CORPORATE GOVERNANCE PRACTICES IN KENYA RURAL ROADS AUTHORITY

BY

KARANJA RACHEL NUNGARI

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DECLARATION

I Rachel Nungari Karanja hereby declare that this MBA research project is my original work and has not been presented to any other college, university or any other institution for any academic award such as certificate, diploma or degree.

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

RACHEL NUNGARI KARANJA

Reg. No: D61/70137/2008

SUPERVISOR'S APPROVAL

This MBA research project submitted by Rachel Nungari Karanja was developed by my guidance and has been finalized with my approval.

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

Dr. JAMES GATHUNGU,

Senior Lecturer,

Department of Business Administration,

School of Business,

University of Nairobi.

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DEDICATION

This study is dedicated to my loving children: son Runo and daughter Imani, may you strive to live out life to your full potential.

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ABBREVIATIONS AND ACRONYMS

CG Corporate Governance

CEO Chief Executive Officer

CMA Capital Markets Authority

ICT Information and Communication Technology

KENHA Kenya National Highways Authority

KeRRA Kenya Rural Roads Authority

KPC Kenya Petroleum Company

OECD Organization for Economic Co-operation and Development

ABSTRACT

State Corporations in Kenya have since independence assumed an increasingly significant role in offering critical services that promote economic development especially where it looks unattractive for the private sector to venture. As such there is need to ensure that these corporations are well run and managed to safeguard the interests of the stakeholders who include the ordinary Kenyans. In the recent past we have heard and seen several state owned corporations in Kenya been involved in mismanagement and some have actually been on the verge of collapse. This has mainly been due to lack of accountability and transparency in their operations and hence the need for having sound Corporate Governance (CG) practices in government authorities and parastatals. CG is centered on the principles of accountability, transparency, fairness and responsibility in the management of the firm. Most of the parastatals in Kenya are funded from the consolidated funds and the adoption of CG practices will promote efficient and effective use of public funds in these organizations. The study seeks to find out the CG practices employed by the authority and compare them with the best practices. It also seeks to find out the factors that influence those practices. The study adopted case study design to carry out this research where an interview guide targeting the board of directors and the heads of department was employed to collect data. The study found out that KeRRA has sound CG practices in place that compare with the best practices. A key implication of this study to the government and other parastatals is that they should have in place CG practices to ensure transparency and accountability in the use of public funds.

CHAPTER ONE

INTRODUCTON

1.1 Background of the Study

Corporate Governance (CG) has turned into a vital theme in practice and in academic writing of late. As indicated by Monks and Minno (2004), the significance of CG expanded significantly in 2002 when a progress of occasions lead to liquidations of big United States organizations prompting to the loss of a huge number of jobs. Genuine studies of CG are generally new. Early books on the work of executives and boards go back close to forty years in spite of the fact that the subject just obtained its title in the mid - 1980's.Throughout the twentieth Century, the concentration of thought was not on CG but rather on administration. Promoting, manufacturing, funding, operations research and management information systems were at the front line of intrigue. Organization studies moved forward yet the top level management in the board of directors from time to time showed up on the organization chart. However, in the 21st century, CG has turned into the primary attention and is presently a universal topic because of globalization of organizations.

The similarity of CG actions with worldwide standards has turned into an essential component of corporate achievement. The term 'CG' is a moderately new in the public and in scholarly world despite the fact that the issues it articulates have been around for a long period of time (Berle and Means, 1932). It is recognized to assume a significant part in the administration of firms in both developing and developed nations and creating nations. Corporate scandals and crumple in the 1980's catalyzed the first ever CG code known as the UK's Cadbury Report which prompted to codes in different nations around the globe. These codes in any case, tended to focus on type as opposed to function, stressing the significance of non executive directors, the requirement for review by external auditors, compensation and nomination committees of the significance of autonomous outside directors, compensation and selection panels of the board and the detachment of the board duties from the CEO. The corporation, in contrast, for example, to an organization, isolates proprietorship from operational control and it is this detachment which makes the requirement for frameworks of free monitoring and control.The freedom created by this separation has required instruments to be developed to attempt and keep it from being manhandled (Jensen and Meckling, 1976).

Great CG adjusts the activities of executive management with the shareholders interests. In simple terms,CG is interwoven with choice questions in the matter of whether corporate official management's established strategy and executed action plans serve the best advantages of the equity shareholders (Baird,2007). The way organizations are represented decides their destiny and in addition the fate of the economy at large and CG must at least, meet the criteria of corporate responsibility and corporate accountability. The major reason of good CG is to guarantee duty of the board in dealing with the organization in a transparent way to maximize long term value of the organization for its shareholders and every other stakeholder. As Yener (2001) notes, CG is an essential tool to combat corruption which is a major vice in state corporations. Administration of companies in the public sector in an effective and efficient manner is a major issue of worry in many nations. This implies public sector associations need to device approaches to enhance their exercises and one prominent approach incorporates the utilization of performance contracts. Thus, activity based management processes can enhance openness and proficiency when directing government exercises in this manner helping public sector associations to accomplish their goals (Melese et al., 2004).

Generally, some public sector establishments were framed to establish work for huge number of individuals. In any case, public sector administration has turned out to be progressively results and client centered (Jarrar and Schiuma, 2007). This can be mostly credited to a developing unwillingness among numerous groups and governments to acknowledge the historic duties. A few nations have additionally seen decreased contrasts between the public and private sectors. For example, private associations are presently anticipated that would assume more social measures whereas the public one is seeing the need to concentrate on clients and to proof their existence.

1.1.1. Concept of Corporate Governance

The definition of CG has expanded and varies in various economies or various contexts (Solomon, J and Solomon, A, 2004). It involves carrying out the workings of the organization and carrying out the business as per the desires of the stakeholders' in such a manner that there is benefit and equity to all stakeholders. It is concerned with the art of balancing the goals of the society and those of the individual, not forgetting social and economic goals. Hence in this regard the organizations management team need to come up with preventive measures so as to prevent the occurrence of benefits between various units of shareholders more so the manager-owners and the other managers being asymmetry. The combination of mechanisms that guarantee that the management- agent- carries out firms activities with the interests of the stakeholders-the principals- in mind is referred to as a CG system. These stakeholders may cover the customers, suppliers, firm employees, creditors, shareholders and other groups related to the firm (Jensen and Meckling, 1976).

The main concern of CG is the methods which parties interested with the good performance of the firm make sure that the managers and other firm insiders adopt or take initiatives that help in protecting the stakeholder's benefits. CG thus determines the means by which to make effective decisions and the board of directors is given by CG the complete responsibility and ultimate. CG's goal is to make sure the boards commitment in running the organization in an efficient and open manner for maximizing the value of the shareholders and other organizations partners in the long run. CG covers areas of authority, stewardship, direction, control, accountability. Direction and leadership as carried out in organizations. Blair (1995) states that CG can be said to be a group of organizational plans for managing the ties between all of the stakeholders of the firm that goes a long way in specific firms assets.

An organizations long-run performance and competitive nature is affected by the way control and management is organized. The degree of investors' confidence and conditions for access to capital markets is also determined by this. CG mechanisms change depending type of productive activity and industry sectors. Research and development, innovative activity and development of equity markets can be influenced upon by the CG framework, and thus influence upon economic growth. It is a difficult task to identify what constitutes good CG and under what circumstances. This difficulty is due to the CG systems effectiveness is impacted upon the differences regulatory and legal frameworks of nation's as well cultural and historical factors in addition to the product structure and factor markets. Davies and Schlitzer (2008) noted that CG practices universally lacks uniformity and in fact, the Organization for Economic Cooperation and Development (1998) acknowledged that there is no one single CG practice model that can be applied to a country or all organizations.

