RELATIONSHIP BETWEEN CORPORATE GOVERNANCE AND FINANCIAL PERFORMANCE OF STATE OWNED ENTITIES IN THE MINISTRY OF INDUDTRIALISATION, TRADE AND CO-OPARATIVES.

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DECLARATION

I declare that this research proposal is my original work and it has not been submitted by any other person or for any degree or examination in any other University

Signature................................ Date ....

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This Research Proposal has been submitted for examination for approval as the University Supervisor.

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DEDICATION

This work is dedicated to my family members and friends who have given me immense support through the process of conceptualizing, compiling and completing it. May God bless you abundantly and always.

ABSTRACT

There has been a developing interest for Africa and mainly Kenya regarding the matter of public corporations and their capacity to undertake their responsibilities. This study interrogates corporate governance practices within Kenya State Corporation particularly those under the ministry of Industrialisation Trade and Co-operatives. Corporate Governance is an economic field that focuses on the ways to encourage and secure management efficiency by using incentives mechanisms, legislation, organization design and contracts. Financial performance is a way of measuring the financial targets and ambitions of an organisation and hence measures the organizations financial performance and at a particular duration of time that compares same firms across the industry. The study adopted the descriptive design in its investigation. The population was all the 14 state owned entities under the ministry of Industrialisation Trade and Co-operatives. The study utilized secondary data sources from websites of these institutions and financial reports. A multiple regression analysis was used to measure the quantitative data which was analyzed using the statistical package SPSS. Using multiple regression analysis, the researcher established that there is a strong positive relationship between corporate governance and financial performance of institutions. The study recommended that good corporate governance should be practiced in the parastatals. Smaller boards are also important in enhancing organisation performance.

Contents

Abbreviations

CSR – Corporate Social Responsibility

KRA – Kenya Revenue Authority

NSE – Nairobi Securities Exchange

PSCGT – Private Sector Corporate Governance Trust

ROA – Return On Assets

SC – State-owned Corporations

CHAPTER ONE: INTRODUCTION

1.1 Background to the Study

A research done by PSCGT (2012) indicated that there has been a developing interest for Africa and mainly Kenya regarding the matter of public corporations and their capacity to undertake their responsibilities. The overall population, the concerned lawmakers and academicians all are scrutinizing the execution of open organizations and partnerships. This has led to the questioning of the top administration officials of these corporations on their capacity to deliver and perform well, thus the need to try and study how the governance of this corporation is structured, their skills and most importantly their performance.

Knell (2006) stated that "Corporate governance is the set of practices, policies, customs, regulations, affecting the way an institution is operated." Corporate administration additionally incorporates the relationship for many shareholders involved and the administered objectives. Partners are the investors, administration and staffs on the managerial positions. Other partner includes banks, providers, and other moneylenders and the whole network including nature.

1.1.1 Corporate Governance

This is an economic field that focuses on the ways to encourage and secure management efficiency by using incentives mechanisms, legislation, organization design and contracts. the major intentions of all the mechanism are to ensure that the existing agency costs are reduced especially in the public corporations that are large (Jensens and Meckling, 1976), therefore improved corporate governance net is reduced by agency cost. Corporate governance comprises leadership direction, stewardship, accountability, authority and rules used in a firm, hence regulations, procedures by which a firm is regulated, held account and operated. Corporate Governance, is the way where by the powers of a firm are executed in the stewardship of the corporation's total portfolio of assets and resources with intentions of increasing and maintaining the value of partners to satisfy stakeholders.

Mwongozo (2014) in his studies he concluded that the system of rules and structures, processes and practices that directs corporate and is held accountable is referred as corporate governance. It comprises authority, accountability, stewardship, leadership, direction, and control exercised in the firm. The stakeholders interests are balanced which are management, agents, clients, community and the government.

Mwongozo (2014) came up with a list of corporate governance indicators or elements that can be used to measure corporate government performance, they include: the board (structure, independence of the members, qualification of the members, decision making, leadership etc.), culture, systems (control systems), accountability (audit chatter, audit committee) CSR and ethical practises. These elements are what is to be tested in this study to try and ascertain the extent to which they affect the performance of state-owned institutions under the ministry of industrialization, trade, and comparatives.

1.1.2 Financial Performance

Verma (2017) argues that the degree of achieving the objectives which is an important aspect of financial risk management he went ahead and defined it as a way of measuring the financial targets and ambitions and hence measure the organizations financial performance and at a particular duration of time that compares same firms across the industry.

