

**CORPORATE GOVERNANCE AND ACCOUNTABILITY  
MECHANISMS AND CHALLENGES IN THE PRIVATE  
HOSPITALS IN KIAMBU COUNTY, KENYA**

**BY:**

**MUTUKU, FESTUS KIOKO**

**A RESEARCH PROJECT REPORT SUBMITTED IN PARTIAL  
FULFILLMENT OF THE REQUIREMENT FOR THE AWARD OF  
THE DEGREE OF MASTER OF BUSINESS ADMINISTRATION  
(MBA), SCHOOL OF BUSINESS, UNIVERSITY OF NAIROBI**

**NOVEMBER, 2012**

## DECLARATION

This research project is my original work and has never been submitted for a degree in any other university for examination / academic purposes.

Students Signature: \_\_\_\_\_

Date: \_\_\_\_\_

MUTUKU, FESTUS KIOKO

D61/63074/2010

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

Supervisor's Signature: \_\_\_\_\_

Date: \_\_\_\_\_

MRS MARY KINOTI

Department of Business Administration

School of Business

University of Nairobi

## **ACKNOWLEDGEMENT**

I have been enabled by the Almighty God to go through the preparation of this project research. I am thankful to Him for having given me the strength and the resources to come this far.

My sincere gratitude and appreciation to my supervisor Mrs. Mary Kinoti for her dedicated and professional advice, encouragement and unlimited patience in reading through my drafts and suggesting workable alternatives throughout the study that enabled me complete this research project.

I would also wish to extend sincere gratitude to my research moderator Dr. Zack Awino, all other lecturers, my colleagues and family for their firm support throughout my study.

## **DEDICATION**

This research project is dedicated to my valued family, friends and colleagues who have supported me and greatly inspired me in the course of my academic journey.

## **ABSTRACT**

This research paper seeks to examine the corporate governance and accountability mechanisms of board directors and composition, board meeting frequency, reporting and controls and challenges of organization structure and culture, managerial and political and legal challenges in the 18 (eighteen) private hospitals in Kiambu County.

The researcher applied a descriptive research design. The target population of this study consisted of a total of 18 top managers working at the 18 private hospitals in the Kiambu County, Kenya. The study used primary data which was obtained through an interview questionnaire which was developed based on the two objectives of the study. It had statements describing significant corporate governance and accountability mechanisms and challenges. It was administered through electronic mail and pick and drop later or picked immediately to the targeted population and followed up.

The study established that corporate governance and accountability mechanisms was applied in the private hospitals since there the board members were appointed for a fixed term of 3 years and approval from the owner's representatives, chairman of the hospital was different from the CEO of the hospital and there was a clear split of CEO and the chairman's roles in the management of the hospitals. Further the study established that the private hospitals experienced the challenges of organizational structure, culture, managerial and legal systems in the process of implementing corporate governance and accountability mechanisms.

The study recommends that full corporate governance and accountability mechanisms be implemented in all the private hospitals so as to ensure better management of hospitals in Kiambu County and the country at large, this will reduce the likelihood of earnings management thus increase transparency in the hospitals. In addition, the study recommends that the nature of the contract between owner's representative/board and managers telling the latter what to do with the funds and management of the organization should be clearly and thoroughly outlined as much as possible to reduce agency conflicts between the agents and the principles. Further the board members should be compensated commensurate to the time spent in the hospital business and their payments should be as per the compensation structures approved by the hospital board.

## **ABBREVIATIONS AND ACRONYMS**

|              |   |  |
|--------------|---|--|
| <b>CCG</b>   | - | Centre for Corporate Governance                    |
| <b>CEO</b>   | - | Chief Executive Officer                            |
| <b>ICPAK</b> | - | Institute of Certified Public Accountants of Kenya |
| <b>ISDA</b>  | - | International Swaps and Derivatives Association    |
| <b>MBA</b>   | - | Master of Business Administration                  |
| <b>NGO</b>   | - | Non-Governmental Organization                      |
| <b>TCE</b>   | - | Transaction Cost Economics                         |
| <b>UK</b>    | - | United Kingdom                                     |

## TABLE OF CONTENTS

|   | <b>Page</b> |
|---|-------------|
| Declaration .....   | i           |
| Acknowledgements.....   | ii          |
| Dedication .....  | iii         |
| Abstract .....  | iv          |
| Abreviations and Acrimonys .....                                | v           |
| List of Tables .....  | xi          |
| <b>CHAPTER ONE: INTRODUCTION .....</b>                          | <b>1</b>    |
| 1.1 Background of the study.....                                | 1           |
| 1.1.1 Corporate Governace and Accountability.....               | 2           |
| 1.1.2 Challenges of Corporate Governance and Accountabilty..... | 3           |
| 1.1.3 Health Sector in Kenya .....                              | 3           |
| 1.1.4 Private Hospitals in Kiambu County .....                  | 5           |
| 1.2 Research Problem.....                                       | 5           |
| 1.3 Research Objectives .....                                   | 7           |
| 1.4 Value of the study .....                                    | 7           |
| <b>CHAPTER TWO: LITERATURE REVIEW.....</b>                      | <b>8</b>    |
| 2.1 Introduction.....   | 8           |
| 2.2 The Concept of Corporate Governance .....                   | 8           |
| 2.3 Theories of Corporate Governace .....                       | 9           |
| 2.3.1 Agency Theory.....  | 9           |
| 2.3.2 Stakeholders Theory.....                                  | 9           |
| 2.3.3 Stewardship Theory of Management.....                     | 10          |
| 2.3.4 Transaction Cost economics .....                          | 10          |

|  |           |
|--|-----------|
| 2.4 Mechanism of Corporate Governace.....                        | 11        |
| 2.4.1 Board of Directors and Composition.....                    | 11        |
| 2.4.2 Board Meeting Frequency.....                               | 11        |
| 2.4.3 Reporting and Controls.....                                | 12        |
| 2.4.4 Audit Committee.....                                       | 12        |
| 2.5 Accountability.....  | 13        |
| 2.6 Corporate Governace and Accountability.....                  | 13        |
| 2.7 Challenges of Corporate Governace and Accountability.....    | 14        |
| 2.7.1 Organization Structure.....                                | 14        |
| 2. 7.2 Organizational Culture.....                               | 15        |
| 2. 7.3 Managerial Challenges.....                                | 15        |
| 2.7.4 Political and Legal Systems.....                           | 16        |
| <b>CHAPTER THREE: RESEARCH METHODOLOGY.....</b>                  | <b>17</b> |
| 3.1 Research Design.....   | 17        |
| 3.2 Population Design.....                                       | 17        |
| 3.4 Data Collection.....   | 17        |
| 3.5 Data Analysis.....   | 18        |
| <b>CHAPTER FOUR : DATA ANALYSIS, RESULTS AND DISCUSSION.....</b> | <b>19</b> |
| 4.1 Introduction.....  | 19        |
| 4.2 General Information.....                                     | 19        |
| 4.3 Mechanisms of Corporate Governace and Accountability.....    | 23        |
| 4.4 Challenges of Corporate Governace and Accountability.....    | 26        |
| 4.5 Discussion.....  | 29        |
| <b>CHAPTER FIVE: SUMMARY, CONCLUSION AND RECOMMENDATIONS ..</b>  | <b>31</b> |
| 5.1 Introduction.....  | 31        |
| 5.2 Summary of the Findings.....                                 | 31        |



|  |    |
|--|----|
| 5.3 Conclusion .....   | 32 |
| 5.4 Recommendations .....                                    | 33 |
| 5.5 Limitations of the Study .....                           | 34 |
| 5.6 Recommendations for Further Studies .....                | 34 |
| <b>REFERENCES</b> .....                                      | 35 |
| <b>APPENDICES</b> .....                                      | 39 |
| Appendix 1: List of Private Hospitals in Kiambu County ..... | 39 |
| Appendix 2: Introduction Letter .....                        | 40 |
| Appendix 2: Interview Questionnaire Guide .....              | 41 |

## LIST OF TABLES

|  | <b>Page</b> |
|--|-------------|
| Table 4.1 : Response Rate .....  | 19          |
| Table 4.2 : Gender of the Respondents .....  | 19          |
| Table 4.3 : Age Bracket of the Respondents .....                                   | 20          |
| Table 4.4 : Level of Education .....   | 20          |
| Table 4.5 : Years worked in the Hospital .....                                     | 21          |
| Table 4.6 : Hospital Ownership Structure and Years of Operation in Kenya .....     | 21          |
| Table 4.7 : Hospitals run by Board Members/Directors and with Sub-committees ..... | 22          |
| Table 4.8 : Size of the Board and Sub-committee Members.....                       | 22          |
| Table 4.9 : Composition of the Board in terms of Gender (Male vs. Female .....     | 23          |
| Table 4.10 : Board Directors and Composition .....                                 | 24          |
| Table 4.11 : Board Meeting Frequency .....   | 24          |
| Table 4.12 : Reporting Controls .....  | 25          |
| Table 4.13 : Audit Committees .....  | 26          |
| Table 4.14 : Organization Structure Challenges .....                               | 27          |
| Table 4.15 : Organization Culture Challenges .....                                 | 27          |
| Table 4.16 : Managerial Challenges .....   | 28          |
| Table 4.17 : Political and Legal Systems Challenges .....                          | 29          |

## **CHAPTER ONE: INTRODUCTION**

### **1.1 Background of the study**

In the last three decades, corporations in the third world countries have undertaken massive restructuring so as to realign their strategies to ever-changing business environment (ICPAK, 2012). The growing emphasis on corporate governance and its importance to the viability of an organization operating in today's global economy is the driving force to effect the necessary changes in how the business enterprises respond to the need for greater accountability and transparency in management of the organizations (Hill, 2001). The owners or funding agencies of organizations whether for profit or non-profit, private or public have found it necessary to engage in corporate governance and accountability in order to achieve their corporate goals.

