition of the almost latent variable. The main propositions of this theory that resources possessed by an organization have an influence to its performance were the anchoring postulation of this study.

2.2.5 Transactions Cost Theory

Transactions cost theory is based on the work of Cyert and March (1963) and broadly states that the way the company is organized or governed determines its control over transactions. Companies will try to keep as many transactions as possible (in-house) in order to reduce uncertainties about dealing with suppliers, and about purchase prices and quality. To do this, companies will seek vertical integration (that is they will purchase suppliers or producers later in the production process). It also states that managers are also opportunistic; organize their transactions to pursue their own convenience and tend to entrench themselves.

While there are benefits in a firm transacting internally with itself, there comes a time due to expansion that it will have to transact externally. Internal transactions are efficient and indeed inefficiencies creep in due to external transactions. However, engagement with external persons leads to a nexus of contracts including the principal-agent contract between managers and owners. Corporate governance is still evolving (Mallin, 2010), with the core purpose of restoring investor confidence in a wake of publicized corporate scandals such as Enron, 2001; Barings Bank, 1995 and CMC, 2012. The main focus of corporate governance is transparency and disclosures, control and accountability and appropriate corporate structures. Indeed, Stakeholder, TCE and Agency theories can be linked to managerial discretion. They all assume that managers are opportunistic (self-seeking) and moral hazards thus operate under bounded rationality (Stiles & Taylor, 2001) and so regard a board of directors as an instrument of control. Consensus on which

theory is more applicable in developing corporate governance structures across different organizations is yet to be arrived.

2.3 Determinants of Organizational Performance

Financial studies on the issues of the determinants of organizational performance focus on the impact of financial and leverage. However organizational performance is a complex issue and will be determined by a number of variables.

2.3.1 Firm Size

Sometimes the source of competitive advantage can arise within the firm. Considering organizational resources, that can be proxy by firm size, there are non-imitable managerial abilities that transform financial and physical resources into competences (entry barriers). In this perspective firm size has impact on performance. Many researchers hypothesize that small firms export a lower share of their sales because of factors as limited resources, scale economies and high risk perception in international activity (Majocchi et al., 2005).

The effect of economies of scale can explain the increment of international competitiveness. Larger firms can lower average production costs (cost per unit of output) as output increases, and have lower average unit costs than 'smaller' firms. They can also intend for economies of scope being more efficient in the production of a number of different, usually related, products or activities than it is for a number of firms to produce the products or engage in the activities separately (Gabbitas & Gretton, 2003).

Larger firms can also take advantage because of the importance of R&D expenditure, risk taking abilities and possible price discriminatory behaviour.

2.3.2 Firm Age

Firm age (measured as the number of years a company is operating in the market since it was founded) is an important determinant of organizational performance. Past research shows that the probability of firm growth, firm failure and the variability of firm growth decreases as firm's age (Yasuda, 2005). According to the life cycle effect, younger companies are more dynamic and more volatile in their growth experience than older companies. Maturity brings stability in growth as firms learn more precisely their market positioning, cost structures and efficiency levels (Evans, 1987).

2.3.3 Performance measurement

Research on performance measurement has gone through many phases in the last 30 years: initially they were focused mostly on financial indicators; with time, the complexity of the performance measurement system increased by using both financial as well as non-financial indicators. Since the late '80s, researchers, consulting firms and practitioners have stressed the need to put an increased emphasis on non-financial indicators in the performance measurement process. Thus, it is expected that organizations should use both financial and non-financial indicators in measuring their performance (Ittner & Larcker, 2003).

2.3.4 Leadership

The leadership variable is also often found in organizational diagnostic models. The impact of this variable on organizational performance is probably the most obvious of the

models' variables being the object of many studies. Weiner and Mahoney (1981) studied the leadership in 193 manufacturing companies. According to this study, managerial practices have a significant impact on two organizational performance components: profitability and share price. In addition to the above-mentioned study there are others who have suggested that the leadership is a key element that ensures the connection between the success factors of an organization (Nohria et al., 2003).