Identifying the weaknesses and strengths in each single system is not the only challenge, but challenges also existing identifying the underlying conditions the strengths and the weaknesses depend. The rules and the practices regulating the ties between the organization, the owners and the management of the corporation of the trading company, the employees and the creditors, are a guaranty for economic growth and financial stability. This allows strengthening the reliability and the integrity of the capital market, and economic profitableness. Davis (2008) assesses the relation between the growth of institutions, equity finance, CG and performance. Hence basing on factors such as a country's economic circumstances, culture, organizations ownership structure and the financial system every country thus every country adopts CG procedures that are unique.

Each governance mechanism to some degree enables in making sure that the organizations management is carrying out its activities with the owners best interests in mind which calls for the efficient manner of allocating resources which are scarce so as to maximize the present owners equity share price. According to Baysinger and Hoskisson (2008), strategic effectiveness involves achieving an adjustment between control strategies and the strategic context of the firm. With the help of both external and internal governance, shareholders are enabled to bring the managers interests in line with theirs (Walsh and Seward,1990). The board of directors, voting rights of the common stock, organization debt/ equity decision and corporate executive compensation are types of internal CG mechanisms while executive labor market, product market and market for corporate control are types of external CG. External controls and external governance shape internal governance. If the external controls are strong. It implies that mismanagement will be met with major restructuring like spin-off, liquidation, sale of assets, and bunkruptcy, buyout or a forced management change. For the CG to be more effective the competiton in each of the governance market should be greater.

1.1.2. Parastatals in Kenya

The colonial government established Parastatals in Kenya so as to provide services that private sector firms could not. Maximization of profit should not be the only method of rating parastastals efficiency as they were not established to be profit making. The way parastastals are managed has significant effects on their value and performance; in global markets they perform crucial role in the landscape of ownership, and also economic growth, competitiveness and on public finances. Investment, competitiveness and growth are reliant on accountability and transparency and parastastals which are accountable and transparent conform to law and they respect stakeholders and shareholders rights. Such parastatals enjoy better access to low cost capital and public trust.

Parastatals however face some various challenges of governance. They suffer from government ownership who are distant and also from ownership which is politically interfered and from undue hands-on. The fact that parastatals performance accountability is complex and it involves chains of agents such as the government and ownership entities which add to CG difficulties, without easily or clearly identifiable, or remote, principals. It is a challenge to ensure good CG and efficient decisions as it is a challenge to structure this complex web of accountabilities. The Kenyan government has immense control on parastatals as it's it which appoints directors and issues directives. The law in Kenya also bestows immense powers on principal secretaries in the management of the parastatals since they are required by law to sit in the boards of parastatals that fall in their dockets. This is a fiduciary requirement meant to protect the interests of the ultimate shareholder who is the taxpayer. However, the government of Kenya should relook at this law to put emphasis on the competence, fit and skills of any candidates designated for board appointments and not at the position they occupy in government.

Most executives of parastatals have to daily deal with the problem of balancing political meddling from the parent ministries against best management practices. This contradicts the fact that the government through the CMA is the regulator and champion of CG. Good CG in the public sector is important because it attracts both foreign and local investors and also offers assurances on the safety of their investments and transparency in management and accountability. This is because it enhances the peoples entrusted to manage the organizations performance and accountability and performance as they are not owners and may have conflicting interests with the owner who is the government. Moreover, state parastatals in Kenya are heavily funded from the consolidated fund and the adoption of good CG will promote efficient and effective use of the public funds. CG also ensures that there is a healthy relationship between managers and the owners of the organisation. The owners must be able to measure the performance of the managers in accordance to a set measure of performance and the managers accept the basic privileges of shareholders as the genuine proprietors of the organization and of their own part as trustees in the interest of the owners.

1.1.3. The Kenya Rural Roads Authority

Kenya Rural Roads Authority (KeRRA) is a State Corporation established under the Kenya Roads Act 2007. The Authority falls under the Ministry of Transport and Infrastructure (formerly Ministry of Roads).The Authority begun its operations in September 2008 and has 47 regions covering all the counties in the country. It is mandated with the development, management, maintenance, and construction of the rural road network for sustainable social-economic development. KeRRA is responsible for roads networks of Class D, E and unclassified roads totaling to about 136,375kms in the rural areas. It is funded from the exchequer budget, fuel levy collected by KRA and development partners.

The Authority has a strategic plan whose main goal is to expand the rural road network and upgrade this network to all weather status so as to reduce travel time and cost. The other main goal is to have efficient and world class rural roads delivery system. This has been achieved by putting in place a modern management system known as the Roads management system. There is also a lot of training of staff, board members and other stakeholders so as to enhance service delivery with adequately skilled, committed and motivated board and staff. The mandate of KeRRA comprises of several functions and duties which incorporate controlling reserves for country roads and access to roadside improvements, actualizing road arrangements in connection to rural roads, guaranteeing adherence by drivers to the tenets and rules on axle control recommended under the Traffic Act or other existing directions, guaranteeing that the nature of road works is as per such principles as my be characterized by the minister and gathering and grouping every such data identified with the utilization of rural roads as might be fundamental for productive forward planning.

KeRRA is headed by a state-appointed board of directors led by a chairman with the Director General being the Chief Executive of the Authority. The chairman is a non-executive director appointed directly by the president of Kenya. The law of Kenya requires KeRRA to have among its board of directors a representative from the National Treasury (formerly Ministry of Finance), the Ministry in charge of Local Government and one from the Ministry of Transport and Infrastructure, (formerly Ministry of Roads),which is the parent ministry. As a result of this, there is a lot of government interference on the operations of the authority. The Authority has four departments each headed by a General Manager and seven sections each headed by a Manager. These departments are: Planning and Roads 2000, Design and Construction, Maintenance and Finance. The sections are Human Resources and Administration, Internal Audit, Quality Assurance, ICT, Procurement, Legal Affairs and Public Relations.

1.2. Research Problem

The combination of mechanisms that ensure that the agent carries out the activities of the firm with the principal's interest in mind is the CG system. Shareholders, suppliers, customers, employees and other firms that the organization carries out business with are the principals. The manner by which exercise of power is done by the management in the management of social and economic resources for sustainable human development initiative is referred to as governance (McCord, 2002). Governance gives complete responsibility and ultimate power to the board and it deals with determining the ways of making effective strategic decisions. It assists in defining the relationship between an organization, political system, social system and its environment where it operates in so as to improve performance.

An organization should ensure that its CG structure covers among others; stewardship, leadership, direction authority, control and accountability of the firm. In many countries the issue of efficient and effective of public sector organizations is of concern. Melese, Blandin and O'Keefe (2004) argue that public sector organizations are operations are expected to be effective and efficient as they are increasingly being held more accountable for their performance. CG ideals have been adopted by developing countries due to the pressures of globalization, World Bank/ IMF economic reforms, recent financial scandal and democratization.

In Kenya,we have witnessed several scandals that can be attributed to lack of good CG.One major scandal is the Triton scandal which involved the release of encumbered products by Kenya Petroleum Company to Triton without the authority of the respective financiers. KPC staff falsified records so as to mislead financiers that KPC had its stocks even though they had already released the stocks to Triton. Other public sector corporations that have faced boardroom wars in Kenya include the East African Portland Cement Company which saw its shareholders suffer a big loss attributed largely to the effect of the boardroomwars on the company's operations and CMC motors. These recent scandals involving firms listed in the Nairobi Securities Exchange listed have led to lose of investor confidence in the country affecting the countrys standing in global competitiveness.