The issue of corporate governance and accountability particularly in developing countries of which Kenya is no exception is not solely for government and public listed companies in stock exchange markets but also important in private institutions like the private hospitals.. Organizations that are striving to achieve good corporate governance rely on strong systems and processes to let them know where they are; how they are performing and how likely it is that their objectives will be met. They use information from internal and external audit, inspection and stakeholders and partners to provide challenge to and confirm their own systems and processes. But they also create the right internal environment, using the softer issues of openness and integrity and emphasize learning over blame and making better decisions (Audit commission – UK, 2003).

There is no doubt concerning the need for good corporate governance and accountability in all types of institutions including private hospitals in Kiambu County. The private hospitals are now putting more emphasis on good corporate governance practices and accountability since the sector has lately become highly exposed to public scrutiny. Policy makers and funding agencies in these hospitals should consider ways to encourage

governance and accountability in their hospitals despite the challenges they are facing when trying to fully govern their institutions. It is a common knowledge that, the success of the hospitals will depend largely on the participation of management in implementation of good governance practices and accountability measures. All private hospitals in Kenya are almost identical on operational and structural system process, the only difference is the board of directors and the corporate governance and accountability challenges they are facing. I believe a good governed institution is able to withstand the environmental turbulence and stand out in provision of quality services to their clients.

### **1.1.1 Corporate Governance and Accountability**

Corporate governance consists of a set of internal procedures, laws, and informal guidelines that govern how corporate officials make decisions and who bears responsibility for harms, losses, or injuries that flow from such decisions (Iksander and Chamlou 2000; Monks and Minow 2004; Thomsen 2008). The objective of this system is to ensure that corporate decisions are made with the best interests of the corporation and its stakeholders; it is supposed to lead to better corporate performance by preventing the expropriation of controlling shareholders and reduce corruption in business dealings (Sale, 2004; Holly and Marsha, 1999). Poor corporate governance is often associated with diffuse ownership, poor regulatory control, and a legal system that is not able to protect shareholder rights (Mbaabu, 2010).

Ira and Paul (1998) states that, when corporate governance is effective in an institution, it provides managers with oversight and this holds boards and managers accountable in their management. This oversight and accountability when combined with the efficient use of resources and increased responsiveness to societal needs and expectations should lead to improved corporate performance. It is worth to note that effective corporate governance and accountability may not guarantee improved performance at the individual firm level because there are other factors that may impact the firm performance.

### **1.1.2 Challenges of Corporate Governance and Accountability**

According to Renee (2010) the principal challenge for corporate governance is to create a system that holds decision makers accountable while according proper respect to their authority over the corporation. The standard accountability mechanisms are the market, shareholder voting, and civil and criminal liability. In reality, however, each of these accountability mechanisms contains flaws that allow corporate officials to sometimes exercise an unreasonable degree of discretion when making decisions. A recurring challenge is to activate Boards of Directors to take independent decisions as fiduciaries of corporations and not as rubber stamps of controlling company owners and to increase technically competent potential directors capable of making informed and objective business judgments. Further, this is caused due to lack of required skills and qualifications of corporate board members and lack of enforcement of existing regulatory measures, whether outdated or not.

Corporations do not operate in isolated environments or in vacuums, they are subject to State imposed rules and regulations as well as events and forces around them. As a result, corporate governance is affected by overall public governance. If economic and political governance at the country level is weak, the impact of that weakness almost invariably trickles down onto corporations operating within the country. It is logical therefore that corporate governance may be viewed as a compartment of broader, overall country governance (Seward, 2007). In reference to the above it is good to underline that it is not possible to establish good corporate governance in underdeveloped public governance.

### **1.1.3 Health Sector in Kenya**

The key players in Kenya's health system are the central government through ministry of health, Non-governmental Organizations (NGO), private for profit healthcare organizations and local government authorities. The government controls around 53% of all health facilities in the country, while private companies, religious organizations and the ministry of local government control the rest of health facilities (Mburu, 2007). Berman and Benson (1995) note that, the healthcare sector in Kenya has experienced a

rapid growth since independence in 1963; driven by the government's commitment to make healthcare affordable and accessible to the majority of the population through an increase of budgetary allocation to private healthcare providers who play a critical role in meeting the gap for a more and higher quality health care in the country.

The public health system consists of the following levels of health facilities: National referral hospitals are at the apex of the health care system, providing sophisticated diagnostic, therapeutic, and rehabilitative services. Provincial hospitals act as referral hospitals to their district hospitals. They also provide specialized care and oversee the implementation of health policy at the district level and control all district health activities. District hospitals concentrate on the delivery of health care services and generate their own budget requirements based on guidelines from headquarters through the provinces. Health centres generally offer preventive and curative services, mostly adapted to local needs. Dispensaries are meant to be the system's first line of contact with patients to provide wider coverage for preventive health measures, which is a primary goal of the health policy, but in some areas, health centres or even hospitals are effectively the first points of contact (Muga et al, 2004).

The public health sector is supplemented by privately owned hospitals and clinics and faith-based organization hospitals and clinics, which together provide between 30 and 40 percent of the hospital beds in Kenya, (Muga et al. 2004). Wasuna (1999) notes that unavailability of drugs supplies in public hospitals and public expectation of good health facilities as the reasons for growth of private hospitals. The growth of private hospitals is attributed more to government reforms that took place in the 1980s. During this time the government initiated a cost sharing program as part of reducing government burden while it undertook to create conducive environment for greater private sector involvement in healthcare. This created a two tier health system in which some people are served by government facilities and others by the private sector. Most of these private hospitals are operated by doctors or clinical officers and they are often assumed to be more efficient and provide a higher quality alternative than public sector providers (Mburu, 2007).

#### **1.1.4 Private Hospitals in Kiambu County**

There is no clear data that might be attributed to the Kiambu county but information from the strategic plan 2005-2010 that had been done for the former Kiambu district indicates that the district covers an area of 1,323.9 sq Km<sup>2</sup> . The district borders Nairobi City and Kajiado District to the south, Nakuru District to the west, Nyandarua District to the northwest and Thika to the east. The county is divided into 7 divisions namely Kiambaa, Limuru, Ndeiya, Githunguri, Kikuyu, Lari and Kiambu Municipality. The County has 37 locations and 112 sub-locations. The county is quite densely populated except for some semi arid areas in Kikuyu division (National Coordinating Agency for Population and Development, 2005).

From the Kenya medical directory (2010) and report from Tigoni and Kiambu district hospitals, the county has a total 18 hospitals which are privately owned and operated by individuals, NGOs and religious missions. Majority of these Hospitals are run by religious missions and NGOs totaling to ten (10) and eight (8) hospitals were run by individual practitioners. Christian Health Association of Kenya (CHAK) and the Kenya Episcopal Conference serve as national coordinators of the networks of mission hospitals in Kenya which includes Kiambu County.

#### **1.2 Research Problem**

Corporate governance has been cited in various research findings as having an effect in overall performance of the firms; it revolves around stakeholders' political power interest and influence as well as overall direction and leadership of organizations (Johnson, Schole, and Whittington, 2006). Ideally the agency principal theory indicates that good governance practices involve decision making and placing the best interest of shareholders and stakeholders (Kimei, 2011). The debate about corporate governance in developing countries of which Kenya is no exception have increased, because of its ability to promote relationships of accountability among the primary players with a view to enhancing sustainable corporate growth and holds management accountable to the board and the board accountable to shareholders.

The focus on corporate governance and accountability is particularly crucial in service sector and most of all in the private hospitals in Kenya including those in Kiambu County since this sector has lately become highly exposed to public and donor scrutiny due to the increased government budgetary allocation and donor support that is non-restrictive to private healthcare providers. This is clearly found in Kiambu county where 10 hospitals out of the 18 private hospitals in the county are funded by religious missions, NGO's and the government. In addition, the Ministry of Health has undertaken to widen access to affordable, high quality healthcare through enhanced allocation of resources to the healthcare industry. In this case policy makers and funding agencies should consider ways to encourage good corporate governance and accountability in their institutions, thus the need to establish the corporate governance and accountability challenges in private hospitals in Kiambu County to help ensure effectiveness of governance and accountability system in service delivery in the hospitals.