2.4.4 Innovation and development

The innovative capacity of organizations is a dimension less surprised in organizational diagnostic models although there are numerous studies that have been focused on identifying impact of the innovative capacity on performance. The importance of this variable and the impact it has on organizational performance was highlighted by the study conducted by Deshpande et al. (1997) who considered several companies from five countries. According to this study, firm's innovative capacity was the critical factor in explaining performance differences between firms from five countries: Japan, United States, France, Germany and England.

Kotler (2003) studied the relationship between innovation and performance, offering the example of Sony, a leader in innovation that has significantly increased market share by means of numerous new products to clients. In essence, this variable is captured in the models of organizational diagnostic by the technology available in carrying out activities.

2.3.6 Corporate governance

Corporate governance is very often found in studies oriented towards organizational performance. One of the most important and often cited studies belongs to Gompers, Ishi & Metrick (2003). They have built an index for measuring corporate governance using a sample of 1,500 U.S. firms in the 90s. This study demonstrated the existence of a positive relationship between the quality of corporate governance and firm performance. Brown and Caylor (2009) have obtained similar results in their research which is an extension of the research carried out by Gompers et al. In Japan, Bauer et al. (2008) using the database provided by GMI, showed that companies with better governance are more efficient than companies with weaker governance by up to 15% annually.

This study will analyse the effect of corporate governance practices on the organizational performance of state corporations in Kenya. The key variables will include board size, board composition, number of board meetings, CEO-Chairman duality and insider shareholding. These will be the independent variables in this study.

2.4 Empirical Review

Various studies have been conducted to examine the relationship of corporate governance and the financial performance of organizations. Nambiro (2008) in her study on relationship between levels of implementation of CMA guidelines on corporate governance and profitability of companies listed at the NSE noted that profitability of companies listed at the NSE has been on the increase. She also pointed out that increase in performance could be partly attributed to the adoption of the corporate governance

guidelines, the size of the boards, proportion of outside directors and the number of meetings.

Gugler, Mueller and Yurtoglu (2003) analyzed the impact of corporate governance institutions and ownership structures on company returns on investment by using a sample of more than 619,000 companies from 61 countries across the world. Results indicated that Companies in countries with English-origin legal systems earn returns on investment that are at least as large as their costs of capital while companies in all countries with civil law systems earn on average returns on investment below their costs of capital, differences in investment performance related to a country's legal system dominate differences related to ownership structure and managerial entrenchment worsened a company's investment performance.

Black, Love and Rachinsky (2005) examined the connection between firm-level governance of Russian firms and their market values a study time series evidence from Russia from 1999 to 2004, which was a period of dramatic change in Russian corporate governance. Drawing on all six indices of Russian corporate governance. Their results established a causal association between firm-level governance and firm market value. Their study found an economically important and statistically strong correlation between governance and market value in OLS with firm clusters and in firm random effects and firm fixed effects regressions.

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.

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. The results showed that there was a positive relationship between corporate governance attributes which exceeded the minimum level 7 prescribed by law and common practice, and firm performance. Thus the study justifies that instituting corporate governance practices that exceed the minimum levels is advantageous.

Opiyo (2011) did a study on the relationship between financial performance and Corporate Governance with specific reference to SACCO's operating in Nairobi. A sample of 98 SACCO's were selected from a population of 131 and a regression analysis

was performed for purposes of data analysis to determine the relationship between the dependent and independent variables. He considered CEO duality, Gender diversity, Audit Committee, Board composition on gender, and Number of board meetings as the dimensions of corporate governance practices representing the independent variables and ROA and ROI as the financial performance measures representing the dependent variables in his regression model. He found out that corporate governance did not have significant relationship on ROA but established that there was a significant relationship in ROI with the dimensions of corporate governance used in the study. Specifically the corporate governance variable of Audit committee had higher positive relationship on ROI while that of Number of board committee meetings recorded a negative relationship.