Profitability of state-owned corporations and other state-owned organizations can be measured by evaluating the deficit/surplus accounts of the institutions, return on assets, the institutions' revenue generation streams and expenditure. These factors are affected by the exchequer funding, revenue generation, central systems, diversion of money etc. This study will focus on return on assets as a performance indicator.

1.1.3 The relationship between corporate governance and performance

Research have been done to understand how corporate governance relate to financial performance. The study argues that high performance in an organization is led by the structure of the corporate governance. (Sanda et al, 2005). Nam et al (2002) concluded that corporate governance had led to protection of the stakeholders interest in the firms and better financial performance because the managers are well supervised and led to reduction in agency costs.

Poor corporate governance encourages leads to poor financial performance and corruption. Brown et al (2003) concluded that organizations with poor corporate governance also performs poorly compared to those firms that have strong corporate governance related to stock returns, dividend payments, risks and profitability.

Masibo, (2005) carried out a research on Board Governance and firm performance of some specific government corporations of listed firms in the Uganda Securities Exchange and concluded that there was a both direct and indirect links between Board Governance and Firm Financial Performance through Board Effectiveness.

These studies have tried to demonstrate a link between corporate governance and performance. This study will also try to demonstrate if the link exists and if it does how strong and effective it is in state-owned corporations under the ministry of industrialization, trade, and corporations.

1.1.4 Parastatals in Industrialisation sector

Parastatals are key institutions in most economies that provide important services to the general public such as transport, health, and energy etc. Also due to the fact that they were created to facilitate wider developmental goals. The governance aspect of it is of importance too and it is clearly explained in the Kenyan Constitution (2010) articles 10, 73-80 and 232.

Manduku (2016) states that The establishment of parastatals was assumed by the Kenyan government to be critical for implementing the government's goal for development form independence. Parastatals having confronted great challenges in governance, the government responded by developing Mwongozo code to serve as an important building block in entrenching principles and values of public service and best practice in corporate governance. Mwongozo code is in line with the 2010 Constitutional provisions both aiming at entrenching the principles and values of public service and best corporate governance.

Kenya has about 146 parastatals and of this 146 only 14 belong to the ministry of industrialization, trade, and Comparatives according to the ministries website (2018). These 14 corporations will be the subject of this study to try and find a link between corporate governance and their performance.

1.2 Research problem

The subject of corporate governance is not well emphasized in most government parastatals or SCs although it has received a great deal of attention in the accounting literature with studies concentrating on the impact of corporate governance and the financial performance of organizations.

Brown (2004) provided useful insights into the relationships between good corporate governance and corporate performance. Studies show that firms with good corporate governance assure profits to shareholder and limits the risks of the investments. The connection between the quality of the firms' profitability and of the corporate governance is a very significant connection in in studies related to corporate governance. Jensen and Meckling (1993) in his study proved that high expectations in future cash flows with efficient operations are as a result of good governed organization.

Many studies have been done on the subject of corporate governance and how it affects performances of institutions. Ogola (2015) looked into CG & firm value of firms listed in NSE, Masinde (2012) looked into commercial banks, Wanyoike (2011) looked into CG of one parastatal in particular KRA while Kalekye (2013) looked into strategic practices on randomly selected parastatals. Locally there are a few studies in corporate governance though none has focused on parastatals in the Industrialization sector.

Numerous different analysts have considered the connection between a variety of governance mechanisms and firm performance. However, the outcome varies some research on the influence of several components together on performance while on the other hand others examine only the effect of one governance component of performance, they concluded that the gap that exists is big since none of the studies cover corporate governance and performance specifically on parastatals in the Industrialization sector. Backed with this information the researcher decided to carry out a research on corporate governance and performance of parastatals in the Industrialization sector

1.3 Objectives of the study

The main objective is to research on the relationship between corporate governance and financial performance of parastatals under the Ministry of Industrialization, Trade, and Comparatives in Kenya.

1.4 Value of the study

The outcome of this study will contribute to improving the understanding of corporate governance practices in Kenyan parastatals the Ministry of Industrialization, Trade and Comparatives in Kenya, and what methods these parastatals can use for better governance that align with their performance. The Kenyan parastatals will use the study to help make decision to help in governing the institutions.

The study will be used by the policy makers to help implement the regulations and for corporates and parastatals. This will help the government to come up with strategies and ways of promoting good corporate governance within the parastatals in the industrialization sector.