There have been various local studies conducted on areas covering corporate governance in several sectors; studies by Kimsop (2011); Mbaabu (2010) focused on corporate governance and performance in insurance sector. Kimeiri (2011) focused on corporate governance and performance of small scale tea processing companies in Kenya. Oketch (2011) did study on corporate governance structures and management in HIV/AIDS NGO's. Keitany (2009) did a survey study on corporate governance structures and practices in occupational retirement benefit schemes and found the boards to comprise of 6-12 members. Few studies have touched on some aspects like corporate governance challenges, Muriuki (2011) did a study on challenges of implementing Lord Cadbury's principles of corporate governance in investment banks and established that the organizations in the sector faced legal and regulatory systems challenges, culture and supervisory challenges, while Musikali (2008) reviewed corporate governance and law and noted inadequate training of directors and poor shareholder activism as some of the factors holding back development of corporate governance. In this case, the researcher is not aware of any study that has been done on corporate governance and accountability mechanisms and challenges in the private hospitals in Kiambu County, Kenya. Therefore,



this research will seek to address the following research question: what are the mechanisms and challenges of corporate governance and accountability in private hospitals in Kiambu County?

### **1.3 Research Objectives**

The objective of this study was to establish the corporate governance and accountability mechanisms and challenges in private hospitals in Kiambu County.

### **1.4 Value of the Study**

This study of corporate governance and accountability in private hospitals in Kiambu County is expected to determine the challenges of corporate governance practice and accountability in the hospitals and would benefit the following group of people/sectors:

The government would have a better understanding of the challenges that the private hospitals face in the provision of medical services and therefore come up with intervention strategies that will see the provision and expansion of medical services through attraction of more medical service providers to the county. Under the country's new decentralization strategy, counties are responsible for delivering health services and implementation of health programs. In addition, the owners of the private hospitals in Kiambu County will use the report in designing better structures that will ensure good governance practice and accountability to guarantee better provision of health and medical services in their hospitals.

To the general academia, this would go a long way in building a body of knowledge on health and medical services. Various stakeholders could use the study to facilitate further research in corporate governance and accountability in private health sector in Kenya.

## **CHAPTER TWO: LITERATURE REVIEW**

### **2.1 Introduction**

This chapter discusses the literature review of the study. The areas covered in this study are corporate governance, theoretical review, mechanisms of corporate governance, accountability and challenges of corporate governance and accountability.

### **2.2 The Concept of Corporate Governance**

Solomon & Solomon (2004) defines corporate governance is the system of checks and balances, both internal and external to companies, which ensures that companies discharge their accountability to all their stakeholders and act in a socially responsible way in all areas of their business activity. It has also been defined by Abor (2007) as the system by which companies are directed and controlled.

Since the collapse of Enron in 2001, one of America's largest companies, corporate governance has become one of the most commonly used phrases in the current global business vocabulary as indicated by Solomon and Solomon (2004). Interest in corporate governance is growing at an exponential rate and improvements in corporate governance practice are being orchestrated at a global level, while International bodies such as the Organization for Economic Development (OECD) are developing internationally acceptable standards of corporate governance. As a result of increasing interest in corporate governance matters within the practitioner community, academic research has grown rapidly in the area. At universities across the UK, new modules are springing up on corporate governance-related issues, with corporate governance becoming central to many business-related degree courses (Solomon & Solomon, 2004).

In Kenya, the Centre for Corporate Governance (CCG) an independent organization was established in March, 1999, as the Private Sector Corporate Governance Trust. The centre seeks to improve the quality of life of people in Kenya and of the people of Africa generally, by fostering adoption and adaptation, application and implementation of the

highest standards of corporate governance in all types of business enterprises that ensure that the business enterprises thrives. It does so through awareness raising, advocating for reform; initiating research, facilitating monitoring and evaluation activities; and supporting training and education programmes that build national institutional and human capacities. The values upon which CCG was founded and which guide its operations are to act in the best interest of society in promoting effective and efficient use of resources, in a manner based on accountability, integrity, responsibility and transparency.

## **2.3 Theories of Corporate Governance**

Various scholars have come up with several theories some of which are identified below:

### **2.3.1 Agency Theory**

Agency theory is the relationship where the principal entrust the work to the agent and this involves risk sharing and conflict of interest between the two, it is understood that the agent may be driven by self-interest rather than a desire to maximize the profits for the principal. The principal-agent model regards the central problem of corporate governance as self-interested managerial behavior in a universal principal-agent relationship and agency problems arise when the agent does not share the principal's objectives (Mallin, 2010).

However, this separation is linked and governed through proper "agency relationship" at various levels; "between shareholders and boards of directors between boards and senior management, between senior and subordinate levels of management" (Hayes and Abernathy, 1980). According to ISDA (2002), all companies are exposed to agency problems, and to some extent develop action plans to deal with them.

### **2.3.2 Stakeholders Theory**

The stakeholder relationship has been described as one of exchange, where the stakeholder groups supply companies with 'contributions' and expect their own interests to be satisfied via 'inducements' (March and Simon, 1958). Using this analytical framework, the general public may be viewed as corporate stakeholders because they are

taxpayers, thereby providing companies with a national infrastructure in which to operate. In exchange they expect companies to enhance, not degrade, their quality of life (Hill and Jones, 1992). A basis for stakeholder theory is that companies are so large, and their impact on society so pervasive that they should discharge accountability to many sectors of society than solely their shareholders (Solomon and Solomon, 2004).

### **2.3.3 Stewardship Theory of Management**

Davis, Schoorman and Donaldson (1997) developed the stewardship theory of management as a counter strategy to agency theory. Stewardship theory of management and agency theory have both focused on the leadership philosophies adopted by the owners of any organization and was developed as a model where senior executives act as stewards for the organization and in the best interests of the principals and it is also based upon the assumption that the manager will make decisions in the most interest of the organization, putting collectivist options above self-serving options. This type of person is motivated by doing what is right for the organization and maximizes the performance of the organization, working under the premise that both the steward and the principal benefit from a strong organization (Mallin, 2010).

### **2.3.4 Transaction Cost Economics**

According to Mallin (2010), transaction Cost Economics (TCE), as explained by the work of Williamson (1975, 1984), is often viewed as closely related to agency theory and TCE views the firm as a governance structure. As a firm becomes larger, the larger the transactions it undertakes and will expand up to the point where it becomes cheaper or more efficient for the transactions to be undertaken externally. In this case, the firms may become less efficient as they become large and all changes which improve managerial techniques will tend to increase the size of the firm (Mallin, 2010).

Hart (1995) states that there are a number of costs to writing a contract between principal and agent, which include the cost of thinking about and providing for all the different eventualities that may occur during the course of the contract, the cost of negotiating with

others, and the cost of writing the contract in an appropriate way so that it is legally enforceable.

## **2.4 Mechanism of Corporate Governance**

There are various mechanisms of corporate governance and some of these mechanisms are discussed below:

### **2.4.1 Board of Directors and Composition**

From an agency theory perspective, the presence of independent non-executive directors (NEDs) on company boards should help to reduce the notorious conflicts of interest between shareholders and company management, as they perform a monitoring function by introducing an independent voice to the boardroom. However, it needs to be borne in mind that inside directors have an essential role to play in achieving the appropriate balance between outside and inside directors on boards, which is an essential ingredient for an effective board (Solomon and Solomon, 2004)

The board size is considered to be a crucial characteristic of the board structure. Large boards could provide the diversity that would help companies to secure critical resources and reduce environmental uncertainties (Pfeffer, 1987, Perce and Zahra, 1992). But as Yermack (1996) said, coordination, communication and decision-making problems increasingly impede company performance when the number of directors increases. Liton and Lorsch (1992) recommend a number of board members to be between seven (7) and eight (8). However, board size recommendations tend to be industry specific, since Adams and Mehran (2003) indicate that bank holding companies have board size significantly larger than those of manufacturing firms.

### **2.4.2 Board Meeting Frequency**

Jensen (1993) argued that, the board meetings tend to be formal and the contents are more concerned in the daily affairs rather manager's assessment, which will increase costs. Vafeas (1999) argued that board meeting frequency and firm value have negative

correlation, which is consistent to Jensen's point. Mululu (2005) shows that boards increase the frequency of their meeting when there is poor performance and consequences of such increase the performance of firm giving support to Jensen (1993) and Vefea (1999) that the role of boards become increasingly important during crises, when shareholders' interests are in visible danger. However, the association between board meeting frequency and firm performance remains unclear and the linkage between the board activity and monitoring difficult to establish (Kimsop, 2011).

### **2.4.3 Reporting and controls**

Accounting has long been acknowledged as a necessary means of monitoring the shareholder–manager relationship according to the stewardship concept. From an historical viewpoint a widely held hypothesis stipulates that both accounting and auditing developed as a monitoring mechanism and that accounts have always been demanded by investors for decision-making purposes. Bushman and Smith (2001) described the role of accounting information in corporate governance, arguing that the use of externally reported financial accounting data in control mechanisms promotes the efficient governance of companies.

Nevertheless, we need to stress that this relates to the quality of the information disclosed, as in accounting terms it needs to be relevant and reliable. It is the board's duty to present balance and understandable assessment of the company's position. The board should ensure that an objective and professional relationship is maintained with the auditors. The directors should explain their reporting responsibilities for preparing the accounts next to a statement by the auditors (Muriuki, 2011).

### **2.4.4 Audit Committee**

According to Muriuki (2011), independent audit committees reduce the likelihood of earnings management, thus improving transparency. Audited financial reports frequently fail to include enough information to allow an analysis of the financial sustainability of an organization, including the condition of its portfolio. Hambrick and Jackson (2000),

recommends that the audit committees should annually assess its own performance, considering responsiveness to the audit committee charter, effectiveness of relationships and communication with management, internal and external auditors and the board of directors. To maintain the credibility of its financial reports, an organization must adhere to a recognized, comprehensive set of accounting standards (Monks and Minow, 2001).