Akeyo (2012) in studying the relationship between corporate governance and performance of International Non-Governmental Organizations (INGOs) in Somalia, noted that corporate governance is an important tool in management of INGOs and failure to implement it can affect their performance. The objective of his study was to establish the corporate governance practices and their impact on performance. The study targeted members of board of directors and managers who were privy to the information as the respondents. The study established that the majority of the INGOs had implemented 4 corporate governance practices, board size and composition, board meetings, audit committee and transparency and disclosure. He concluded that unilateral decision making, lack of transparency in audit and financial reports, incompetence and mismanagement are some of the problems that can arise in a situation where corporate

governance does not exist and if they are not arrested they can have a negative impact on performance.

Otieno (2012) examined the Corporate Governance factors and Financial Performance of Commercial banks in Kenya with the aim of establishing the effects of corporate governance practices and policies on financial performance of commercial banks. He used a sample ratio of 0.3 to obtain sample representation of all the 44 commercial banks in Kenya. He found out that corporate governance play an important role on bank stability, performance and bank's ability to provide liquidity in difficult market conditions. From the findings, he concluded that corporate governance factors (CGPR, CGPO, DPP and SRR) accounts for 22.4 % of the financial performance of commercial banks.

Areba (2012) in his study on the relationship between corporate governance practices and performance in commercial state corporations in Kenya, concluded that board size and composition, splitting of the roles of the chairman and chief executive, optimal mix of inside and outside directions, proportion of outside directors, executive remuneration, number of non-executive directors, participation of outside directors and number board of directors affected the financial performance of the corporation. He recommended that state owned enterprises should adopt good governance systems as a way of enhancing their financial performance.

2.5 Summary of the Literature Review

It is evident from the literature review that there is a relationship between corporate governance practices and the performance of any organization. However the level of the relationship varies from one organization/ industry to the other. Studies have yielded mixed results due to lack of standardization, country focus, and choice of corporate governance mechanism, data sources as well as the statistical methodology. Nambiro (2008) pointed out that increase in performance could be attributed to the adoption of the corporate governance guidelines, the size of the boards, proportion of outside directors and the number of meetings. On the other hand, Otieno (2012) found out that corporate governance plays an important role on bank stability, performance and bank's ability to provide liquidity in difficult market conditions. Similarly, Areba (2012) found out that corporate governance practices affected the financial performance of the state owned corporations.

Although different studies have been done locally and outside the country to establish whether there is a relationship between corporate governance and financial performance there still exists knowledge gap as none of the studies has examined the relationship of corporate governance and the organizational performance of state corporations in Kenya. This study therefore seeks to determine the effect of corporate governance practices on organizational performance of state corporations in Kenya.

CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Introduction

This chapter is a discussion of the methodology that was used in this study. It describes the research design, target population and data collection methods that were used to achieve the research objective. Data analysis techniques are also discussed in this chapter.

3.2 Research Design

The study adopted a descriptive research design in investigating the effect of corporate governance and organizational performance of state corporations in Kenya. Descriptive research design allowed the researcher to study the elements in their natural form without making any alterations to them. The design also allowed the researcher to come up with descriptive statistics that assisted in explaining the relationship that exists among variables.

3.3 Population of Study

The population for this study comprised of all the state corporations in Kenya. The study population was the one hundred and eighty four (184) state corporations as detailed in the performance contracting report for 2013/2014. It is from the 184 that the researcher sampled the ones that were considered for the study.

3.4 Sampling Procedures

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. Stratified sampling is appropriate for this study to enable the researcher to collect data from state corporations in all four categories: Utilities, Regulatory, Commercial and Industrial. The study employed this sampling technique to select sixty (60) State Corporations which have their headquarters in Nairobi. A sample of 30 units or more is considered adequate for a survey (Mugenda & Mugenda, 2003).

3.5 Data Collection

The study utilized secondary data only. This was obtained from the state corporations annual reports and financial statements from 2010-2014. The data comprised of both financial and non-financial results of the state corporations over the five year period in order to analyze their performance. The annual reports were also used to obtain data on their corporate governance practices for the same period.