The study will be used as an empirical result for corporate governance that will be used by the regulator and parastatals to make decision and policies to better the corporations governance and align with managers and all the parastatals performance and risk taking.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter focuses on theories surrounding the problem and past studies through empirical evidence, the subsequent literature reviews seek to integrate issues regarding theories to be reviewed the theory of governance structure.

2.2 Theoretical Review

2.2.1 Agency Theory

Sagarphul (2013) in his studies he concluded that this is the financial economics branch which studies conflict of interest between individuals with various interests on the same assets. This hypothesis tries to simplify the relationship between principals, who are the owners, and agents, who are the company's managers and directors. In this association, the principal hires (delegates) to be carried out by agents. The hypothesis tries to resolve two major issues; first, how to support the objectives of the principal so that they are not in conflict with those of investors is the (agency problem) Secondly, Can the agent and the principal resolve different tolerances for risk?

Mitnick (2013) in his explanation of the hypothesis model stated that the first scholars to propose, openly, that there be a creation of a theory of agency this were done by Stephen Ross and Barry Mitnick, autonomously and roughly concurrently. The foundation of the economic hypothesis of agency was brought about by Ross and the institutional theory of agency was researched by Mitnick. Ross presented the study of the agency regarding the problems of compensation contracting; the agency was seen, in principle, a compensation problem. Mitnick, on the other hand, he presented the obvious perception that firms use around agency and evolve to deal with the agency, in response to the essential imperfection of agency relationships.

2.2.2 Stewardship Theory

Davis, Schoorman and Donaldson (1997), defined a steward as, one who protects and maximizes the owners wealth through the general performance of the organization, hence leads to maximization of the utility of the stewards. Corporation managers and directors are the stewards working for the owners, to make profits for the shareholders and protect their wealth. Stewardship theory emphasizes not only on the viewpoint of independence, but also about the duty of top managers executing the firm's goals. Stewardship theory offers an alternative to agency theory by recommending that when a merging of existing values amongst agents and principals or when firms endorse transparent principles and good behavior is the internal outcome, (Dicke, 2000). Lack of trust denoted to by the agency theory concerning authority and ethical behavior is what is substituted by this theory which is one of the key unique features of it.

On the other hand, the strategic performance on stewardship theory's emphasis on the boards main role which is to better performance that will be long term and hence coming up with suitable strategies and policies therefore avoiding failure in management and poor performance and hence focus on better future performance.

2.2.3 Stakeholders theory

Edward (2013) explains that Stakeholder Theory is a take on free capitalism that emphasizes on the interconnected relationships concerning an entity with its clients, employees, owners, suppliers, communities and all the firm's stakeholders. The theory contends that an organization should create stakeholders values as well as shareholders.

In 1984, Edward initially gave a detailed explanation on the stakeholders theory of the firms management and values, morals and ethics of running the business.in his book of strategic management that won the a ward he stated that the groups which are stakeholders of a firm are identified by the stakeholders approach and all gives descriptions and recommends on which methods that the management can use to satisfy the interest of the stakeholders.

The theory has become an important attention to the study of business morals and has served as a platform for additional development and study in the published work of many researchers.

3.0 Empirical review.

Internationally there have been different inquiries about into corporate governance of state-owned institutions. Although most of the research done on the topic of corporate governance is mostly in private firms and those listed on various security exchanges. Few have focused on public sectors because of various reasons and complexities the topic presents.

Chambers (2010) did a study on the role of corporate governance and boards in organizational performance in UK state-owned institutions and resolved that different firms have different evidence that links between good organizational performance and good governance It is anyway hard to demonstrate any straightforward relationship. Many factors hypothetically affects organizational performance and be disentangling a simple underlying relationship is probably impossible. Relations between boards and organization performance are rising. There is a link between board structure and execution. In spite of the fact that there is no 'set in stone' model in either private or public sector, this proves that there is better performance in public sector with smaller boards which can achieve organizational improvement good concentration of power. The evidence to support the non-executive directors to help deliver independent challenge and make independent decisions and also the importance of the committees is to help in the monitoring the growth and activities of the board.