## **2.5 Accountability**

Hyder et al. (2007), defines accountability is a component of governance that refers to the responsibility and ability of one group to explain their actions to another. The World Health Report (WHO) (2000) uses the concept “stewardship” to capture these functions, although it has thus been suggested that “governance” is a more comprehensive, widely recognized, and thus preferable term (Siddiqi et al. 2006). Accountability is one of the foundations of good governance and it ensures actions and decisions taken by officials of a an institution are subject to oversight so as to guarantee organizations meet their stated objectives and respond to the needs of the community they are meant to be benefiting, thereby contributing to better governance hence good performance.

However, accountability exists when there is a relationship where an individual or body, and the performance of tasks by that individual or body, are subject to another’s checks that they provide justification for their actions. Solomon and Solomon (2004), notes accountability is one area where the corporate success of the future will be measured and there is a demand for greater accountability and a growing perception that companies that are accountable to a broad range of stakeholders display better long-term performance.

## **2.6 Corporate Governance and Accountability**

In today’s world, corporate governance and accountability has assumed critical importance in the socio-economic and political systems. Good corporate governance aims at increasing efficiency of organizations and wealth creation for shareholders, increased employment opportunities and benefits to stakeholders.

Accountability is an essential ingredient for a sound system of corporate governance. The reason underlying this argument is that shareholders' interests can only be satisfied by taking account of stakeholder interests, as companies that are accountable to all of their stakeholders are over the long term more successful and more prosperous. Corporate governance therefore rests on the perception that companies can maximize value creation over the long term, by discharging their accountability to all of their stakeholders and by optimizing their system of corporate governance (Solomon and Solomon, 2004).

Kwon and Tchoe (2005) notes, work on governance and accountability has the potential to gather the actors that contribute to health systems to not only generate new knowledge, but also to generate the dialogue, self reflection and analysis that more directly uses this knowledge for policy change and offsets policy opposition. Alliance for Health Policy and Systems Research (2008) states that, research on governance and accountability not only fills knowledge gaps, but can and should build the networks of actors and processes for dialogue, shared reflection and analysis that are important for policy and practice.

## **2.7 Challenges of Corporate Governance and Accountability**

Despite the fact that challenges of corporate governance and accountability have not been widely investigated, there are some issues that have surfaced in many studies. In this case some of these challenges are discussed below:

### **2.7.1 Organization structure**

According to Solomon and Solomon (2004), a company with good corporate governance mechanisms, such as split roles or an optimal balance of executive and non-executive directors, is likely to display more effective monitoring of management. Organization ownership structure has been considered as having the strongest influence on systems of corporate governance, although many other factors affect corporate governance, including legal systems, cultural differences, and political environments. It is the ways in which the companies are financed which determines their ownership structure.



The Cadbury Report (1992) recommended that there should be a balance of power between board members such that no individual could gain ‘unfettered’ control of the decision-making process. The Report further stipulated that if the roles of chairman and CEO were not filled by two individuals, then a senior member of the board should be present who was independent. According to the academic literature, some studies have shown that splitting the role of chairman and chief executive has led to significantly higher financial performance (Peel and O’Donnell, 1995). Though, it has been suggested that such improvements may be a case of wishful thinking and that the evidence is not persuasive enough to engender splitting the roles in practice (Daily and Dalton, 1997).

### **2.7.2 Organization culture**

McCord (2002) defines organizational culture as the residue of success within an organization and it is the most difficult organizational attribute to change, outlasting founders, leadership and all other physical attributes of the organization. Cultural differences in national ideologies stand to hinder the union of corporate governance mechanisms. Where social democracies are characterized by their commitment to revolutionize public welfare, capitalistic economies on the other hand are focused towards enhancing shareholder value. Capitalistic virtues like profit maximization are considered vices in some social democracies.

Corporate cultures in the transition countries are newly emerging with states relinquishing control of business. Employees and managers who worked for the state-led corporations have emerged as the neo-owners and given the time they would need to adapt themselves to the needs of international governance practices ( Muriuki, 2011).

### **2.7.3 Managerial challenges**

Muriuki (2011) observes that, it would still be challenge for the board to effectively monitor management even if the power pattern held is reality; the central issue is the nature of the contract between shareholder representatives and managers telling the latter what to do. The challenge comes from the fact that such contracts are necessarily

“incomplete” and it is not possible for the board to fully instruct management on the desired course of action under every possible business situation to ensure that corporate power is exercised in the best interest of society and to align responsibility and authority to achieve the optimum conditions for growth and success.

According to Monks and Minow (2004), some corporations might not be motivated to disclose their financial data as per the recommended norms if their accounting data is not within the market expectation. On the other hand, if honest reporting of owner compensation and reward of executives were done, then employees might retaliate if a huge disparity in compensation structures is found, also no family-controlled or even closely-held business would be interested to disclose openly compensation related information.

#### **2.7.4 Political and Legal systems**

The challenges that confront good corporate governance and accountability practices differ from country to country. Nations that have rationalized their corporate laws in accordance with international norms still have to search for better systems given the uncertainty in global governance advancements (Monks and Minow, 2001).

In many African countries, the capacity to support the execution of good corporate governance is undermined by weak monitoring and watchdog organizations. Government ministries responsible for monitoring enterprise boards do not fulfill their role as overseers and many are weak and subject to external influence by politicians (Botha, 2001). The legal system and regulatory requirements that affect corporate governance practices in a jurisdiction should be consistent with the rule of law and enforcement authorities should have the authority, integrity, and resources to fulfill their duties in a professional manner and their rulings should be timely, transparent and fully explained (Muriuki, 2011).

## **CHAPTER THREE: RESEARCH METHODOLOGY**

### **3.1 Introduction**

This chapter covers the research design, targeted population, data collection instruments, and the data analysis.

### **3.2 Research Design**

This study proposes a descriptive survey design. A descriptive study aims at determining the what, when and how of a phenomenon to give facts of a situation from target respondents, Donald and Pamela (2003) and Boyd, Westfall and Stasch (1990) and this is the concern of this study.

### **3.3 Population Design**

The target population for this study is all the private hospitals that provide out-patient and in-patient care in Kiambu County. According to the Kenya Medical Directory (2010), there are 18 (eighteen) private hospitals in the County (appendix 1). A census study was used given that the population was 18 private hospitals in Kiambu County which was considered to be small.

### **3.4 Data Collection**

The study used of a semi-structured questionnaire (appendix 2) as the primary data collection instrument. The questionnaire was largely designed using a 5-point likert scale and was divided into three different parts that included the general information for respondents and hospital profile, part two covered the mechanisms of corporate governance, while part three established the main issues of corporate governance and accountability challenges in the private hospitals in Kiambu County.

The target respondents who were drawn from the hospitals' top senior manager specifically the Hospital administrator or the Finance manager or the Human Resource manager who were directly dealing with the day to day management of the hospitals. One

questionnaire was given to each hospital hence making a total target of 18 (eighteen) respondents. The questionnaires was administered on the basis of electronic mail and drop and pick later or picked immediately depending on the availability of the targeted respondents.

### **3.5 Data Analysis**

The researcher perused all the completed questionnaires and data obtained was edited, coded and entered in to Microsoft Excel office package for analysis. Qualitative data was analyzed using content analysis, while descriptive statistics was used to analyze the quantitative data. The analyzed data was presented using frequency tables and explanations on each graphical table were also given to assess corporate governance and accountability mechanisms and challenges in private hospitals in Kiambu County. This technique has been used successfully in previous studies carried out by Gakombe (2002) and Mburu (2007).

## CHAPTER FOUR: DATA ANALYSIS, RESULTS AND DISCUSSION

### 4.1 Introduction

This chapter presents the findings and data analysis on corporate governance and accountability mechanisms and challenges in private hospitals in Kiambu County. The study targeted 18 top managers working on the 18 private hospitals in the county, out of which 13 respondents filled and returned their questionnaire giving a response rate of 72%. This was considered sufficient for data analysis and generalization of the findings to the target population.

**Table 4.1: Response Rate**

| Number of Questionnaires administered | Number of questionnaires filled and returned | Response rate |
|---------------------------------------|--|---------------|
| 18                                    | 13   | 72%           |

Source: Research Data, 2012

### 4.2 General Information

The following section presents the general respondents information and the hospital profile as established from the analyzed respondent's questionnaires.

#### 4.2.1 Gender Distribution

The study sought to establish the gender distribution of the respondents. From the findings, 54% of the respondents were male while 46% were female as shown in table 4.2

**Table 4.2: Gender of the Respondents**

| Gender | Frequency | Percentage |
|--------|-----------|------------|
| Male   | 7         | 54%        |
| Female | 6         | 46%        |
| Total  | 13        | 100%       |

Source: Research Data, 2012

#### 4.2.2 Age Bracket

The study sought to establish the age bracket of the respondents. From the findings, there were respondents between age bracket of 51 years and above. From the table below 23% of respondents were between 20 – 30 years, 31% of the respondents were between 31 – 40 years while 46% were between 41 – 50 years.