Organizational performance was operationalized along the performance contracting guidelines (GoK, 2009). In these guidelines, overall performance is measured by computing a single composite index. This index is arrived at by first measuring six broad areas of performance that are weighted. These are finance and stewardship, non-financial, operations, dynamic/qualitative, service delivery, and corruption eradication. Scores in each of these areas are referred to as raw scores. The composite performance score for each organization is measured on a reversed likert scale where 1 represents excellent and 5 represents poor. This study used the composite score of performance. Corporate

governance variables included CEO - Chairman Duality which was measured by the separation of the two positions, board size which was measured by the number of directors sitting in a board, board meetings measured by the number of meeting held during the year, board composition as measured by the proportion of insider directors to outside directors and insider shareholding which was measured by the proportion of shares held by the CEO and insider directors.

3.6 Data Analysis

Data was analyzed using SPSS Version 22. Correlation analysis was carried out to find out the association between variables. Descriptive statistics such as mean and standard deviation were also used to delineate variable characteristics. Regression analysis was used to establish the relationship between the independent and dependent variables. The model of analysis is as follows:

$$Y = \alpha + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \beta_5 X_5 + \beta_6 X_6 + \beta_7 X_7 + \epsilon$$

Where:

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

$\beta_1, \beta_2, \beta_3, \beta_4$ and β_5 represent the coefficients of corporate governance

X_1 = CEO - Chairman Duality (Measured by the separation of the two positions)

X_2 = Board size (Measured by the number of directors sitting in a board)

X_3 = Board meetings (Measured by the number of meeting held during the year)

X_4 = Board composition (Measured by the proportion of insider directors to outside directors)

X_5 = Insider shareholding (Measured by the proportion of shares held by the CEO and insider directors)

Control variables:

X_6 = Firm Size = Log (Total Assets)

X_7 = Age of the Firm = Log (Length of time the company has been in operation)

α = Constant term indicating the level of performance in the absence of any independent variable (corporate governance practices)

ϵ = Error term: representing, other factors other than the above corporate governance which are not defined in the model.

The study used both descriptive and inferential statistics to analyze data. Descriptive statistics included frequency distribution; mean scores, median, mode, standard deviation and coefficient of variation. Multiple regression analysis was used because of the existence of various independent variables. The coefficient of determination (R^2) was used to test the overall regression model. T-test and F-test was used to test on the individual significance and the significance for the whole model respectively.

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 organizational performance of the state corporations in Kenya. A random sample of sixty (60) state corporations was used to collect data for this study. This chapter is divided into two sections: summary of descriptive statistics and the regression analysis.

4.2 Descriptive Statistics

The values of the mean, median, mode, standard deviation and coefficient of variation of all variables was calculated for the five year period and summarized in table 4.1 below.

Table 4.1: Descriptive Statistics

| | Five year Summary of Descriptive Statistics | | | | | |
|---------|---|------------------------------|---------------|-------------------|----------------------|-------------------------|
| | PERF | CEO - Chairman Duality | Board size | Board meetings | Board composition | Insider shareholding |
| Mean | 3.5 | 0 | 8.6 | 11.0 | 0.72 | 0.56 |
| Median | 3.0 | 0 | 9 | 10 | 0.68 | 0.54 |
| Mode | N/A | N/A | 10 | 9 | 0.60 | 0.45 |
| Std dev | 0.48 | 0 | 0.22 | 0.63 | 0.54 | 0.48 |
| CV | 0.14 | 0 | 0.03 | 0.06 | 0.75 | 0.86 |

Source: Researcher (2015)

Table 4.1 indicates that over the five year period the state corporations had a mean performance index of 3.5, mean board size of 8.6 and 11 board meetings. The board composition had a ratio of 0.72, while insider shareholding had a mean ratio of 0.56. No values were recorded for CEO-Chairman duality over the five year period. Performance had a median of 3, board size had 9 while the median for the board meetings was 10. Median board composition ratio was 0.68 and insider shareholding was 0.54. The standard deviation values were all less than 1 indicating that there were no significant variations in the responses. Insider shareholding had the highest value of coefficient of variation (0.86) indicating a higher dispersion as compared to other variables while board size had the lowest coefficient of variation of 0.3. No values were recorded for CEO-Chairman duality.