De Silva (2011) completed an exact investigation of Australian colleges and inferred that Effective governance structures assume an essential part in attracting most needed funds and stakeholder confidence to be competitive in the demand-driven Australian university sector. Examination was not supporting the fact that the relationship between performance and governance is positive. While the teaching examination, research and financial concluded that the relationship with the internal individual that were independent governance was very strong. contrast to that there was a negative relationship with financial performance and research demonstrated a relationship that was negative with teaching performance

Locally the same is also replicated; few research studies have been done on government parastatals and even fewer in specific government sectors. Kyondu (2014) did a study on the corporate governance effect on the state corporations performance in Kenya and she concluded that the significance of corporate governance cannot be overstressed since it constitutes the organizational climate of the company's internal activities. Corporate governance enhances of a new viewpoint on the organizations competitiveness and corporate entrepreneurship. Therefore the measures to lay down SCs to ensure that governance structures are recommended should be implemented. Ministries and parastatals should ensure they are keen to supervise duties through their different committees hence ensuring all the required regulations are enforced.

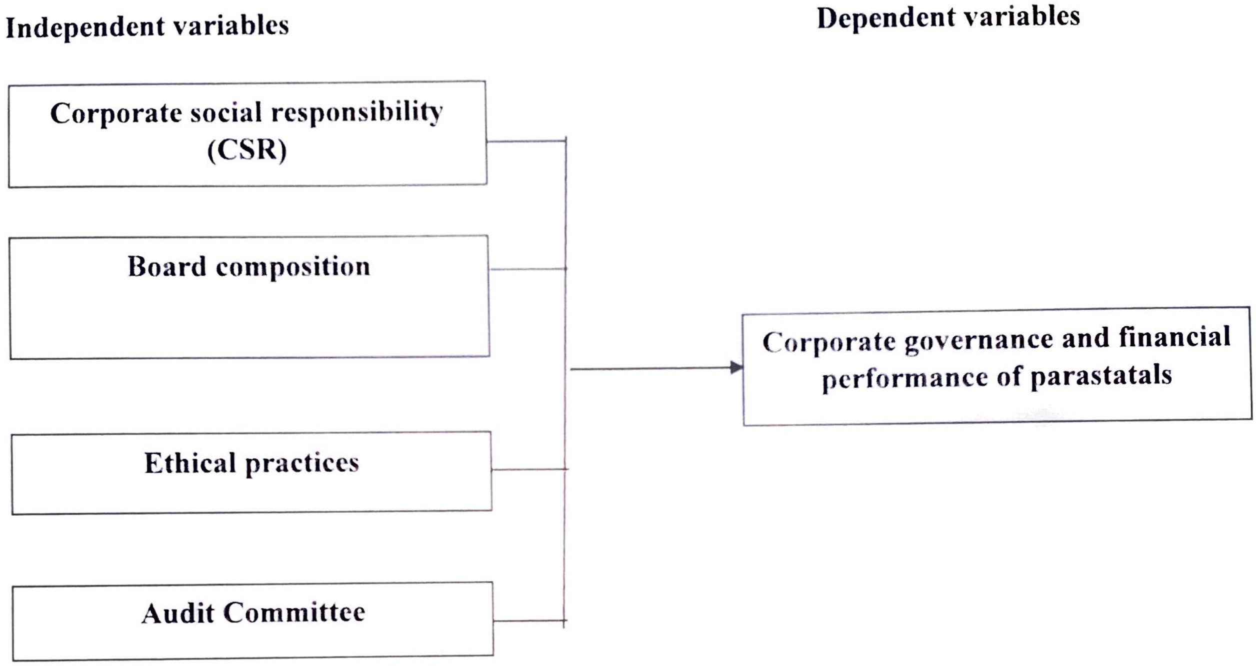
Kuria (2015) did a study on the application of corporate governance in the public sector: the national council for law reporting case study (Kenya law) her conclusion was that organizations must understand that in order to implement corporate governance in public sectors, then the following elements should be considered; Implementing solid foundations for management oversight, Encourage and ensure ethical and responsible decision making, Create and structure a Board that increases value to the organization, Ensure there's balanced disclosure, Safeguard and ensure financial reporting integrity, Respect the rights of investors, Identify, plan for and manage risks, Encourage better performance, Fair and responsible wages, Recognize the legitimate interests of stakeholders.

Deloitte (2016) did a study on Performance leading to good corporate governance, an academic research of a meta-analysis and invitation to engage in the discussion found out that their results supported the hypothesis that good performance is as a result of good governance, and they listed governance variables that were confirmed to be having positive effect on performance. the independence of the Board, the diversity of the board, remuneration, the CEO's characteristics structure of ownership and oversight are the variables of good governance. Therefore corporate performance is enhanced by these variables though no particular size which fits the variables and to put them into practice.