**Table 4.3: Age Bracket of the Respondents**

| Age Bracket  | Frequency | Percentage |
|--------------|-----------|------------|
| 20 - 30      | 3         | 23%        |
| 31 - 40      | 4         | 31%        |
| 41 - 50      | 6         | 46%        |
| 51 and above | 0         | 0          |
| Total        | 13        | 100%       |

Source: Research Data, 2012

#### 4.2.3 Level of Education

The study also sought to establish the respondent's highest level of education. From the analysis, 15% of the respondents had masters degree, 54% had university degree while 31% had college diploma as shown in table 4.4 below.

**Table 4.4: Level of Education**

| Level of Education | Frequency | Percentage |
|--------------------|-----------|------------|
| Masters Degree     | 2         | 15%        |
| University Degree  | 7         | 54%        |
| College Diploma    | 4         | 31%        |
| Total              | 13        | 100%       |

Source: Research Data, 2012

#### 4.2.4 Years worked in the Hospital

The study further sought to find the years the respondents had worked in the hospital. From the findings, 61% of the respondents had worked for a period between 6 – 10 years, 31% between 11 – 15 years while 8% of the respondents had worked for a period less than 5 years.

**Table 4.5: Years worked in the Hospital**

| Years Worked      | Frequency | Percentage |
|-------------------|-----------|------------|
| Less than 5 years | 4         | 31%        |
| 6 – 10 years      | 5         | 38%        |
| 11 – 15 years     | 4         | 31%        |
| Total             | 13        | 100%       |

Source: Research Data, 2012

#### 4.2.5 Hospital Ownership Structure and years of the hospitals operation in Kenya

From the table 4.6 below, 54% of the hospitals were owned by charitable/religious institutions while 46% of the hospitals were family/ individual owned. As regards to the years of the hospitals operation in Kenya, 54% have been in operation more than 20 years, 23% between 6 – 10 years, 15% between 11 – 15 years while 8% less than 5 years.

**Table 4.6: Hospital Ownership Structure and years of operation in Kenya**

| Ownership Structure                | Frequency | Percentage |
|------------------------------------|-----------|------------|
| Charitable / Religious Institution | 7         | 54%        |
| Family / Individual owned          | 6         | 46%        |
| <b>Years of Operation in Kenya</b> |           |            |
| Less than 5 years                  | 1         | 8%         |
| 6 - 10                             | 3         | 23%        |
| 11 - 15                            | 2         | 15%        |
| 20 years and above                 | 7         | 54%        |

Source: Research Data, 2012

#### 4.2.6 Hospitals run by board members/directors and hospitals with audit committee.

The study sought to establish the number of hospitals which are run by board members / directors and hospitals which have audit committees and other sub-committees. From the findings, 69% of the hospitals are run by board members/ directors, while 23% of the hospitals had Audit committee. Further the study established that the hospitals had other sub-committees namely: Finance committee, personnel committee, medical advisory committee and the executive committee. From the analysis below, table 4.8 shows that 34% of the hospitals studied had 9 – 10 membership board, between 11 – 12 members a had 22%, 14 members had 22%, between 5 – 6 members had 11% while between 7 – 8 members had 11%. In addition the study found that the sub-committees in the hospitals were composed of 2 – 3 members in each sub-committee as shown in table 4.8 below.

**Table 4.7: Hospitals run by board members/directors and has with audit committee.**

|  | YES |     | NO |     |
|--|-----|-----|----|-----|
| Hospitals Run by Board members/Directors | 9   | 69% | 4  | 31% |
| Hospitals with Audit Committee           | 3   | 23% | 10 | 77% |

Source: Research Data, 2012

**Table 4.8: Size of the Board and sub-committees**

| Size of the Board                 | Frequency | Percentage |
|-----------------------------------|-----------|------------|
| 5 – 6 members                     | 1         | 11%        |
| 7 – 8 members                     | 1         | 11%        |
| 9 – 10 members                    | 3         | 34%        |
| 11 – 12 members                   | 2         | 22%        |
| 14 members                        | 2         | 22%        |
| <b>Size of the Sub-committees</b> |           |            |
| 2 – 3 members                     | 9         | 100%       |

Source: Research Data, 2012



#### 4.2.7 Composition of the board in terms of gender (Male vs. Female)

The study further sought to establish the composition of the board members in terms gender balance between male and female and found that majority of the hospitals studied had over one third (1/3) of the female represented in the board set up as shown in table 4.10 below.

**Table 4.9: Composition of the board in terms of gender (Male vs. Female)**

| Gender Board Composition |        |               |                   | Distribution |            |
|--------------------------|--------|---------------|-------------------|--------------|------------|
| Male                     | Female | Total Members | Female Percentage | Frequency    | Percentage |
| 10                       | 4      | 14            | 29%               | 2            | 20%        |
| 7                        | 4      | 11            | 36%               | 2            | 20%        |
| 5                        | 4      | 9             | 44%               | 3            | 30%        |
| 4                        | 3      | 7             | 43%               | 1            | 10%        |
| 3                        | 2      | 5             | 40%               | 2            | 20%        |

Source: Research Data, 2012

#### 4.3 Mechanisms of Corporate Governance and Accountability

The study sought to establish the respondents view's on the mechanisms of corporate governance and accountability at their hospitals. These mechanisms were categorized and analyzed as below.

##### 4.3.1 Board Directors and Composition

According to the findings, majority of the respondents' views were in disagreement that the board members in the hospitals be between seven (7) to eight (8) members since 78% of the respondents had indicated that their organizations had nine (9) to fourteen (14) members. Majority of the respondents agreed that the CEO/board members were appointed for a specified term/ period as indicated by a mean of 3.92 and the CEO/board members contracts did not exceed 3 years without the board's approval and majority of the board members were independent of management as indicated by a mean of 4.15 and a standard deviation of 0.80 and 0.99 respectively. Further, the study established that, the

chairman of the hospital board is a different person from the CEO/Director as indicated by a mean of 3.77 and board members are appointed through a formal process as indicated by a mean of 4.38 as shown in table 4.10 below.

**Table 4.10: Board Directors and Composition**

|  | Mean | Standard Deviation |
|--|------|--------------------|
| Board members in the hospital are between seven (7) to eight (8)                           | 2.15 | 0.38               |
| Chairman of the board a different person from the CEO/Director                             | 3.77 | 1.42               |
| Majority of board members are independent of management                                    | 4.15 | 0.99               |
| Board members/directors are appointed for a specified term /period                         | 3.92 | 1.19               |
| CEO/Directors/Board members contracts does not exceed 3years without board/owners approval | 4.15 | 0.80               |
| Board directors/members are appointed through a formal process                             | 4.38 | 0.87               |

Source: Research Data, 2012

#### 4.3.2 Board Meeting Frequency

The study also sought to establish the views of the board and sub-committee meeting frequency and found that the board met regularly and met in accordance with the hospitals policies as indicated by a mean of 4.08 and 4.23 respectively and a standard deviation of 0.76 and 0.83 in the same order as shown in table 4.10 below.

**Table 4.11: Board Meeting Frequency**

|   | Mean | Standard Deviation |
|---|------|--------------------|
| Board members conduct meeting regularly                         | 4.08 | 0.76               |
| Board sub-committees meet regularly                             | 4.08 | 0.76               |
| The board meet in accordance with the hospital's policies/rules | 4.23 | 0.83               |

Source: Research Data, 2012

### 4.3.3 Reporting and controls

The study further sought to establish the extent to which the hospitals applied the mechanism of reporting and controls. From the findings, the board members ensured that an objective and professional relationship was maintained with the auditors as indicated by mean of 4.46 and the management does explain their responsibilities for preparing the financial accounts statements/report next to a statement by auditors about reporting responsibilities as indicated by a mean of 4.08 and a standard deviation of 0.64. Further the study established that the respondents agreed that the board retained full control over the hospitals and monitored the executive management as indicated by a mean of 3.77 and a standard deviation of 1.30. However, majority of the respondents indicated that the board member's fees did not reflect the time which they committed to the hospital as supported by a mean of 2.15 and standard deviation of 1.68 as shown in table 4.11 below.

**Table 4.12: Reporting and Controls**

|  | Mean | Standard deviation |
|--|------|--------------------|
| The board members does ensure that an objective and professional relationship is maintained with the auditors  | 4.46 | 0.52               |
| The management/directors do explain their responsibilities for preparing the financial accounts statements/report next to a statement by auditors about reporting responsibilities | 4.08 | 0.64               |
| The board retain full and effective control over the hospital and monitors the executive management  | 3.77 | 1.30               |
| Board members/directors fees reflect the time which they commit to the hospital  | 2.15 | 1.68               |

Source: Research Data, 2012

### 4.3.4 Audit committees

The study sought to establish the extent of the audit committees in the hospitals and found that lack of independent audit committees increased the likelihood of earnings

management, thus reducing transparency as indicated by a mean of 4.08 and a standard deviation of 0.76 as shown in table 4.14 below. Further the study established that the auditors of the hospitals in Kiambu County adhered to a recognized, comprehensive set of accounting standards as indicated by a mean of 4.23 and a standard deviation of 0.44, though the audited financial statements failed to include enough information that allowed an analysis of the financial sustainability of the hospital as indicated by a mean of 2.54 and a standard deviation of 0.97 as shown in table 4.14 below.