The Global Competitiveness Report 2012-2013 says that as a result of negative results in areas like auditing and reporting integrity, firms ethical behavior, protection of minority shareholders and strength of investor protection Kenya's ranking plummeted. In addition, (Mugwe, 2012) stresses poor CG has led to boardroom wars in the country, questions have been raised as to how good minority shareholders are protected in the country due to the mismanagement of investor funds and alleged corruption. This negative publicity has affected Kenya's standing. Kenya has however adopted a CG code in the form of the Sample Code of Best Practice of CG in Kenya 2002, which was developed by the Centre for CG, an affiliate of the Commonwealth Association for CG. The CG code is enforced by the Capital Markets Authority through the CMA guidelines, which are the result of a combination of ideas from CG codes of different jurisdictions. The Statutory law governing CG in public listed companies in Kenya is embodied in the Companies Act 1962 c.486 (the Companies Act).This act deals with directors' duties and shareholder protection amongst other matters pertaining to CG in Kenya.Other regulations that govern Kenya's CG are the

Capital Markets Authority Act 2002, the Nairobi Stock Exchange Regulations and Penal Code c.63.Several studies on CG have been conducted by researchers in different organizations in Kenya. Kabura (2006) did a case study of Kenya Roads Board where she was concerned with determining and assessing CG practices of Board of Directors. Oketch 2005 did a survey of National Sport Organizations in Kenya where he set out to establish CG practices and the governance challenges. Wanyoike (2011) looked at CG practices in Kenya Revenue Authority and Tokei (2007) studied CG as a strategy in a survey of SACCO's in Nairobi area. Nyamwaro (2011) conducted a survey in Kenya on the ties between financial performance of state organizations and CG.

None of these studies has addressed CG practices in KeRRA and this is the knowledge gap that the proposed study intended to fill. This study sought to focus on KeRRA's top management and Board of Directors as the respondents and their awareness about the CG practices adopted by KeRRA. The research problem above was captured by the following question: What are the CG practices in KeRRA?

1.3 Research Objectives

The objectives for this study were as follows:

i)To establish the CG practices employed by KeRRA.

ii)To compare KeRRA CG practices with the best practices.

iii)To examine the factors that influence CG practices in KeRRA

1.4 Value of Study

The findings of the study will be useful in informing the government of Kenya and the other stakeholders as to whether KeRRA has adopted CG practices that will enable it to fulfill the mandate for which it was established. It will also inform them of any areas of improvement and appropriate mechanisms that may need to be put in place to ensure that this organization is properly ran and managed.

The government of Kenya may also use the information obtained from this study to compare the management and running of other government parastatals and agencies to ensure delivery of services in an efficient and effective way. The findings will also help the government in having government agencies that are managed in a transparent way and with integrity.

In addition, the study will be useful to the other authorities in the Ministry of Transport and Infrastructure who have similar responsibility and operate under similar conditions. It will challenge the management of these authorities to relook at their CG practices and make necessary adjustments and improvements. These Authorities include The Kenya Urban Roads Authority, KENHA and Kenya Roads Board.

The study will also contribute to the literature in the area of CG and thus benefit the academicians and researchers in this field especially in government authorities and agencies.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This section presents a review of literature on CG along conceptual dimensions and theoretical. The section explores the concept of CG, the theories associated with CG and both internal and external CG mechanisms.

2.2 Theoretical Foundation of the Study

This section analyses the theories utilized as the foundation of this study. This section likewise puts this study within the point of view of different studies in the similar field. The theoretical framework gives support to the study. This study is anchored on the Agency theory which is the overwhelmingly predominant theoretical perspective used in CG studies (Shleifer and Vishny, 1997). Other theories used in this study are the stakeholder theorem, resource dependency theorem and the stewardship theorem.

2.2.1 Agency Theory

The agency theorem has been the principle theory of CG since the 1980's, and it characterized CG as far as balancing the interests of the organizations shareholders, with the duties and skill of the organizations top administrators. Jensen and Meckling (1976), put forward theory of agency as a clarification of how people in general/public enterprise could exist, due to the general assumptions that organizations administrators are self-interested, and a context in which those administrators don't bear the full wealth impacts of their decisions. At the point when a company gets the agency theory system right, then CG standards will more than likely be correct particularly in the 21st century where there have been a portion of the major corporate crumples and lots of talk with respect to reinforcing the CG reporting by organizations to ensure that it is powerful and proficient in securing the interests of shareholders and every other partner.

The detachment of ownership and control is one of the signs of current organizations, will bring about numerous aspects to firm directors utilizing their knowledge specific to the firm and administrative skills to develop favorable position over the company's owners, who are not always present in attending to the everyday issues of the firm. Since the directors are "in control" of the organization, the fear is that they’ll seek activities in their own individual intrigue, and not in light of a legitimate concern of the shareholders (Jensen and Meckling, 1976). This theory proposes a crucial issue for far off or absent stakeholders/shareholders who utilize proficient administrators to manage on their behalf for their own benefit. This is on account of people are self-intrigued and by and large unwilling to yield individual interests for the interests of others. In accordance with neo-classical financial matters, the main assumption informing the theory is that the specialist is probably going to act for their own interest i.e. the assumption of proprietor/shareholder property rights forestalls any need to consider the principle motives. This raises the prospect that the official, as specialist or agent, will serve their own advantages instead of those of the owner/proprietor.

This theorem sees the organization as a nexus of agreements along these lines the unit of analysis of the organization under the theory of agency is the contract. It lessens extensive companies to two members; shareholders and administrators and the interests of each are thought to be both clear and precise. The agency relationship is viewed as an contractual connection between the shareholders (principal) that give money to the organization and the administration (agent) who runs the organization and this view is upheld by Jensen (1993) who contends that the principal draws in another party (agent) to carry out a few errands for their sake and as a feature of this; the principal will assign some basic leadership power to the agent.

As a consequence of the delegated assignment, there are basic issues for truant or removed shareholders and these issues thus influence the firm value. As indicated by Himmelberg, Hubbard and Palia (1999), the foremost agent issues are not comparable in all organizations rather they are distinctive in various firms, diverse businesses furthermore in various societies. These issues can be the effort issue, the resources' utilization issue and differential risk preferences problems. The effort problem concerns with regardless of whether directors apply legitimate exertion in overseeing organizations in order to maximize shareholders' wealth and issues emerge in light of the fact that principals are not ready to figure out whether the managers are playing out their roles suitably. Managers may not apply a similar great ability heights expected for maximization of firm value as the would’ve in the event that they owned the firm.

The utilization of asset problem is concerned with the insiders who are the controllers of the organizations corporate who may mishandle these resources for purposes that are hurtful to the perceived benefits of shareholders, for example, redirecting corporate resources, asserting extreme salaries and manipulation of resources transfer costs together with the other entities in their control. The differential risk inclinations problem emerges in light of the fact that the principal and managers have diverse perspectives on risk taking. Managers may not be working to the greatest advantage of shareholders and may have distinctive interests and risk preference. They may for example, have a more extensive scope of financial and psychological needs, for example, to maximize remuneration, security, status and to help their own particular reputation which might be adversely influenced by a venture that expands an organization's aggregate risk or has rewards in the long-run. This may bring about managers being excessively cautious in investments-making and along these lines neglecting to maximize shareholders' wealth.

As administrators possess smaller value stakes in their organizations, their motivating force to work may reduce. As indicated by Rosenstein and Wyatt (1994), organization share prices decrease upon employment of a director mainly the executive by another company in their board. This would be steady with reducing administrative exertion being harming to the organization esteem. Irreconcilable situations may likewise emerge amongst shareholders and managers concerning the planning of cash flows. Shareholders will be worried with all future cash flows of the organization into the inconclusive future. However, management may just be worried with organization money streams for their term of work, prompting to a bias in favor of short term high accounting returns projects at the expense of long-term positive net present value projects.