The good governance the decision making process are supported by the good governance tools used by the board members. The right decisions are made by the board if the environment so allows. Hence objective oversight and empowering alternate views and collaborations are required.

2.4 Conceptual framework

This provides a supporting structure with both the dependent and independent variables that demonstrate the relationship between corporate governance and financial performance of parastatals in the industrialization sector in Kenya.



2.5 Summary of literature review

Few research studies have been done on specific sectors of government-owned institutions thus there was a need to carry out one to fill the gap. This chapter has highlighted relevant theories for the study and also an empirical review of relevant studies that have been done both globally and locally. A conceptual framework diagram is used to illustrate the variables and their relation to the study topic.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter gives a general framework for procedure to be used when conducting the research. It specifies the research design, the target population, data collection method and instruments used, data analysis and interpretation.

3.2 Research Design

Trochim (2007), the bond that hold the research project is the research design. A design is utilized to structure the research and exhibit how most of the significant parts of the analysis venture cooperate to attempt to address the focal research questions. This is the "spine" of the research protocol.

The technique that will be used is descriptive research methodology. The technique is most preferred in light of the fact that the research uses quantitative statistical data to define the relationship between corporate governance and performance of the government parastatals in the industrialization sector.

3.3 Population

The study will look at the government parastatals under the ministry of industrialization, the population of the study will use the eight government parastatals under the ministry of industrialization indicated in the appendix.

3.4 Sample design

A census method will be used since there are only 14 parastatals under the ministry of industrialization, trade, and comparatives and this will give a clear picture of the whole industry as opposed to a ratio of the parastatals which is too small of a sample. Sample population will be used to gather data and give the required information for the study which is the 14 parastatals

3.5 Data Collection

The study will utilize secondary data sources that are provided. The secondary data sources are selected owing to the fact that they are low-cost and more easily available than primary data and help clarify and answer the research question. Government parastatal is supposed to report in their annual reports how they complied with the principles of corporate governance and the available information on corporate governance in their yearly reports. Data on performance that will be collected will be on return on assets and while data on corporate governance that will be collected will be on board size, board composition, and audit committee.

3.6 Data Analysis

Corporate governance as an Independent variable that will be measured in terms of size, board decision making and board composition. Corporate social responsibility will be measured in terms of budgetary allocations, committees, risk management, delegation, skills, and knowledge all these measure the board effectiveness. profitability, in terms of deficit and surplus and return on asset will measure Financial performance as a dependent variable. Statistical package for social sciences (SPSS) will be the tools used for analyzing the data hence will generate data and generate descriptive statistics which will assist to come up with patterns, trends and relationships and make the graphs for easier understanding of the study and the trends.

3.6.1 Data Analysis Model

The study will use a regression analysis method to gauge the model which measures performance as the dependent variable and corporate governance attributes as the independent variables. The aim of the model is to provide an assessment of the effect of corporate governance on financial performance

The below model will be used:

$Y = \beta 0 + \beta Fit + \varepsilon it$

R.O. A=$\beta 0+\beta 1BSIZE+\beta 2BCSR+\beta 3COMP+\varepsilon it$

ROA= $\beta 0$+ $\beta 1$BSIZE+ $\beta 2$ BOD independence + $\beta 3$ number of committees + $\beta 4$ gender diversity + $\beta 5$ number of meetings

Y is the dependent variable (R.O.A.), $\beta 0$ is the constant, βFit is the coefficient of the explanatory variable and εit is the error term.

Where, R.O.A, is the dependent variables, βo is the constant, $\beta 1,2,3$ are the coefficient of the explanatory variable, and εit is the error term assumed to have zero mean and independent across the time period.

Return on Assets (ROA)- is an indicator shows profitable a corporation is in respect to its aggregate resources. ROA gives an indication with reference to how effective administration is at utilizing its resources to produce profit, ROA is displayed as a percentage. The ratio is Net income / Net assets

Board Size (BSIZE) – This variable will be utilized to assess the span of the board. It is derived in terms of the number of members serving on the board of a specific firm.

3.6.2 Test of Significance

Regression coefficient method will be utilized to gauge the quality of the relationship between the performance of the parastatals which is the dependent variable and Corporate governance and state corporation size which are the independent variables. R Squared which is a measure of the proportion of the variation in a dependent variable that can be explained statistically by the independent variables will be utilized to quantify the predictive ability of the model. The value of R squared ranges from 0 to 1. The closer the value is to 1, the better the regression equation fit to the data. Beta value (β) was utilized to gauge the strength of the relationship between the performance of State Corporation and corporate governance and the size of the state corporation. The close β is to 1, the more grounded in the relationship.