**Table 4.13: Audit Committees**

|  | Mean | Standard Deviation |
|--|------|--------------------|
| Lack of audit committees increase likelihood of earnings management, thus reducing transparency                                      | 4.08 | 0.76               |
| Audited financial statements fail to include enough information to allow an analysis of the financial sustainability of the hospital | 2.54 | 0.97               |
| The audit committee does assess its own performance annually   | 2.77 | 1.59               |
| The auditors do adhere to a recognized, comprehensive set of accounting standards  | 4.23 | 0.44               |

Source: Research Data, 2012

#### **4.4. Challenges of Corporate Governance and Accountability**

The study sought to establish the extent to which the hospitals experienced challenges of corporate governance and accountability under organization structure, culture, managerial and political and legal systems.

##### **4.4.1 Organization Structure Challenges**

From the findings, it was evident that the hospitals organization structure was not a challenge since the roles of the chairman and CEO were split as indicated by a mean of 3.69 and there where clear division of chairman and CEO/Directors responsibilities which were set out in writing and agreed by the hospital board as indicated by a mean of

above 4.08. further the study established that majority of respondents were neutral on the issue of the chairman of the board being the CEO of the hospital as indicated by a mean of 3.46 and a standard deviation of 0.66 as shown in table 4.15 below.

**Table 4.14: Organization Structure Challenges**

|  | Mean | Standard Deviation |
|--|------|--------------------|
| The roles of chairman and CEO are split in the hospital  | 3.69 | 0.63               |
| The chairman of the board is also the CEO of the hospital  | 3.46 | 0.66               |
| There clear division of Chairman and CEO responsibilities and set out in writing and agreed by the board | 4.08 | 0.95               |

Source: Research Data, 2012

#### **4.4.3 Organization Culture Challenges**

The study established that cultural differences and national ideologies stand to challenge corporate governance and accountability in the hospitals as indicated by a mean of 4.07 and a standard deviation of 0.27 as shown in table 4.17 below.

**Table 4.15: Organizations Culture Challenges**

|   | Mean | Standard Deviation |
|---|------|--------------------|
| Cultural differences and national ideologies stand to challenge corporate governance principles | 4.07 | 0.27               |

Source: Research Data, 2012

#### **4.4.2 Managerial Challenges**

The study established that the hospital experienced managerial challenges where nature of the contract between owner’s representative/board and managers telling the latter what to do with the funds and management of the organization was an issue as indicated by a mean of 3.92 and a standard deviation of 0.86. In addition, honest reporting of owner compensation and reward of management, full and clear disclosure of CEO/Board

members' payments were challenges as indicated by a mean of 3.92 and 4.15 and a standard deviation of 0.49 and 0.69 in the same order as shown in table 4.16 below.

**Table 4.16: Managerial Challenges**

|   | Mean | Standard Deviation |
|---|------|--------------------|
| The nature of the contract between owners representative and managers telling the latter what to do with the funds and management of the organization is an issue and stand to challenge corporate governance | 3.92 | 0.86               |
| Honest reporting of owner compensation and reward of management is an issue because employees might retaliate if there is a huge disparity in compensation structures   | 3.92 | 0.49               |
| Full and clear disclosure of CEO/Directors/Board member payments  | 4.15 | 0.69               |

Source: Research Data, 2012

#### **4.4.4 Political and Legal Systems Challenges**

The study established that political and legal systems was a challenge to corporate governance accountability in the hospitals since the capacity to support the execution of good corporate governance was undermined by weak monitoring and watchdog organizations as indicated by a mean of 4.31 and a standard deviation of 0.51. Further the study established that the hospitals had a little extent challenge from Government ministries responsible for monitoring institution as indicated by a mean of 2.77 and a standard deviation of 1.36 as shown in table 4.18 below.

**Table 4.17: Political and Legal Systems Challenges**

|   | Mean | Standard Deviation |
|---|------|--------------------|
| Capacity to support the execution of good corporate governance is undermined by weak monitoring and watchdog organizations    | 4.31 | 0.48               |
| Government ministries responsible for monitoring institution boards are weak and subject to external influence by politicians | 2.77 | 1.36               |

Source: Research Data, 2012

#### **4.5 Discussion**

The objective of this study was to establish the corporate governance and accountability mechanisms and challenges in private hospitals in Kiambu County. The study established that most of the hospital board size was between nine (9) to fourteen (14) members which was in disagreement with Liton and Lorsch (1992) recommendation that, the board members to be between seven (7) and eight (8). Further, the board members ensured that an objective and professional relationship was maintained with the auditors and the management does explain their responsibilities for preparing the financial accounts statements/report next to a statement by the auditors and the board retained full control over the hospitals and monitored the executive management. This was in agreement with Muriuki (2011) that, he board should ensure that an objective and professional relationship is maintained with the auditors and they should explain their reporting responsibilities for preparing the accounts next to a statement by the auditors.

The study established that independent audit committees reduce the likelihood of earnings management, thus improving transparency and audited financial reports frequently fail to include enough information to allow an analysis of the financial sustainability of an organization, including the condition of its portfolio as supported by Muriuki (2011). The study further established that the auditors of the hospitals in Kiambu County adhered to a recognized, comprehensive set of accounting standards so as to maintain the credibility of its financial reports.

According to the study, it was evident that the hospitals organization structure was not a challenge since the roles of the chairman and CEO were split and there where clear division of chairman and CEO/Directors responsibilities which were set out in writing and agreed by the hospital board which supports Solomon and Solomon (2004) that, a company with good corporate governance mechanisms, such as split roles or an optimal balance of executive and non-executive directors, is likely to display more effective monitoring of management.

The study established that the hospital experienced managerial challenges where nature of the contract between owner's representative/board and managers telling the latter what to do with the funds and management of the organization was an issue and honest reporting of owner compensation and reward of management, full and clear disclosure of CEO/Board members' payments were challenges as observed by Muriuki (2011) that, it would still be a challenge for the board to effectively monitor management and the central issue is the nature of the contract between shareholder representatives and managers telling the latter what to do.

The study established that political and legal systems was a challenge to corporate governance accountability in the hospitals since the capacity to support the execution of good corporate governance was undermined by weak monitoring and watchdog organizations. The findings concurred with Botha (2001) that, in many African countries, the capacity to support the execution of good corporate governance is undermined by weak monitoring and watchdog organizations.



## **CHAPTER FIVE: SUMMARY, CONCLUSION AND RECOMMENDATIONS**

### **5.1 Introduction**

This chapter presents the summary of findings, conclusion drawn from the findings and recommendations made. The conclusions and recommendations drawn focus on the objective of the study.

### **5.2 Summary of the Findings**

The study targeted a total of 18 top managers who directly deal with the day to day management at the 18 private hospitals in Kiambu County and the response rate was 72%. The aim of the research was to establish corporate governance and accountability mechanisms and challenges in Kiambu County. The discussions and presentations were guided by the objectives of the study which were stated as: To establish the corporate governance and accountability mechanisms and challenges in private hospitals in Kiambu County, Kenya.

The findings of the study indicated that respondents were in disagreement that the board members in the hospitals are between seven (7) to eight (8) members. Majority of the respondents indicated that their organizations had nine (9) to fourteen (14) members and agreed that the CEO/board members were appointed for a specified term/ period through a formal process and the CEO/board members contracts did not exceed 3 years without the board's approval. Further, the study established that, the chairman of the hospital board was a different person from the CEO/Director and majority of the board members were independent of the management.

The study also sought to establish the views of the board and sub-committee meeting frequency and found that the board met regularly and met in accordance with the hospitals policies and rules. The board members ensured that an objective and professional relationship was maintained with the auditors, retained full control over the hospitals and monitored the executive management. Further the study established that the

auditors of the hospitals in Kiambu County adhered to a recognized, comprehensive set of accounting standards, though the audited financial statements failed to include enough information to allow an analysis of the financial sustainability of the hospital. In addition, majority of the respondents disagreed that the board members fees reflected the time which they commit to the hospital

From the findings, it was evident that the hospitals organization structure was not a challenge since the roles of the chairman and CEO were split and there where clear division of chairman and CEO/Directors responsibilities which were set out in writing and agreed upon by the hospital board. The study established that the hospital experienced managerial challenges where it was an issue to the nature of the contract between owner's representative/board and managers telling the latter what to do with the funds and management of the organization. However, honest reporting of owner compensation and reward of management, full and clear disclosure of CEO/Board members' payments was not a great challenge in the private hospitals in the county. In addition, the study established that political and legal systems influenced corporate governance accountability in the hospitals where the capacity to support the execution of good corporate governance was undermined by weak monitoring and watchdog organizations and Government ministries responsible for monitoring institution boards had a little extent challenge to the private hospitals in Kiambu county.

### **5.3 Conclusion**

From the findings the study concludes that good corporate governance and accountability mechanisms aims at performing the main function of separating the firms principals and agents and outlining the role of each individual to ensure good working relationship between the owners and their managers. The mechanisms of corporate governance and accountability were applied in the private hospitals studied. This was supported by the split of roles between the boards chairman and the CEO and their responsibilities were clearly set out on writing and agreed by the board. In addition the board members of the hospitals met regularly, retained full and effective control over the hospitals and

monitored the hospital management. They did so through employment of independent auditors who audited the financial reports and gave their opinion on the reports and operations of the management team. There is no doubt concerning the need for good corporate governance and accountability in all types of institutions including private hospitals in Kiambu County. The private hospitals are now putting more emphasis on good corporate governance practices and accountability since the sector has lately become highly exposed to public scrutiny.