4.3 Regression Analysis

The regression analysis was conducted to determine the effect of the corporate governance variables on the organizational performance of the state corporation in Kenya. The dependent variable was organizational performance while the independent variables were CEO-Chairman, Board size, Board meetings, Board composition and insider shareholding. The results are tabulated below.

Table 4.2 Model Summary

| Model Summary | | | | | |
|--|-------------------|----------|-------------------|----------------------------|--------------------|
| Model | R | R Square | Adjusted R Square | Std. Error of the Estimate | Durbin-Watson Stat |
| 1 | .895 ^a | .801 | .721 | .0615 | 1.4112 |
| a. Predictors: (Constant), CEO-Chairman duality, Board size, Board meetings, Board composition, Insider shareholding, Firm size, Age of firm | | | | | |

Source: Researcher (2015)

Table 4.2 shows that the coefficient of correlation (R) is 0.895 which indicates a strong positive correlation between variables i.e. Dependent (Performance) and Independent variables (CEO-Chairman duality, Board Size, Board Meetings, Board Composition, Insider Shareholding, Firm Size and Age of the Firm) based on the regression equation. The coefficient of determination (R^2) is the proportion of variance in the dependent variable that can be explained by independent variables. In this case, the value of 0.801 implies that 80.1% of variations in organizational performance can be explained by the corporate governance variables: CEO-Chairman duality, Board size, Board meetings, Board composition and Insider shareholding. This leaves 19.9% of the variations in organizational performance to be influenced by other factors which are not accounted in this study. This was determined at 95% confidence level. Auto-correlation was tested using Durbin Watson Statistic. From the table above the value was 1.411 which means that the problem of multi-collinearity is not severe.

Table 4.3: ANOVA

| ANOVA ^b | | | | | | |
|--|------------|----------------|----|-------------|--------|-------------------|
| Model | | Sum of Squares | df | Mean Square | F | Sig. |
| 1 | Regression | 45.981 | 2 | 22.991 | 51.515 | .001 ^a |
| | Residual | 94.613 | 58 | .446 | | |
| | Total | 140.594 | 60 | | | |
| a. Predictors: (Constant), CEO-Chairman duality, Board size, Board meetings, Board composition, Insider shareholding, Firm size, Age of firm | | | | | | |
| b. Dependent Variable: Organizational performance | | | | | | |

Source: Researcher (2015)

Table 4.3 shows that the independent variables are predictors of the dependent variable as p-value 0.001 is less than 0.05 (i.e. the regression model is a good fit for the data). This means that CEO-Chairman duality, Board size, Board meetings, Board composition, and Insider shareholding influence the organizational performance of state corporations in Kenya.

Table 4.4 Regression Coefficients

| Coefficients ^a | | | | | | |
|--|----------------------|-----------------------------|------------|---------------------------|-------|-------|
| Model | | Unstandardized Coefficients | | Standardized Coefficients | t | Sig. |
| | | B | Std. Error | Beta | | |
| 1 | (Constant) | 0.613 | 0.411 | | 1.612 | 0.091 |
| | CEO-Chairman duality | 0 | 0 | 0 | 0 | .000 |
| | Board size | .366 | .056 | .281 | .282 | .006 |
| | Board meetings | .034 | .098 | .523 | .367 | .029 |
| | Board composition | .246 | .078 | .053 | .265 | .079 |
| | Insider shareholding | .018 | .035 | .061 | .266 | .097 |
| | Firm size | 1.213 | .654 | 1.012 | 4.231 | .017 |
| | Age of firm | .412 | .506 | .912 | .416 | .027 |
| Dependent variable: Organizational performance | | | | | | |