To counter the principal-agency clashes, the principal acquires agency costs which emerge from the need of coming up with motivating forces that adjust the interests of the shareholders with those of the executives, and incurred by the need of tracking the conduct of the executive so as to curtail the mishandling of owners interests. Managers bear the entire cost of failing to look after their own specific goals, however get only a little sum of the benefits. Jensen and Meckling (1976) contend that this wastefulness is decreased as managerial motivators to take value augmenting decisions are increased as with whatever other costs, agency issues will be caught by monetary markets and reflected in the share price.

Agency theory perceives particular roles for the fundamental actors in CG, stipulating that it is up to top administration to take vital decisions, and that shareholders have the ability to consider the administration responsible of firm results (Fama and Jensen 1983a). Thus, agency theorists prescribe that CG components are expected to decrease these organization clashes and to adjust the agent interests with those of the principal. These mechanisms incorporate motivation plans for managers which compensate them fiscally to maximize shareholder interests. Such plans commonly incorporate techniques whereby senior officials acquire shares, possibly at a cheap price, therefore adjusting money related interests of executives with those of shareholders. Different mechanisms incorporate altering official pay and levels of benefits to shareholders returns and having some portion of executive remuneration conceded to the future to compensate value maximization of the organization.

2.2.2Stakeholder Theory

The stakeholder theorem implies organizations should take into consideration the interests of all the partners. Stakeholders are the people who want or have some benefits in the organization realized when firms are run in an optimum way. In this model an organization is more than just a mere profit making arm for investors and executives, its even more importantly a social institution that serves the community and not only the shareholders. The organization is a societal institute that brings about benefits to all the people within and beyond its locality as the people depend on the proper workings and operations of the firm. This theorem implies that we have a superior to handle productively any issues that emerge in the event that we adopt whole unit of analysis of the relationship between an enterprise, groups and people who can be influenced by it or who can affect it. A firm can be looked to as group of connections among units that have a few shares in the procedures that make up the firm from the a stakeholders point of view (Freeman, 1984; Jones, 1995; Walsh, 2005). Its all about how clients, shareholders, suppliers, society, workers, financiers and managers create and trade value by interacting to jointly.

The stakeholders theorem is rooted on the ideology that firms are and should be answerable to a range of groups or employees in the sorrounding community rather than only the owners. There exists an authenticity that shareholders have a variety of entitlements and rights as a result of their involvement with the organization in terms of investing, regardless, such rights and entitlements should also be extended to all the other people such as employees who have served over the long haul and are loyal, the sorrounding community, creditors more so the large scale creditors of the firm (especially large, long-term ones); and, under some conditions, clients.Freeman and Phillips (2002) argue that an firms success depends on how it best manages its relationship with the relevant groups such as the employees, clients, the society creditors, suppliers, and others that can have an impact in the chievement of its aims. The job of the manager is to maintain the support of tthe key groups, aligning their interests at the same time maximizing stakeholders interests over time. Where stakeholder interests collide, the executive must be ingenious and find a way to re-process the issues so as to address the wants of a general group of partners and to the degree this is done, significantly more value might be made for each (Harrison,Bosse and Phillips, 2010).

2.2.3 Resource dependency Theory

The resource dependency theorem looks at firms as having a relationship with their environment. Firms depend so much on each other crucially hence they must device ways to ensure that they maintain this relationship so as to guarantee they get the required resources. The directors of the firm is always viewed as an important ties between the firm and the environmental resource required to optimize performance (Pfeffer, 1972). However there is no one accepted universal definition of what contains necessary resource and the esteem of a single resource is viewed as environmental depending on the urgency of the want. The major duties of the directors in reference to this theorem is to preserve the best relations with the major stakeholders outside of the firm so as to have continuous flow of resources into the organization and out and to enable the firm resact to outside forces. Directors of the firm are always employed for the all important links with the environment and knowledge and information whivh they come with to the firm, so as to be able to deal with potential environmental threats.

The RBV underscores the work that the directors of an organization can play in bringing about exclusive resources to the organization.. According to the theorem it is the work of the team of managers to collect and employ the exclusive resources of the firm so that the organization can have an upper hand in competition (Wernerfelt, 1984) which has a difference with the agency theorem, the agency theorem puts much emphasis on managing conflicting objectives between the administration team of the firm and the stakeholders inside the firm. Always, organizations learn via employing new members who posses information that the firm does not have or basically through the information possessed by the current team. By employing non executive directors from the external environment, organizations utilize a specially effective method of combining knowledge or information by having humans with distinctive competencies and a exclusive combination of experience in business. The non-executive directors are also part of social groupings, through the social networks they can access relevant knowledge which can be utilized for the good of the organization (Huse, 1998). Closely related to this is the notion that the availability of the non-executive directors facilitates the growth of relationships within a firm, and that this in turn leads to improved communication and the development of knowledge (Lewicki & Bunker, 1996).

Some CG researchers have taken a adopted a standpoint that it is erroneous to over emphasize the tracking the tasks of boards and recommend that other knowledge sources and skills that directors- specifically non executive directors- can bring to the organization (Short, Keasey, Wright, and Hull, 1999). The employed directors and managers must contribute to the frm a huge variety of skills and competencies which can be alluded to have contributed to the organizations well-being such as skills in marketing and finance. Ties to the sectors like the financial sector, experience leading change, ability to be a mentor in terms of strategy and resource perspective, knowledge of the business sector, non executive directors are viewed as to have an ability to develop ties for their firms with the informal networks, improve the trustworthyness of the organization in new markets as well as provide contacts in the new markets.

2.2.4 Stewardship Theory

The stewardship theorem is another core theorem in corporate governace, it is based in a people relations perspective. The theorem has assumptions that directors act like as honest and trustable stewards of the firm and only look at the collective good of the sections of the of the organization regardless of their individual interests (Donaldson and Davis, 1991).Senior most managers and the owners of the firm are always viewed as they are partnership with the organization hence their interests are always seen to be in alignment with the firms and directors. It his thus necessary for the owners of the organizations to vet the nature of managers they'll entrust their organization with throughout their length of employment and come up with adequate governance structures tailored to optimize the efficacy of the organizations administrators to grow firm performance.

Because the steward of the shareholders- manager- decides to work for the shareholders the possibility of moral risk is assumed away; thus, the steward manager does not act upon the risk differential among the managers and owners that drives the hidden actions of managers in the principal-agent. The steward manager believes ownership will fairly share th organizations lingering claims; in this manner, augmentation of those risks for the proprietor optimizes the share of the steward supervisor. In other words, there is no mis-alignment between the owners and the wants of the owners and managers as the steward managers believe that what is good for their constituents and themselve is equal to whats best for the firm (Davis et al. 1997). Even if actions that benefit the owners and their organizations are not in the immediate individual inerest of the steward this actions are usually taken care of. The asumption of the individualistic, self benefiting, opportunists that firm economists have given as the model of management of the firm in the market system is countered by the underlying assumption of commonality between managers and owners (Donaldson 1990). Ensuring managerial conformance and compliance is not the main function of the board but its main function is to work with them so as to improve the performance of the organization.

Numerous studies in Kenya have been conducted in the field of CG. Kimanga (2010) carried out research on the CG structures and practices at the Kenya Revenue Authority. He found out that the structures at the organization entail responsibilities and rights distribution between the various stakeholders, including outsiders in the audit committees to create independence and enhance transparency and having a fairly small independent board of directors that meets frequently thus enabling it to monitor and supervise the organization. Maina (2012) study focused on the role of the secretary of an organization in CG in listed companies in Kenya and found out that CG practices have taken root in Kenya with most listed companies disclosing in their annual report a statement of the directors on the compliance of CG guidelines as prescribed by the Capital Markets Regulations 2002. Further she noted that many of the interviewed had the qualities and composition of the board She further noted that a majority of the respondents had the composition and attributes of the board in line with the CG guidelines.