Despite there being the mechanisms of corporate governance and accountability, the private hospitals experienced managerial challenges due to the nature of contract between the owners representatives and the hospital managers telling the latter what to do with management of the hospitals. In addition, political and legal systems was a challenge to corporate governance and accountability where the capacity to support the execution of good corporate governance was undermined by weak monitoring and watchdog organizations and Government ministries responsible for monitoring institution boards are weak and subject to external influence by politicians.

#### **5.4 Recommendations**

The study found that corporate governance and accountability mechanisms ensure that an objective and professional relationship is maintained among all stakeholders. The private hospitals have made progress in ensuring that corporate governance mechanisms are applied in the hospitals and based on this, the study recommends that full corporate governance and accountability mechanisms be implemented in all the private hospitals so as to ensure better management of hospitals in Kiambu county and the country at large, this will reduce the likelihood of earnings management thus increase transparency in the hospitals.

The study further recommends that the nature of the contract between owner's representative/board and managers telling the latter what to do with the funds and management of the organization should be clearly and thoroughly outlined as much as

possible to reduce agency conflicts between the agents and the principles. Further the board members should be compensated commensurate to the time spent in the hospital business and their payments should be as per the compensation structures approved by the hospital board.

### **5.5 Limitations of the Study**

The main limitations of this study were: some interviewees were reluctant to safe time for the interviews following their busy schedules in their office. To limit the effects of this limitation, the researcher made frequent calls to remind the supposed respondents of the filling of the questionnaire. The study was also limited in terms of resources, the resource available to go to the field and ascertain whether information being provided was the reality of whatever happens in real sense was limited. This forced the researcher to wholesomely rely on the information provided by the respondents in the questionnaire.

### **5.6 Recommendations for Further Studies**

This study focused on corporate governance and accountability mechanisms and challenges in private hospitals in Kiambu County, Kenya. The study suggest that another study be carried out to establish the mechanisms and challenges of corporate governance and accountability covering the health sector in general in Kenya.

## REFERENCES

- Abor, J. (2007). Corporate Governance and Financing Decisions of Ghanaian Listed Firms: *International Journal of Business in Society* Vol. 22 No.1, pp. 83-92
- Alliance for Health Policy and Systems Research (2008). Neglected health systems research. *Governance and Accountability*
- Audit Commission–UK (2003), corporate governance. [www.audit-commission.gov.uk](http://www.audit-commission.gov.uk)
- Berman & Benson (1995). Kenya Non - Governmental Healthcare Provision. Data for Decision – Making Project, Harvard School of Public Health.
- Boyd W. H., Westfall, R., Stasch F. S. (1990). *Marketing Research - Text and Cases*, Laxman, Chand Arya - Delhi.
- Centre for corporate governance (2004). Study on reporting and Disclosure on corporate in Kenya, [www.corporategovernance.com](http://www.corporategovernance.com)
- Davis, J., Schoorman, F., & Donaldson, L. (1997). Toward a stewardship theory of Management. *Academy of Management review*, 22, 1, 20-47
- Donald R.C., Pamela S. S (2003). *Business Research Methods* 8<sup>th</sup> Edition, Tata McGraw Hill/Irwin – New Delhi
- Gakombe, K. (2002). Analysis of the Industry forces and strategic choices adopted by private hospitals in Nairobi. Unpublished MBA project, University of Nairobi
- Hill, J. (2001). Corporate Governance: Some theory and Implications, *the Economic Journal*, Vol. 105 No. 430, pp.678-98
- Holly J. G & Marsha E. Simms (1999), Corporate Governance, “ What it is and Why it matters” , 9th International Anti-Corruption Conference , 10-15 October 1999, Durban, South Africa
- Hyder, A., Bloom, G., Leach, M., Shamsuzzoha, S., Peters, D. Futures Health Systems: Innovations for Equity (2007) Exploring health systems research and its influence on policy in low income countries *BMC Public Health* 7:309 31 October 2007

- IEA/SID (2001). Kenya at the crossroads: Scenarios for our future. Institute of Economic Affairs, Nairobi and Society for International Development, Rome, Italy
- Iksander, Magdi R., & Nadereh Chamlou. (2000). Corporate Governance: A framework for implementation. Washington, DC: World Bank.
- International Swaps and Derivatives Association (ISDA) (2002). 17<sup>th</sup> Annual General Meeting, Berlin, April”.
- Institute of Certified Public Accountants of Kenya (ICPAK) (2012). The Inaugural Corporate Governance Conference, March 2012, Nairobi, Kenya.
- Ira M. Millstein & Paul W. MacAvoy, (1998) “The Active Board of Directors and Performance of the Large Publicly Traded Corporation,” 98 Columbia Law Review 1283, 1291-1299
- John G Scholes, K & Whittington, R (2006). Exploring corporate strategy. 7<sup>th</sup> Edition, London: Prentice Hall
- Jones, Renee M., (2010) "Corporate Governance and Accountability". Boston College Law School Faculty Papers. Paper 311. <http://lawdigitalcommons.bc.edu/lspf/311>
- Jensen M. (1993). Presidential Address. The Modern Industrial Revolution, Exist and the failure of Internal Control Systems. Journal of Finance, 48(3): 831-880
- Kimei R. Kipkoech, (2011). Corporate governance practices and performance of small scale tea processing companies in Kenya. A research Project presented at the University of Nairobi. Unpublished
- Kimsop K., (2011). The relationship between corporate governance and financial performance of insurance companies in Kenya. A research Project presented at the University of Nairobi. Unpublished

- Kwon, H., Tchoe, B. (2005). The political economy of national health insurance in Korea. The commercialization of healthcare: global and local dynamics and policy responses. Basingstoke: Palgrave Macmillan
- Lipton, m. and Lorsch, J. (1992), A Modest Proposal for improved Corporate Governance. Business lawyer, 48, pp. 59-77
- Mallin C.A (2010). Corporate Governance. 3<sup>rd</sup> Ed. New York: Oxford University press
- Mbaabu M. L, (2010). The relationship between corporate governance, ownership structure and financial performance of insurance companies in Kenya. A research Project presented at the University of Nairobi. Unpublished
- Mburu, V. (2007) Competitive Strategies Adopted by Private Hospitals in Mombasa Unpublished MBA Research Project School of Business, University of Nairobi
- McCord, C. (2002). The Assessment: Corporate Governance and Corporate control, Oxford Review of Economics Policy, Vol. 8 No. 3
- Oketch N. A, (2011).Corporate governance structures and the performance of HIV/AIDS Non-governmental organizations in Nairobi, Kenya. A research Project presented at the University of Nairobi. Unpublished
- Monks, Robert A. G, and Nell Minow. (2004). Corporate governance. Blackwell Business, Cambridge, MA.
- Muga R., Kizito P, Mbayah M, Gakuruh, T. (2004). Overview of the Health System in Kenya, 2004 Kenya Service Provision Assessment (KSPA 2004) survey
- Mululu A. K. (2005). The relationship between board activity and firm performance of firms quoted at the NSE. Unpublished MBA project, University of Nairobi
- Muriuki M. W, (2011).Challenges of Implementing Lord Cadbury's Principles of Corporate Governance in Investment Banks in Kenya. A research Project presented at the University of Nairobi. Unpublished

- National Coordinating Agency for Population and Development, Kiambu District Strategic Plan - 2005 – 2010.
- Parker, L. D. (2007), Financial and External Reporting Research: the Broadening Corporate Governance Challenge, *Accounting & Business Research*, Vol. 37 No.1, pp.39-54
- Pfeffer, J. (1981). *Power in organizations*, Marshfield, MA: Pitman.
- Solomon, J., Solomon, A. (2004). *Corporate Governance and Accountability*, John Wiley & Sons Ltd, New York, NY
- Sale, Hillary A. (2004). Delaware's good faith. *Cornell Law Review* 89 (2): 456–497.
- Seward M. Cooper, Esq., (2007). *Corporate Governance in Developing Countries: Shortcomings, Challenges & Impact on credit*
- Siddiqi, S., Masud, T., Nishtar, S., Sabri, B. (2006) Framework for assessing health governance in developing countries: Gateway to good governance Health Systems Metric Technical meeting, September 28-29 2006, Montreux-Glion, Switzerland
- Thomsen, Steen, (2008). *An Introduction to Corporate Governance*. Copenhagen: DJOF Publishers.
- Vafeas N. (1999). Board Meeting Frequency and Firm's performance, *Journal of Financial Economics*, 53, 113-142
- Wasunna O. (1999), *Healthcare financing and delivery, Strategic policies for 21<sup>st</sup> century*, Institute of Policy Research and Analysis
- World Health Organization (WHO) (2004). "Perspectives and Practice in Antiretroviral Treatment: Mission for Essential Drugs and Supplies, Kenya; Case Study." Geneva, Switzerland: WHO.
- Yermack, D. (1996). Higher market valuation of companies with a small board of directors. *Journal of financial Economics*, 40, pp. 185-21