Source: Researcher (2015)

From table 4.4 the regression model is as follows:

$$Y = 0.613 + 0X_1 + 0.366X_2 + 0.034X_3 + 0.246X_4 + 0.018X_5 + 1.213X_6 + 0.412X_7 + \epsilon$$

The results in Table 4.4 indicate that all the independent variables are positively correlated to organizational performance. Firm size is the most influential variable with a regression coefficient of 1.213 and a p-value of 0.17 followed by age of the firm with a

coefficient of 0.412 and p-value of 0.027. These were the control variables in the model. As for the corporate governance variables, the most influential is board size with a regression coefficient of 0.366 and p-value of 0.006, followed by board composition with a regression coefficient of 0.246 and a p-value of 0.079 and then board meetings with a coefficient of 0.034 and p-value of 0.029. Insider shareholding had the least impact on organizational performance with a regression coefficient of 0.018 and a p-value of 0.097. With these findings board size shows a strong positive correlation as compared to the other independent variables. This signifies a strong positive correlation with organizational performance. There were no noted instances of CEO-Chairman duality over the five year period.

At 5% level of significance, board size had a 0.006 level of significance; board meetings had a 0.029 level of significance, board composition 0.079 and insider shareholding 0.097. The P-values of the independent variables are less than 0.1 which depicts that there's relationship that exist between independent and dependent variable. But the P-value varies and the one with the most significant factor is board size (0.006). The model is statistically significant in predicting how corporate governance affects the organizational performance of state corporations in Kenya. The F critical at 5% level of significance was 2.374. Since F calculated is greater than the F critical (value = 51.515), this shows that the overall model was significant.

CHAPTER FIVE: SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

The chapter provides the summary of the findings and also gives the conclusions and recommendations of the study based on the objective of the study. The objective of this study was to determine the effects of corporate governance on the organizational performance of the state corporations in Kenya.

5.2 Summary

The Coefficient of Correlation and regression analysis were used to find out whether there was a relationship between the variables to be measured (i.e. corporate governance and state corporations' organizational performance) and also to find out if the relationship was significant or not. The proxies that were used for corporate governance were; CEO-Chairman duality, board size, board meetings, board composition, and insider shareholding. The study found that all the independent variables have a positive effect on organizational performance of state corporations in Kenya.

From the findings, there's a significant relationship between the dependent and independent variables. The p-values of the independent variables are less than 0.1 which depicts that there's relationship that exist. But the p-value varies and the one with the most significant factor is board size (0.006). The study found that the board size was the most influential factor followed by board composition and then board meetings. Insider shareholding had the least impact on organizational performance and there were no noted

instances of CEO-Chairman duality over the five year period. The most significant variable was the board size with a p-value of 0.006. The model is statistically significant in predicting how corporate governance affects the organizational performance of state corporations in Kenya.

5.3 Conclusion

This study concludes that corporate governance affects the organizational performance of the state corporations in Kenya. All the corporate governance variables have a positive effect on organizational performance of the state corporations. Therefore corporate governance is necessary to achieve proper functioning of State Corporation and achieve its stated vision and mission if well implemented.

5.4 Recommendations

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. The board needs to comprise of well educated people since they are actively involved in shaping state corporations strategy. The study recommends that non-executive directors be trained on internal corporate governance mechanisms. Ownership concentration needs to be reduced to avoid few people controlling the performance of the organization. Employees being part of the implementers of corporate governance should be encouraged to be more active in management aspects of the Kenyan state corporations

Finally, the study recommends that financial monitoring should be done thoroughly by the board. A constitution which clearly indicates how to select and replace the CEO and directors need to be adopted. State corporations should consider adopting conduct of regular Corporate Governance Audits and Evaluations. Good Corporate Governance has a positive economic impact on the institution in question as it saves the organization from various losses e.g. those occasioned by frauds, corruption and similar irregularities.