Further study in this area was done by Kemboi (2012) who studied how the Ethics and Anti-corruption commission has integrated CG in strategic management. He found out that the commission has adapted CG practices by having a code of conduct, disciplinary instruments, audit procedures and committees and a clear reporting structure between the board and the secretariat. However, the implementation of these practices is hindered by political interferences which are common in state owned enterprises. Nyamwaro (2011) conducted a survey on the relationship between commercial state corporations performance in financial sense in Kenya and CG practices. The study found the composition and the size of the board, chairman's role splitting and also that of the CEO, optimal mix of outside and inside directors and executive remuneration, all affected the financial performance of organizations.

The studies carried out locally so far on CG are mainly on privately owned companies especially those listed at the NSE and under the watch of the Capital Markets Authority. There are also studies focusing on the banking sector, micro-finance institutions as well as Sacco's. Some surveys have also been done on public owned entities and there are also specific case studies of CG practices in various parastatals in Kenya. However, there is no study specific to KeRRA's CG practices and thus this study seeks to fill this research gap by looking at the CG practices in KeRRA, their implementation and challenges faced.

2.3 Corporate Governance

The downfall of big corporations like Enron and Worldcom caused the surge in researches on CG study and as good as possible align the wants of the society and individuals with the interests of the organization. CG is commonly viewed to contain longrun relationship and transactional/ beneficial relationship. Transactional relationship deals with authority and openness whereas the long term relationship element involves incentives for managers, communication between stakeholders and management and the checks and balances and managers benefits. There is no one common definition of CG. The reason for these differences in definitions' is because it varies from country to country with regard to differences in the laws. Even so, CG mechanisms are economic and legal institutions that can be changed through changes in the state politics in a country (Shleifer and Vishny, 1997). However CG is the process by which the strengths of an organization are practiced in stewardship of the firms assets with the aim of preserving and growing stakeholder value and the satisfaction of all shareholders. It concerns itself with developing a balance between communal and individual interests and societal and economic targets while at the same time emphasizing use of resources in an effective manner and responsibility in stewardship and utilization of power.

In another manner, CG is alluded as the relationship between a number of people in coming up with how the firm will be ran and how well the firm will perform. The Organization for Economic Cooperation and Development alludes CG to be a group of relationships between a firms administration, its management board, its shareholders and other stakeholders and come up with the framework via which the goals and aims of the corporation are set, the strategy to be employed in attaining the goals and how to track the performance of the corporation. A much wider description was given by Cadbury Committee (1992) which put forward that CG can be seen as the system through which firms are controlled and directed. CG is viewed as a collection of guidelines and practices through which the management ensure there is a form of accountability, equity and equality, and openness in a firms relationship with all its owners. These stakeholders include the creditors, clients, workers, government, the society and the management team. It is about the directors and the boards behavior, management and the governing body interactions, the organizations ties with various players in the stock market and the relationship between the many and varied stakeholders and the organization at large. It also includes on one hand policy making and technique formulation, and on the other responsibility and executive supervision. In the recent past, rule books of a variety of stock exchange have had CG codes incorporated into them and before any listing the organizations must comply leading to good governance structures that are developed and reinforced.

Okeahalam and Akinboade (2003) reviewed the challenges facing CG in Africa. They established that through the experiences of other nations Africa can learn a lot and in turn may develop the corporate sectors governance. The 21st century notion of separating the management fro firm ownership in a way makes CG an essential matter for further studies as the wants of humans who are in control of firms are in contrast with those who direct provide money in form of investments to the firm via the use of external financing. The agent issues and the wants of shareholders can only be minimized via CG practices that are effective and. The firms systems, practices, process and guidelines directing companies are tightly concerned with CG so there is a need to discover those connections that control, make or decide the way of relationship through those connections. As Africa is heavily impacted by corruption, mismanagement and unpredictability in the firm environments it requires CG which is efficient and effective as through it there will be openness and through this it will protect against such dangers confronting the establishments to advance foreign venture by outside traders and organizations.

2.4. Corporate Governance Practices

The major set of good CG tenets is provided by the Organization for Economic Co-operation and Development (OECD, 1999). These tenets are principally aimed at helping the government in creating and developing a CG framework. These tenets provide a strong stage for examination and practices in nations by considering the particular conditions furthermore give a benchmark to universally acknowledged guidelines, accordingly they tend to be important reference points for a majority of emerging markets which are transiting.

In various organizations at various times, various elements are always given keen attention to and its always a matter of balancing them. Actually, there are unavoidable stressors in trying to carry out good governance tenets which are generally developed among those who govern and run businesses. By providing information and clarity about a role, expectations and responsibilities and what is being expected as well as establishing good relationships is a key way and a success when balancing this stressors. Shareholders have available both mechanisms of governance; external and internal (Walsh and Seward, 1990). These mechanisms go a long way in helping solving disputes among different management claim-holders, more so the disputes between the managers and the owners, and between the majority stakeholders and the minority. Disputes between owners and managers consists of various internal mechanisms, e.g. structure of ownership, compensation of the executives, the board of directors and the disclosure of financial information , whereas the disputes between the shareholders are external mechanisms, legal infrastructure, the effective market takeover, and product market competition are some of the mechanisms used.

2.4.1 Internal Mechanisms of Corporate Governance

The first control sets for a firm or association emanates from the internal mechanisms which keep track of the progress and processes of the firm or association and when the business activities do not go as planned they take corrective measures. By preserving the bigger internal control of a firm, they serve the internal aims and goals of a firm and its in-house stakeholders who include the administrators, workers and the ultimate owners. In Accordance to the report by Cadbury (2002), good CG must cover the four major aspects which are; making sure there is openness of the board in carrying out their tasks of controlling and directing in the firm, coming up with proper checks and balances in the organizational hierarchy and with no one person should possess unchallenged powers, ensuring there is a well-balanced board team which should have an equal representation of both non-executive and executive members and creating a directors board with responsibilities which are clear and whose role in guiding the organization does not overlap with those of firms managers.

Shareholders influence on the behavior of firms managers by employing the use of the board of directors is an internal mechanism so as to ensure their interests is at the fore-front in the firms activities (Hemailin and Weisbach, 2003). However, when a firm has a CEO who controls the board wholly or partially this monitoring/ tracking function of the board of directors is hampered. This thus calls for there to be separation of chair and CEO as when the CEO carries out both roles of chair, the interests of the owners would be in one way or another be hampered for the benefit of the managerial team (Donaldson and Davies, 1991). As Rechner and Dalton (1991) found, firms with separate governance i.e. different chairmen and chief executive officers always outsmarted the CEOs with dual powers in organizations. Regardless of whether the board provides a techniques monitoring managerial action, an independent chair will upgrade the board’s capacity to attain this. The board of directors should be independent, this always so as to guard the interests the shareholders against opportunist managers so as to defend owners interests from the opportunism of managers.

Some non-executive directors are independent while others are not and thus cautions against equating independence with non-executive directors (Psaros and Seamer (2002). An outsider who is independent in many ways such as not a former employer, not holding a major contractual, advisory relationship or supplier with the organization and also an non-executive meaning that he/she will not be existing on the management team and without any noteworthy interest in an organization which would impact negatively on the ability of the director in acting in the best interest of the company. So as to avoid compromising the independence of the directors, fees paid to non-executive directors should be at levels so low that directors do not just depend on one organization for a big proportion of their income remuneration (Bank of England, 1985).