CHAPTER FOUR

DATA ANALYSIS, FINDINGS AND INTERPRETATION

4.1 Introduction

In this chapter, the results of data analysis have been discussed. SPSS software was used for the data analysis. The financial data used was for 2015 and 2016. The analysis established how returns on assets of the various parastatals in Kenya are affected by certain corporate governance parameters. The parameters considered in the study are the independence of the board, the number of committees, gender composition or diversity, and the number of meetings held annually by the board of directors. By the use of regression, correlation, and descriptive analysis, the results of the study have been presented in a tabular form as shown in the following sections.

4.2 Diagnostics Tests

An assumption of a 5% significance level or a 95% level of confidence was made for all the data collected. Diagnostic tests were used in ascertaining the integrity of the data. A perfect data has 0% level of significance or 100% confidence interval.

4.3 Data presentation

4.3.1 Descriptive data

In this section, statistics indicating the variables' average, minimum, and maximum values are shown.

The standard of deviation is also used as well.

Table 4.1: Descriptive statistics

Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
BSIZE	9	7.00	17.00	10.6667	3.35410
BOD independence	9	.86	.93	.8900	.02500
Number of Committees	9	.00	6.00	3.5556	1.58990
Gender Diversity	9	.08	.27	.1678	.06438
Number of Meetings Annually	9	.00	90.00	17.7778	28.24348
ROA	9	.15	4.16	1.1622	1.42356
Valid N (listwise)	9				

Source: Author (2018)

Table 4.1 above indicates the variables' descriptive statistics used in the study. The year of focus in the study was 2015 and 2016 which applied to all the parastatals in the study. Return on Variable (ROA) was computed using the following formula:

ROA=Net income/ Total assets

The data was obtained from the statement of financial position and financial performance of the company. Gender diversity is proportion of females to the total board members. The BOD independence refers to the proportion of directors who actively participate in the management of the parastatals to the total number of directors.

The maximum ROA was 4.16 while the minimum was 0.15. It had a mean of 1.1622. The mean number of meetings held annually was 17.7 while the maximum was 90 and the minimum was 4. The maximum gender diversity was 0.27 while the minimum was 0.08 and the mean was 0.17. The maximum number of committees was 6 and the minimum was 3. The maximum number of BOD independence statistics was 0.93 and the minimum was 0.86. the maximum board of director statistic was 17 with a mean of 10.6 and a minimum of 7.

4.3.2 Regression Coefficient Results

Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	8.810	33.823		.260	.811
	BSIZE	-.115	.359	-.272	-.321	.769
	BOD independence	-6.638	38.945	-.117	-.170	.876
	Number of Committee	.394	.853	.440	.461	.676
	Gender Diversity	-10.630	31.047	-.481	-.342	.755
	Number of Meetings Annually	-.007	.042	-.141	-.169	.876

Source: Author (2018)

According to table 4.3.2 on regression coefficient results, most of the independent variables have a negative relationship with ROA except for the number of committees which is 0.394. this implies that an increase in the number of committees' impact positively on ROA while an increase in the size of the board. BOD independence, gender diversity and the number of meetings held annually impact negatively on the ROA of the parastatals. The levels of significant is above 0.05 or 5% which implies that the variables are highly significant. The Board size is 0.811, BOD independence is 0.876, the number of committees is 0.676, gender diversity is 0.755, and the number of meetings is 0.876.

According to the regression coefficient result from the R regenerated table, the following equation is generated

ROA=8.810-0.115BSize-6.638 BOD independence + 0.394 number of committee-10.63 gender diversity - 0.070 number of meetings annually.

Following the regression equation, if all the variables for corporate governance considered are assumed zero, ROA becomes 8.810. All the Beta value of corporate governance parameters examined have a negative impact on the ROA except the number of committees which has a positive impact.

4.3.3 Analysis of Variance

ANOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	6.720	5	1.344	.425	.811[b]
	Residual	9.492	3	3.164		
	Total	16.212	8			

Source: Author (2018)

a. Dependent Variable: ROA

b. Predictors: (Constant), Number of Meetings Annually, BSIZE, Number of Committee, BOD independence, Gender Diversity

ANOVA is a statistic that is used in determining the mean of the independent and dependent variables. Thus, ANOVA shows the relationship between the two variables. The levels of significant of 0.811 depicts a highly significant relationship with gender diversity, BOD independence, number of committees, B size, and the number of meetings held annually.