5.5 Limitations of the Study

The results of this study were limited to the sample of sixty (60) state corporations that were used as a sample. The study only analyzed few variables that influence organizational performance. Corporate governance practices were limited to CEO-Chairman duality, board size, board meetings, board composition and insider shareholding. Other variables such as role of audit committees, remuneration committees, risk management committee and non-executive directors were not considered. Other factors influencing organizational performance such as competitiveness, government policy, inflation rates and customer demand were also not considered.

5.6 Suggestions for Further Research

The study was conducted on state corporations in Kenya only. The findings can be verified by conducting a similar study on state corporations based in other countries. This will help to identify if results from other countries are similar or different from the Kenyan Setting. The study findings are according to the state corporations' annual reports for a period of 5 years and the scope of the study was limited. The scope of the study may also be extended to cover primary data which can be collected through a questionnaire.

A study can also be conducted on the relationship between corporate governance and state corporations in different sectors to identify if there are sector-specific differences especially on the small medium enterprises sector.

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APPENDICES

Appendix 1: List of State Corporations in Kenya

1. Agricultural Development Corporation
2. Agricultural Finance Corporation
3. Agro Chemical and Food Company Ltd.
4. Athi Water Services Board
5. Bomas of Kenya
6. Bondo University College
7. Brand Kenya Board
8. Capital Markets Authority
9. Catering Tourism and Training Development Levy Trustees
10. Centre for Mathematics
11. Chemilil Sugar Company Limited
12. Chuka University College
13. Coast Development Authority
14. Coast Water Services Board
15. Coffee Board of Kenya
16. Coffee Development Fund
17. Coffee Research Foundation
18. Commission for Higher Education
19. Communication Commission of Kenya
20. Consolidated Bank of Kenya
21. Constituency Development Fund
22. Cooperative College of Kenya
23. Cotton Development Authority
24. Council for Legal Education
25. East African Portland Cement Co.
26. Egerton University
27. Energy Regulatory Commission
28. Ewaso Ng'iro North Development Authority
29. Ewaso Ng'iro South Development Authority
30. Export Processing Zone Authority
31. Export Promotion Council
32. Geothermal development company
33. Higher Education Loans Board
34. Horticultural Crops Development Authority
35. Industrial and Commercial Development Corporation
36. Industrial Development Bank
37. Insurance Regulatory Authority
38. Jomo Kenyatta Foundation
39. Jomo Kenyatta University of Agriculture and Technology
40. Kabianga University College
41. KASNEB
42. Kenya Agricultural Research Institute

43. Kenya Airports Authority
44. Kenya Animal Genetic Resources
45. Kenya Anti-Corruption Commission
46. Kenya Broadcasting Corporation
47. Kenya Bureau of Standards (KEBS)
48. Kenya Civil Aviation Authority
49. Kenya Coconut Development Authority
50. Kenya College of Communication & Technology
51. Kenya Copyright Board
52. Kenya Dairy Board
53. Kenya Education Staff Institute
54. Kenya Electricity Generating Company
55. Kenya Electricity Transmission Company
56. Kenya Ferry Services Ltd.
57. Kenya Film Classification Board
58. Kenya Film Information Commission
59. Kenya Forest Service
60. Kenya Forestry Research Institute
61. Kenya ICT Board
62. Kenya Industrial Estates
63. Kenya Industrial Research & Development Institute
64. Kenya Institute for Public Policy Research and Analysis
65. Kenya Institute Of Administration
66. Kenya Institute Of Administration
67. Kenya Institute of Education
68. Kenya Institute of Public Policy Research and Analysis
69. Kenya Institute of Special Education
70. Kenya Investment Authority
71. Kenya Literature Bureau
72. Kenya Marine & Fisheries Research Institute
73. Kenya Maritime Authority
74. Kenya Meat Commission
75. Kenya Medical Research Institute
76. Kenya Medical Supplies Agency
77. Kenya Medical Training College
78. Kenya National Assurance Company (2001) Ltd
79. Kenya National Bureau of Statistics
80. Kenya National Examination Council
81. Kenya National Highways Authority
82. Kenya National Library Service
83. Kenya National Shipping Line
84. Kenya National Trading Corporation Limited
85. Kenya Ordinance Factories Corporation
86. Kenya Pipeline Company Ltd
87. Kenya Plant Health Inspectorate Services
88. Kenya Polytechnic University College