There exist three main committees that play the supporting role in the work of the board of directors of corporations which are publicly owned, these include the nominating committee, compensation committees and the audit committee. The establishment of audit committees is used as a link between companies and their external auditors and has a serious part to play in guaranteeing the trustworthiness of organization finance related reports and in raising CG standards. Creation of the remuneration committees is required by the Cadbury code of best practice which puts that "officials' salaries ought to be liable to the proposals of a compensation board of trustees made up completely or predominantly of non-official executives." The members of the remuneration committees should be listed in yearly reports. Creation of nomination committees goes a long way in enabling to convey a more target way to deal with determination of official and non-official board individuals (Bostock, 1995).This goes a long way in reinforcing the autonomy of the board and restricting the flexibility of CEOs to pick board individuals. The audit committee must have a formal charter, this chatter clearly sets out its composition, responsibility, role, membership and it structure and also the process for inviting to attend meetings to the non-committee members.

Having a framework that guards the rights and ensures whether the shareholders are minority shareholders or from outside countries there is equity in the way they are treated is another type of internal CG mechanism. The effectiveness of the legal system that protects the property right of shareholders is largely depended on by the effectiveness of concentrated ownership (Shleifer and Vishny, 1997). Shareholders are supposed to be empowered by the firms by always communicating effectively and efficiently giving them information which is understandable and balanced about the organization and corporate proposals and also ensuring it s easy for them to participate in the general meetings. The CG framework should foster active co-operation between firms and stakeholders in the creation of jobs wealth, and the sustainability of financially sound enterprises. It should also acknowledge the rights established by law of the stakeholders. The CG framework should also see that timely and accurate disclosure is made on all relevant issues concerning the firm which may include the situation financially, performance wise, ownership and how the firm is governed. So as to ensure the factual and truthful presentation of the financial position of the organization it requires the organizations to have in place review structures and authorization.

Advancing senior management with incentives with an aim of achieving maximum wealth is an example of internal mechanism. Another incentive of wealth maximization is to provide the administration with rights to pursue policies like wealth maximization. These motivating factors may take the form of shares in the organization and according to Jensen and Meckling(1976), when the costs are high for not maximizing wealth of shareholders it signifys there was greater financial stake. Another powerful way or mechanism to govern executive behaviour is by providing the executives with incentive-related pay. If the top managers have a larger stake in the organization their interests can be better aligned with those of the shareholders.

Financing of debt is another technique of internal governance mechanism. This is whereby when debts increases, the cashflow inturn reduce and by doing so it hinders the discretion of the management, Jensen (1986b). Other than using excess money on projects that have negative present values, the presence of debt calls for managers to service the firms debts with those funds first

2.4.2. External Mechanisms of Corporate Governance

Interests of entities like banks, government, industry regulators, trade unions are served by the external mechanisms. The external mechanisms of CG are not in controll of the organization but are controlled from outside the organizations. These interests served include legal compliance and adequate management of debt. Organizations are usually imposed on with external mechanisms by external stakeholders and they are usually in form of contracts with guidelines of the regulator. External firms like market associations may come up with specific guidelines to guide the firms towards best practices by the organizations. Organizations may choose to adhere to the codes of conduct or choose not to. Commonly, organizations report the status and consistence of external CG instruments to outside partners.

The external mechanisms include an active corporate control market. It is said to be key for the efficiency in the resource allocation.”If an organizations internal mechanisms fail, the market for corporate control acts as a disciplining mechanism of last resort”, Jensen (1986a).According to the market for control theory, the organizations performance is more likely to not achieve its maximum potential as top managers engaged in individual interested behavior. Other administrative teams are more likely to hand in requests to the shareholders of the organization as suitable replacements to the incumbents as circumstances like the underperformance of the firm as reflected in the share price of the organizations stock. The competition between these administrative teams for the opportunity to manage the organizations resources then is the market for corporate control. Through this managers get the ability to have the complete control of a great number of shares within a short period of time to eject the underperforming managers. The large shareholders can choose to start a fight so as to achieve organizational control or they may empower an external party to fight for control when the incumbent managing team is not performing well, through this the efficiency of the market for corporate control is developed.

Another external mechanism for corporate governanace is forceful takeovers. According to Powell (1997), the features of a friendly and hostile bids vary and the effects of their features change over time. In comparison to the characteristics of governance,Weir (1997) found that mechanisms of governance for example duality and the percentage of the directors who are not executive had an effect on the probability of acquiring an organization by the process of hostile bids. Takeovers and friendly mergers always takes place in all countries and in the market for corporate control they account for most of the transactions. According to Shivdasani (1993), the likelyhood of acquisitions is significantly affected by the quality of non-executive directors; following hostile takeovers CEOs are most probable to lose their jobs, Martin and McConnell (1991). Due to share holdings being often distributed among many small shareholders proxy fights do not usually result in deposing the existing management or board of directors.

2.5 Summary of Literature Review and Knowledge Gaps

Based on the review of literature in this chapter, CG is thus very important in the running of an organisation. The theories of CG help to explain the origin and need of CG. The agency theorem has an assumption that managers are individuals with individual interest and will thus at the expense of owners,pursue their own interests. CG is thus seen as a way of introducing checks and balances on managerial behavior and an effective mechanism should serve to minimize the gap between interests of shareholder's interests and the interests of the managers. The agency theorem is in contrast to the stewardship theory which works on the assumption that managers and the owners act on a common ground with similar interests. The stakeholder theory on the other hand stresses on the organisation been responsible not just to the shareholders but to a wide range of stakeholders in society. The task of management in the resource dependency theory is to gather unique resources so as to achieve competitive advantage in the market which is in contrast to the agency theorem which emphasizes on the task of managing conflicting goals among managers and shareholders within the firm.

Effective CG practices should thus ensure that the organisation is run in a way that will safeguard the interests of the managers, the owners and other stakeholders. The internal corporate mechanisms should be given more priority to avoid the external mechanisms coming into play. It should include a board of directors with an independent chairperson, as well as have an independent audit committee to ensure transparency. Transparency and disclosure create and sustain certainty of investors, partners and the more extensive society and gives chances to nonstop change of business structures and procedures. Apart from the audit committee, the board should also establish other standing committees to help in its functions. The rights of shareholders and stakeholders should be taken into consideration as established by law and management should seek to empower them as well. In addition, all the stakeholders should be treated equitably and their interests well balanced.

Table 2.5.1 Summary of Knowledge gaps

Study	Focus	Method	Findings
Kemboi (2012)	Integration of CG in strategic management at the Ethics and Anti-Corruption Commission.	Case study	Commission has adapted CG practices by having a code of conduct, disciplinary instruments, audit procedures and audit committees.
Nyamwaro (2011)	Relationship between CG practices and financial performance of State corporations in Kenya.	Survey method	Board size and composition, splitting of roles of chairman and CEO, optimal mix of inside and outside directors and executive remuneration greatly affected the financial performance of the organizations.
Kimanga (2010)	CG structures and practices at the Kenya Revenue Authority	Case study	Authority has structures that entail distribution of rights and responsibilities among the different stakeholders including outsiders in the audit committees; the board of directors meets frequently and is made of independent members.

Maina (2012)	Role of the company secretary in CG in Kenyan listed companies	Survey method	Most Kenyan listed companies disclose in their annual report the compliance of the directors on CG guidelines prescribed by the Capital Markets Regulations.
Miniga (2011)	Relationship between CG practices and financial performance of regulatory state corporations in Kenya	Descriptive correlation research design	The research found out that compliance to best practice recommendations by the government and other professional associations amongst the regulatory state corporations in Kenya is quite impressive as is attested to by the statistics analyzed.