4.3.4 Model Goodness of Fit

Model Summary

Mode l	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.644[a]	.414	-.561	1.77879

Source: Author (2018)

a. Predictors: (Constant), Number of Meetings Annually, BSIZE, Number of Committee, BOD independence, Gender Diversity

the relationship between corporate governance variables and ROA was established through the regression analysis. The corporate governance parameters were Number of Meetings Annually, BSIZE, Number of Committee, BOD independence, and Gender Diversity. Table 4.3.4 shows correlation of ® of 0.644. it shows that ROA have a linear relationship with corporate governance. The R square shows that corporate governance influences 0.414 of the ROA. An adjusted R square of 00.561 indicates that Number of Meetings Annually, BSIZE, Number of Committee, BOD independence, and Gender Diversity influence 0.561 of the changes in ROA when corporate governance practices changes by one unit. The R adjusted value shows that the relationship between ROA and corporate governance is negative.

4.4 Discussions of the Research Findings

The research study intended to establish the relationship between return on assets (ROA) and the chosen corporate governance parameters such as the Number annual of Meetings, BSIZE, Number of Committees, BOD independence, and Gender Diversity. The ROA was the dependent variable while the corporate governance parameters were the independent variables. The corporate governance parameters were five.

The study found that there is a negative and a significant correlation between BSIZE, Number of Committee, BOD independence, Gender Diversity and the ROA of the parastatals except for Number of Meetings which was positive and highly significant. Assuming that all the independent variables are zero except for the number of committees, a unit increase in the number of committees would lead to 0.394 increase in the ROA of the parastatals in Kenya. Assuming other variables are zero, a unit increase in gender diversity would lead to a decrease in the ROA of parastatals by 10.63. If the same assumption holds, a unit increase in BSIZE would lead to 0.115 decreases in the ROA of parastatals. If BOD independence is increased by one unit, the ROA of parastatals decreases by 6.638. If the annual number of meetings is increased by one unit, the ROA of parastatals decreases by 0.007.

CHAPTER FIVE

SUMMARY OF FINDINGS, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

This chapter discusses the summary of findings, the conclusions drawn by the study, recommendations for policy change and suggestions for future research. The study then presents the major limitations of the study. The study sought to determine the relationship between corporate governance and financial performance of parastatals under the Ministry of Industrialization, Trade, and Comparatives in Kenya.The study analyzed the reaction of financial performance affected by the corporate governance in parastatals for 9 parastatals for the period of two years 2015 and 2016.

5.1.1 Summary

The government of Kenya initially established the parastatals to ensure the existed gap of entrepreneurs were filled hence enabled in the participating of the state to deliver service and goods to Kenyans and better and lower costs than those provided by the capitalist who are private. The main reason for creating the parastatals was to be self-sustainable, profitable and to help in contributing to the agenda of national development by ensuring that dividends were paid and provision of services .on the contrary many parastatals did not achieve their intentions by performing differently and hence became liability to the national budget by receipting their big subsidies. poor performance has majorly been exhibited through inefficiency and mismanagement, wastage of bureaucracy and generally poor corporate governance. One of the key purposes of good corporate governance is to ensure that the economic wellbeing of the state owned corporations to restore the confidence of the investors. all the process that surrounds corporate governance are used to ensure organizations motives are achieved as planned .in the study the researcher concluded that good governance is an important element for the organizations performance. To measure the financial performance the study used ROA which relates positively with the practice of good corporate governance.

5.2 Conclusion

The study is focusing on the relationship between corporate governance and the financial performance of the Kenyan parastatals. The significance of the corporate governance study includes number of committees, board structure, board size, Number of Meetings, independence, and Gender Diversity. The study shows that the BSIZE, Number of Committees, BOD independence, and Gender Diversity have a negative and a significant correlation on the return on Asset. There's was a strong positive correlation between Number of Meetings held annually and ROA leading to a good financial performance. There is no problem with board structure because none of the parastatals shows that they had same CEO occupying both positions or two positions. This is seen in the law and regulations that rules the corporate governance in Kenya. In conclusion, the study shows corporate governance practices are always and directly related to the financial performances in parastatals in Kenya. These are good predictor of the financial performance that the governance attributes which other factors as environment of the industry, leadership of quality, board innovation and the competence.