89. Kenya Ports Authority
90. Kenya Post Office Savings Bank
91. Kenya Power and Lighting Company Limited
92. Kenya Railways Corporation
93. Kenya Re-insurance Corporation
94. Kenya Revenue Authority
95. Kenya Roads Board
96. Kenya Rural Roads Authority
97. Kenya Safari Lodges & Hotels
98. Kenya Seed Company Ltd
99. Kenya Sisal Board
100. Kenya Sugar Board
101. Kenya Sugar Research Foundation
102. Kenya Tourist Board
103. Kenya Tourist Development Corporation
104. Kenya Urban Roads Authority
105. Kenya Utalii College
106. Kenya Veterinary Vaccines Production Institute
107. Kenya Water Institute
108. Kenya Wildlife Service
109. Kenya Wine Agencies Limited
110. Kenya Yearbook Editorial
111. Kenyatta International Conference Centre
112. Kenyatta National Hospital
113. Kenyatta University
114. Kerio Valley Development
115. Kimathi University College
116. Kisii University College
117. Laikipia University College
118. Lake Basin Development Authority
119. Lake Victoria North Water Services Board
120. Lake Victoria South Water Services Board
121. Local Authority Provident Fund
122. Maseno university
123. Masinde Muliro University of Science and Technology
124. Media Council of Kenya
125. Meru University College of Science and Technology
126. Moi Teaching and Referral Hospital
127. Moi University
128. Mombasa Polytechnic University College
129. Multi-Media University College of Kenya
130. Narok University College
131. National Aids Control Council
132. National Bank of Kenya
133. National Bio-safety Authority
134. National Campaign Against Drug Abuse Authority

135. National Cereals and Produce Board
136. National Commission on Gender and Development
137. National Co-coordinating Agency for Population and Development
138. National Council for Children Services
139. National Council for Law Reporting
140. National Council for Persons with Disabilities
141. National Council for Science and Technology
142. National Crime Research Centre
143. National Environmental Management Authority
144. National Hospital Insurance Fund
145. National Housing Corporation
146. National Irrigation Board
147. National Museums of Kenya
148. National Oil Corporation of Kenya Ltd
149. National Social Security Fund
150. National Water Conservation and Pipeline Corporation
151. New K.C.C
152. NGO's Co-ordination Bureau
153. Northern Water Services Board
154. Numerical Machining Complex
155. Nyayo Tea Zones Development Corporation
156. Nzoia Sugar Company
157. Pest Control Products Board
158. Postal Corporation of Kenya
159. Privatization Commission of Kenya
160. Public Procurement Oversight Authority
161. Pwani University College
162. Pyrethrum Board of Kenya
163. Radiation Protection Board
164. Retirement Benefits Authority
165. Rift Valley Water Services Board
166. Rural Electrification Authority
167. Sacco Societies Regulatory Authority
168. School Equipment Production Unit
169. South Eastern University College
170. South Nyanza Sugar Company
171. Sports Stadia Management Board
172. Tana and Athi Rivers Development Authority
173. Tana Water Services Board
174. Tanathi Water Services Board
175. Tea Board of Kenya
176. Tea Research Foundation Of Kenya
177. Teachers Service Commission
178. University of Nairobi
179. University of Nairobi Enterprises & Services Ltd
180. Water Resources Management Authority

181. Water Services Regulatory Board
182. Water Services Trust Fund
183. Western University College of Science and Technology
184. Youth Enterprise Development Fund

Source: *Report on evaluation of the performance of public agencies for the financial year 2013/2014*