Source: Research (2016)

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

The section presents structure which the respondent focused on by providing answers for study questions. It includes research plan, information gathering and facts examination of research finding.

3.2 Research Design

The research finding was done through case study research design method that gives full contextual analysis of events and helped drill down on one parastatal rather than cast wide to parastatals in the country. Case study is in depth study of a particular situation rather than a sweeping statistical survey hence it gives way for most detail to be gathered and information collected is rich with great intensity. According to Robson (2002) from his research study he defines case study as the approach to aid in research that will include experiential inquiry of a certain modern phenomenon within its actual time situation applying numerous source of proof.

3.3 Data Collection

In conducting this study, the researcher collected both secondary and primary data. Secondary data was collected from the strategic manual, policy and procedures handbook, end of year reports and other course of action manuals. Primary information was collected through personal interviews of respondents. The study targeted to interview 15 respondents who included the members from the organizations Board, the Director General, General Managers and heads of department who form part of the top executive of the firm. The respondents were interviewed with the assistance of an interview guide.

3.4 Data Analysis

Information gathered by the researcher was qualitative in nature and thus the researcher used content data analysis to analyze various aspects of CG practices within KeRRA. According to Dey (1993), the categories must have both an internal and external aspect. The researcher organized the data collected into meaningful and related categories derived from the theoretical framework so as to help in analyzing the data systematically and rigorously.

The primary data collected was triangulated by use of organizational documentation. According to Yin (2003) in his research he concluded by saying where existing theory has been used to prepare the study question and objective then hypothetical proposition can be used to develop a structure to help in information analysis. The researcher used the deductive approach to analyze data. The most prevalent CG practices and the most influencing factors were identified from the data analysis. The identified study themes included strategic planning, internal controls, board appointments and meetings among others. This method has been successfully used by Wanyoike (2011), Tokei (2007) and Kabura (2006) to analyze the qualitative data collected in their respective case studies.

CHAPTER FOUR

DATA ANALYSIS, RESULTS AND DISCUSSION

4.1 Introduction

The section provides the examination of information gathered by use of a choice of different technique hence it will give the result of the same and finally how information was interpreted. Research finding used interview guide in gathering primary statistics for investigation on the other hand secondary information was found from firm's strategic manual, policy and procedures guidebook and the end of year reports. Researcher booked appointments with the respondents and used the interview guide to collect the information required.

4.2. Demographic Information

Using an interview guide, twelve respondents were interviewed. These included members of the board and heads of department. The respondents were required to indicate their job titles and the position held in the authority. Six of the respondents were heads of department and the boards of directors were also six in number. The research further showed that the administered interview guide had 75% male and 25% female implying that those in the board and top management were predominantly male.

The interviewer wanted to know exact number of years each respondent had worked for the firm and in particular in power .Only one respondent had been in the authority for less than one year, two had been in the authority for 2-4years while nine had been in the authority for over 4years.The distribution found out that a greater part of the respondents had been in authority for quite some time and therefore have a clear understanding of most CG practices in place in KeRRA.

The study found out that while all the respondents were first degree holders, nine of them were also master's degree holders. The respondents were therefore highly qualified to perform their duties as senior management at the authority.

4.3 The Corporate Governance practices adopted by KeRRA

The research finding sought to ascertain business governance practice in KeRRA. All respondents indicated that the authority has a board of directors comprising of eight members who are independent. Only one director is executive while rest are non-executive. It found out that the chairman of the board is not the executive director of the authority. Members of the board are also knowledgeable and dependable persons who add much value to authority. The respondents felt that the board members are appointed transparently and there is a balanced mix of skills in the board. On the question of succession for directors and top management, most respondents felt that this is not adequately provided for.

The respondents felt that the board members clearly understand hence share with relation to authority's beliefs, core values, mission and vision. Board of directors is also engaged in strategic planning process. They establish strategies to realize authority's function and execute its values in order to make sure authority survive. The board is also involved in the appointment of the director general and top management and evaluates their performance on an annual basis.

Study found out that the board of directors meets quarterly and in addition when need arises. The meetings are done in a way which leads to open announcement, momentous contribution and opportune decree of issue. They are thus able to raise dissenting views during discussion in a free atmosphere. Seven of the respondents indicated that decisions in the board are taken by consensus ,one indicated that it is done by voting while four of them indicated that it is by both voting and consensus. Most of the respondents agreed that board members are obligated to unveil their issues of conflict of interest in board matters.

The researcher found out that the board has in place standing committees that support it in its work. The committees in place are: Board Audit, risk and governance committee, board technical committee, board human resources committee and board finance and strategy committee. The members of the committee have got essential skill and proficiency to carry out their tasks. The mandate of the committees is reviewed annually as well as its effectiveness and performance.

The board of directors have developed and adopted a board charter which inducts new directors and informs them of their roles and responsibilities. The authority provides training opportunities for the directors so as to expand and reinforce authority skill in light of technological developments and different variables. Performance of directors is evaluated properly on yearly base by an external consultant. However the results of the performance are not disclosed publicly.

The researcher found out that there are various factors that influence the CG practices in KeRRA. All the twelve respondents felt that legislation greatly influences the CG practices in KeRRA while eleven of them felt that the prevailing corporate culture and need for efficiency and effectiveness in service delivery influence the practices to a large extent. Ten of the respondents felt that staff training and development is also an influencing factor and eight of the respondents felt that staff welfare and remuneration affect the corporate practices within KeRRA. Half of the respondents felt that political considerations have a great influence on business control practice.

4.4 Discussion of Results

Findings of this research can be compared with literature review on the same subject as well as similar studies conducted on the CG practice among public segment especially state corporations and parastatals.

Cadbury report (2002) recommends that CG should entail very important aspects which include coming up with proper checks and balances in governance structure where an individual has got unfettered power and also having a director’s board which contains well formulated tasks that are very different from those of the organizations manager. Also, the report recommends having a board that is well balanced which has both the executive and non executive members. Findings of the study found out that the board of directors in KeRRA is well balanced and no one person is in total control over the others. Psaros and Seamer (2002) from their study concluded that for a director’s board to be able to accomplish its oversight role by ensuring that managers are held accountable for their course of action, they should be independent.

The Cadbury report recommends to have at least 3 non-executive directors who ought to exercise independent judgment, be free from other relationships interfering with implementing of free verdict, appointment for an exact term hence reappointment shouldn't be habitual and be chosen through an official procedure because the skills and experience of directors are important to the quality and performance of company boards.Monitoring task of director's board is compromised when the chief executive officer has control of the board entirely or partly.

The findings of the study are similar to those of Kimanga (2010) who carried out research on CG structures and practices at the Kenya Revenue Authority. She found out that the structures at the organisation entail distribution of rights and tasks between different stakeholders, including outsiders in the audit committees to create independence and enhance transparency and having a fairly small independent board of directors that meets frequently thus enabling it to monitor and supervise the organisation.

Kemboi (2012) from his study investigation topic of integration of CG in strategic management at the Ethics and Anti-corruption Commission proved that the commission has adopted CG practices by having a code of conduct, displinary instruments, audit procedures and committees and a clear reporting structure between the board and the secretariat. According to Nyamwaro (2011) from his research of the relationship between CG practices and financial performance of commercial state corporations findings, the size of the board and its composition, splitting of roles of the chairman and chief executive officer, most advantageous combination of within and external directors, executive remuneration, and number of non-executive directors and participation of outside directors all affected the financial performance of organizations.