5.3 Policy Recommendations

In order to enhance an organization, good corporate governance should be practiced.to further improve the performance in the enterprise that is state owned the government must ensure that the regulatory agencies enhance every parastatal. The recommendation from the researcher was that individual with proven records of innovation; experience and the galvanizing capacity of resources are appointed to the parastatals board. The dependency resource theory determines that the board can practice requisite oversight and creates a linkage between the firm and its external environment.

Smaller boards are good for parastatals enhancement of an organizations performance showing a negative relationship between the size of the board and the firms performance as the its very fast to make decisions since no many free riders and the and member loafing will be experienced. Recommendation of the ten board members which is the standard number of board should be practiced according to the other country's corporate governance practices.

In maintaining a small and effective board, the appointee's qualifications should directly relate to the main activities of the business that the parastatals are involved than based on the politics.

5.4 Limitations of the Study

Data availability is one of the limitations that affected the study's results. Fourteen 14 parastatals were targeted apart from those which had posted their annual reports hence this was hard to get data from those organizations that dint post their annual reports online hence it took so long for the researcher to obtain the required data for the analysis, therefore this led to affecting of the time frame required to complete the study, therefore however the researcher was able to obtain data on eight 9 out of the fourteen 14 parastatals.

Secondly the selected samples were regulatory, commercial, public policy and social oriented parastatals. Many of these parastatals always rely on subsidies received from the government than generated income from the business activities. Therefore, in the study they are taken as revenue and ignoring them as debt in determination of profit or subsidies. The board of director's size quality was not considered on the study that is to be used to determine experience and competence in the parastatals oversight.

Finally, not all the results on the finding generated by the researcher are not conclusive since it focuses only on four corporate governance attributes that are required for the study. This limitation may have probably generated other findings. Data availability determined the study's element not probabilistic criterion or any statistical. Hence caution should be taken in result generalization.

5.5 Suggestions for further studies

Further studies should be conducted separately on every sector of the parastatals exclusively on profit oriented commercial parastatals, especially on the parastatals regulatory, public policy and social service-oriented parastatals to determine the impact of corporate governance on financial performance. This will enable a more comprehensive measure to be taken by the government which is aiming at enhancing productivity and efficiency.

The attributes of corporate governance which is the number of independent variables, should be increased since this study only talked about 67% of variation in the ROA in the Kenyan parastatals which are attributable to corporate governance attributes used in the study. Advised that there's need to increase the sample organizations for the study and the number of years to under study the study covers only 9 parastatals and its advised that in the future study the researcher should try and cover all the 14 parastatals belong to the ministry of industrialization, trade and Comparatives.

It will be good if more studies on corporate governance was taken on more holistic approach to performance including efficiency on operation and other indicators that are non-financial performance. The study by future researchers should focus on study of corporate governance analysis that are specific on the futures of the board of directors based on experience, qualification, appointing authority and they relates on the performance impact including the operational efficiency and other indicators that are non-financial performance.

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APPENDICES

APPENDIX I

	ROA	BSIZE	BOD independence	Number of Committee	Gender Diversity	Number of Meetings Annually
NMC	28%	14.00	0.93	4.00	0.21	
KCC	30%	12.00	0.92		0.08	
NITA	16%	11.00	0.88	4.00	0.27	90.00
EAPCC	15%	7.00	0.86	4.00	0.14	16.00
KEBS	68%	17.00	0.88	6.00	0.25	13.00
EPZA	416%	8.00	0.88	4.00	0.13	4.00
KENAS	247%	7.00	0.86	3.00	0.14	
ACA	206%	9.00	0.89	3.00	0.11	18.00
KIRDI	20%	11.00	0.91	4.00	0.18	19.00

APPENDIX 11: Parastatals under the ministry of industrialization

African Trade Insurance Agency

Anti-Counterfeiting Agency (ACA)

Brand Kenya Board

East African Portland Cement Company (EAPCC)

Export Processing Zones Authority (EPZA)

Export Promotion Council

Industrial Development Bank

Kenya Accreditation Service (KENAS)

Kenya Bureau of Standards (KEBS)

Kenya Industrial Research and Development Institute (KIRDI)

Kenya Investment Authority (KIA

Kenya National Trading Corporation

Micro and Small Enterprises Authority (MSEA)

Kenya Wine Agencies (KWAL)

Numerical Machining Complex (NMC)

Sacco Societies Regulatory Authority (SASRA)