## APPENDIX 1 – LIST OF PRIVATE HOSPITALS IN KIAMBU COUNTY

|    | Hospital  | Location  |
|----|---|-----------|
| 1  | A.I.C Kijabe Medical Centre                     | Limuru    |
| 2  | P.C.E.A Hospital Kikuyu                         | Kikuyu    |
| 3  | P.C.E.A Kikuyu Orthopedic Rehabilitation Centre | Kikuyu    |
| 4  | AIC -Cure International Children's Hospital     | Limuru    |
| 5  | Donyo Sabuk Maternity & Nursing Home            | Thika     |
| 6  | Immaculate Heart Of Mary Hospital               | Thika     |
| 7  | Kalimoni Mission Hospital                       | Thika     |
| 8  | Mary Help Of The Sick Mission Hospital          | Thika     |
| 9  | St. Matias Mulumba Hospital                     | Thika     |
| 10 | Nazareth Mission Hospital                       | Limuru    |
| 11 | Naindu Hospital                                 | Thika     |
| 12 | St. Teresa Hospital                             | Kikuyu    |
| 13 | Limuru Nursing Home                             | Limuru    |
| 14 | Immaculate Heart Hospital                       | Lari      |
| 15 | Mercy Light Hospital                            | Githuguri |
| 16 | Central Memorial Hospital                       | Thika     |
| 17 | Thika Nursing Hospital                          | Thika     |
| 18 | Beta Care Hospital                              | Kiambu    |

Source: Kenya Medical Directory – 2010

## APPENDIX 2 – INTRODUCTION LETTER

UNIVERSITY OF NAIROBI  
SCHOOL OF BUSINESS  
DEPARTMENT OF BUSINESS ADMINISTRATION  
**NAIROBI**

2<sup>nd</sup> October 2012

Dear Respondent,

**Re: Collection of Survey Data**

I am a postgraduate student at the University of Nairobi pursuing an MBA degree. In order to fulfill the degree requirements, I am undertaking a research project titled: Corporate Governance and Accountability Mechanisms and Challenges in the Private Hospitals in Kiambu County, Kenya.

Your organization has been selected to form part of this study. This is to kindly request you to assist me collect the data by honestly filling out the accompanying questionnaire. The information collected will be used strictly for academic purposes and will be treated with utmost confidentiality. At no time will you or your organization's name appear in my report.

Your cooperation will be highly appreciated and your feedback will assist the researcher come up with useful information on the study.

Kind regards,

Mutuku, Festus Kioko

**Student**

### APPENDIX 3: INTERVIEW QUESTIONNAIRE GUIDE

This questionnaire is designed to collect views on the corporate governance and accountability mechanisms and challenges in the private hospitals in Kiambu County. The information collected will be used strictly for academic purposes and will be treated with utmost confidentiality. Your feedback will assist the researcher come up with useful information on the study.

#### Part One: General Information

##### Respondent Profile

- 1) Please tick your gender: Male  Female
- 2) Please tick your age bracket: 20-30  31-40  41-50  51 and above
- 3) Please tick your highest level of education?
  - a) Secondary
  - b) College diploma
  - c) University degree
  - d) Masters degree
  - e) others (please state) \_\_\_\_\_
- 4) Please tick the number of years you have worked in this hospital?
  - a) 0-5 years
  - b) 6 -10
  - c) 11 – 15
  - d) 16 – 20
  - e) 20 years and above

##### Hospital Profile

- 5) Name of your Hospital (Optional) \_\_\_\_\_
- 6) What is the ownership structure of your hospital? (Please tick applicable):
  - a) Charitable/Religious institution
  - b) Family business
  - c) Individual/Private Limited
  - d) other (please specify) \_\_\_\_\_
- 7) Please tick the years of the hospital's operation in Kenya.
  - a) 0-5 years
  - b) 6 -10
  - c) 11 – 15
  - d) 16 – 20
  - e) 20 years & above
- 8) Please tick the number of employees in your hospital.
  - a) Less than 100
  - b) 101 - 150
  - c) 151 – 200
  - d) 201 - 250
  - e) 251 - 300
  - f) Over 300

- 9) Is your hospital run by board members/directors: Yes [ ] No [ ]
- 10) If yes, what is the size of the board:  
 a) 5-6 members [ ] b) 7-8 members [ ] c) 9-10 members [ ]  
 d) 11-12 members [ ] e) any other \_\_\_\_\_
- 11) What is the composition of the board in terms of gender (male vs. female)? \_\_\_\_\_
- 12) If no, who runs the hospital? \_\_\_\_\_
- 13) Do you have an Audit committee: Yes [ ] No [ ]
- 14) What is the size of the Audit committee (Please tick the applicable):  
 a) 2-3 members [ ] b) 4-5 members [ ] c) any other \_\_\_\_\_
- 15) Do you have any other board sub-committees: Yes [ ] No [ ]
- 16) If yes, please indicate them: \_\_\_\_\_  
 \_\_\_\_\_
- 17) What is the size of the board sub-committees (Please tick the applicable):  
 a) 2-3 members [ ] b) 4-5 members [ ] c) any other \_\_\_\_\_

**Part Two: Mechanisms of Corporate Governance**

18) Do you agree with the following statements that relate to corporate governance mechanisms and accountability in your hospital? Use scale of 5-1, where 5 = Strongly agree; 4 = Agree; 3 = Neutral; 2 = Disagree; 1 = Strongly disagree: (Please tick in the appropriate column)

|   | 5              | 4     | 3       | 2        | 1                 |
|---|----------------|-------|---------|----------|-------------------|
| <b>Board Directors and Composition</b>                                | Strongly agree | Agree | Neutral | Disagree | Strongly disagree |
| Board members in the hospital are between seven (7) to eight (8)      |                |       |         |          |                   |
| Chairman of the board should a different person from the CEO/Director |                |       |         |          |                   |
| Majority of board members are independent of management               |                |       |         |          |                   |

|  |   |   |   |   |   |
|--|---|---|---|---|---|
| Board members/directors are appointed for a specified term /period   |   |   |   |   |   |
| CEO/Directors/Board members contracts does not exceed 3years without board/owners approval   |   |   |   |   |   |
| Board directors/members are appointed through a formal process   |   |   |   |   |   |
| <b>Board Meeting Frequency</b>   | 5 | 4 | 3 | 2 | 1 |
| Board members conduct meeting regularly  |   |   |   |   |   |
| Board sub-committees meet regularly  |   |   |   |   |   |
| The board meet in accordance with the hospital's policies/rules  |   |   |   |   |   |
| <b>Reporting and controls</b>  | 5 | 4 | 3 | 2 | 1 |
| The board members does ensure that an objective and professional relationship is maintained with the auditors  |   |   |   |   |   |
| The management/directors do explain their responsibilities for preparing the financial accounts statements/report next to a statement by auditors about reporting responsibilities |   |   |   |   |   |
| The board retain full and effective control over the hospital and monitors the executive management  |   |   |   |   |   |
| Board members/directors fees reflect the time which they commit to the hospital  |   |   |   |   |   |
| <b>Audit committees</b>  | 5 | 4 | 3 | 2 | 1 |
| Lack of audit committees increase likelihood of earnings management, thus reducing transparency  |   |   |   |   |   |
| Audited financial statements fail to include enough information to allow an analysis of the financial sustainability of the hospital   |   |   |   |   |   |
| The audit committee does assess its own performance annually   |   |   |   |   |   |
| The auditors do adhere to a recognized, comprehensive set of accounting standards  |   |   |   |   |   |

**Part Three: Challenges of Corporate Governance and Accountability**

19) To what extent does your hospital experience the following challenges of corporate governance and accountability? Use a scale of 5-1 where 5 = Very great extent; 4 = Great extent; 3 = Moderate extent; 2 = Little extent and 1 = Not at all: (Tick in the appropriate column)

|   | 5                 | 4            | 3               | 2             | 1          |
|---|-------------------|--------------|-----------------|---------------|------------|
|   | Very great extent | Great extent | Moderate extent | Little extent | Not at all |
| <b>Organization Structure</b>   |                   |              |                 |               |            |
| When the roles of chairman and CEO are not split in the hospital  |                   |              |                 |               |            |
| When chairman of the board is also the CEO of the hospital  |                   |              |                 |               |            |
| When division of Chairman and CEO responsibilities are not clear and set out in writing and agreed by the board   |                   |              |                 |               |            |
| <b>Managerial Challenges</b>  | 5                 | 4            | 3               | 2             | 1          |
| The nature of the contract between owners representative and managers telling the latter what to do with the funds and management of the organization is an issue and stand to challenge corporate governance |                   |              |                 |               |            |
| Honest reporting of owner compensation and reward of executives is an issue because employees might retaliate if there is a huge disparity in compensation structures   |                   |              |                 |               |            |
| Full and clear disclosure of CEO/Directors/Board member payments  |                   |              |                 |               |            |
| <b>Organizations Culture</b>  | 5                 | 4            | 3               | 2             | 1          |
| Cultural differences and national ideologies stand to challenge corporate governance principles   |                   |              |                 |               |            |
| <b>Political and Legal Systems</b>  | 5                 | 4            | 3               | 2             | 1          |

|   |  |  |  |  |  |
|---|--|--|--|--|--|
| Capacity to support the execution of good corporate governance is undermined by weak monitoring and watchdog organizations    |  |  |  |  |  |
| Government ministries responsible for monitoring institution boards are weak and subject to external influence by politicians |  |  |  |  |  |

20) Please share any other information on corporate governance and accountability mechanisms and challenges that you may have about the private hospital in Kiambu County.

---



---



---



---

Thank you for taking time to complete this questionnaire