4.5Summaryof Data Analysis, Results and Discussions

The researcher analyzed data collected from 80% of the respondents which implies that the data was adequate and reliable for the study. The study found out that KeRRA has in place governance practices that are aligned with best practices. Management is monitored by a director's board comprising only one executive director and seven non-executive directors. The directors are professionals from different academic fields that give the board a balanced mix of skills to help run the authority. The non-executive directors are independent and hold meetings at-least every quarter of the year. Their roles and responsibilities are clearly spelt out and new board members are inducted through the board charter in addition to formal trainings that are done regularly. The performance of the board members is conducted annually by a contracted consultant.

KeRRA is an authority formed by an act of parliament and thus the CG practices in the authority are influenced mainly by legislation. Other factors that influence the practices include political considerations, need for efficiency and effectiveness in service delivery, prevailing corporate culture, training and development of the directors and top management. These governance practices have played a big role by ensuring clearness in the running of the authority as well as ensuring effective management of the resources allocated to the authority. The findings of the study are similar to those of other studies conducted in local public institutions.

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

The section presents summary of research findings from chapter four, its conclusions and recommendations. The objectives of this study were to establish the CG practices employed in KeRRA, examine the factors that influence them as well as to compare them with the best practices .This chapter has also addressed the restrictions of the study and suggestion for more research.

5.2 Summary of findings

The objectives of the study were to establish the CG practices in KeRRA, compare them with the best practices and find out the factors that influence those practices.

The study found out that KeRRA has adopted CG practices in line with the best practices as well as the values of authority provided in Article 10 of the constitution of Kenya, 2010. It is supervised by a board of directors selected by a means of a clear and official procedure governed by the superseding principle of value and has a mix of skills and competencies required for the achievement of the authority's objectives. The authority has a fairly small independent board of directors that meets frequently thus enabling it to monitor and supervise the organisation. The director general who is the chief executive director of the organisation is an ex-officio board member and the two perform detach and separate roles but work together to attain the firm goals. Boards of directors have put in place standing committees that support its work and help it to discharge its mandate effectively. The committees have specific terms of reference and they are evaluated yearly. Board also has a board charter in place and there is continuous development of the board members through training opportunities. The board regularly reviews the internal control systems and procedures so as to provide better decision- making process. The performance of board members is evaluated annually by a consultant while that of the top management is done by board of directors also on yearly basis. Furthermore, the directors are also obligated to say in advance any conflict of interest which exists or is likely to exist in the foreseeable future.

The study also established that the directors have unrestricted access to guidance and services of authority's legal officer who serves as the secretary of the authority and advices the board about matters of measures, regulations and policy. The other factors that influence CG practices in KeRRA are the legislation, the prevailing corporate culture, political interferences, the need to enhance efficiency and effectiveness in service delivery and training and development of top management.

5.3Conclusion of the Study

Efficient and proficient management of the organizations is a very vital issue of concern in a lot of the organizations in the nation.

One of the ways to achieve this would be precision and revelation which are significant aspects of corporate leadership and management because it provides and sustains self-assurance of investors and the stakeholders. The study established that KeRRA has put in place CG practices which enhance running and management of the authority. The board of directors in place governs authority in a way that ensures public funds are utilized in a proficient and transparent manner.

5.4 Recommendations of the Study

This study recommends that parastatals and government agencies adopt CG practices so as avoid the several scandals we have witnessed in the recent past that can be attributed to lack of good CG practices. The performance of the board of directors in Kenya Rural Roads Authority is evaluated annually but the results are not made public. The study recommends that the board reports its evaluation performance to the public.

Secondly, the study recommends that the government ensures that public institutions are effectively led and managed. It should put in place strict mechanisms to ensure that the code of governance for state corporations, that is the Mwongozo code, is adhered to by all state corporations so as to increase accountability in the use and deployment of scarce resources. The study recommends that the government also ensures that there is a succession plan for both board of directors and top management not only in KeRRA but also in other state parastatals and corporations.

Thirdly, researchers and academics should consider results of this study in building theory and advancing the frontiers of knowledge.

5.5 Implications of the Study

The Research has implications for policy and performance in management of public institutions. Policy makers in the government should ensure that there is a board of directors with obvious tasks that should be different from that of the management. Since the board members in parastatals are appointed by the president, there should be mechanisms to ensure that the team appointed has balanced mix of skills and expertise to facilitate good decision-making.

Conflict of interest arises where board members have personal interests that influence their governance role or use their authority for selfish gain. Members of the board should maintain confidence of the wider public by avoiding circumstances that could result in actual or potential conflict of interest. Any area of conflict of interest should be declared and the secretary of the corporation should record all such conflicts of interest to enhance accountability.

In practice, the board of directors for parastatals should consider the number of other boards where they also serve. They should ensure that they do not serve in more than three boards of parastatals concomitantly so as to be efficient in their duties. The board members in such a situation should notify the appointing authority before accepting invitation to offer their services on the board of a different public body.

5.6 Limitations of the Study

The researcher faced limitations especially in getting the respondents to sit for an interview. The members of the board of directors have busy schedules hence it was especially very difficult to get hold of them. Moreover at the time of the research, most of them had been appointed for their second term but not gazetted and the researcher had to wait until the gazette notice was done.

5.7 Area for Further Research

The study was carried out in only one parastatal in the Ministry of Transport and Infrastructure. Due to recent scandals that have been witnessed in the public sector, researcher recommends that further research in the area of CG be performed out in many other parastatals and state corporations in the country to find out how they are governed.

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APPENDICES

Appendix 1: Interview Guide

Part One

1. What position do you hold in the Authority?
2. What is the level of your education?
3. For how long have you been in the Board/Authority?

Part Two

1. Do you feel the board members understand and share in KeRRA's beliefs,core values, mission and vision?
2. To what extent are you involved in strategic planning process in the Board?
3. Do you feel that the board is appointed transparently and has a balanced mix of skills?
4. How many directors does the board have in total?
5. Of these directors, how many are executive?
6. Is the Director General and top management transparently appointed by the Board?
7. How often does the Board of Directors meet?
8. Does the Director General of the Authority serve as the Board chairman?
9. Do you feel the directors can raise dissenting views during discussion in Board meetings in a free atmosphere?
10. Are decisions of the Board taken by consensus or by voting?
11. Are directors required to disclose their issues of conflict of interest Board matters?
12. Is the succession for directors and top management adequately provided for?

13. Which committees does the Board have to support its work?
14. Does the board evaluate the performance of the Director General and Top management?
15. Does the Authority have a Board charter/manual which inducts and explains to the directors their roles and responsibilities?
16. Does the authority provide any training opportunities for the directors?
17. How is the performance of directors evaluated?
18. Does the authority have in place an internal audit function?
19. To what extent do you feel the following factors influence the CG practices within KeRRA:
    a) The legislation (Laws and regulations)
    b) The prevailing corporate culture
    c) Political considerations
    d) Need to enhance efficiency and effectiveness in service delivery
    e) Staff training and development
    f) Staff welfare and remuneration
20. What other factors influence CG practices within KeRRA?

THANK YOU FOR YOUR TIME

Appendix 2: Letter of Introduction

Rachel Nungari

UNIVERSITY OF NAIROBI

SCHOOL OF BUSINESS,

P.O.BOX 30197

NAIROBI

Dear Respondent,

RE: CG Practices in Kenya Rural Roads Authority

I am a student at the University of Nairobi pursuing a degree in Masters of Business Administration. As part of the requirement for the award of the degree, I am required to carry out a project research on a topic relevant to my course. My topic of research is: Corporate Governance Practices in Kenya Rural Roads Authority.

This is therefore to request you to assist me in fulfilling this noble objective by granting me an interview opportunity to be guided by the attached interview guide. The information provided will be treated with high level of confidentiality and used purely for learning purposes only.

Rachel Nungari,	Supervisor: Dr. James Gathungu
MBA Student,	University of Nairobi
University of Nairobi	

Appendix 3: KeRRA Organization Chart