

**CORPORATE GOVERNANCE PRACTICES AND PERFORMANCE OF  
FAITH BASED HEALTH FACILITIES IN NYANZA REGION**

**ODHIAMBO CORNEL OTIENO**

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THE  
REQUIREMENTS FOR THE DEGREE OF MASTER OF BUSINESS  
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## **DECLARATION**

This research project is my original work and has not been presented to any other institution or University

Sign\_\_\_\_\_ Date\_\_\_\_\_

**ODHIAMBO CORNEL OTIENO**

**D61/9804/2018**

This research project has been submitted for examination with our approval as the university supervisor.

Sign\_\_\_\_\_ Date\_\_\_\_\_

**DR. LUTHER OTIENO,**

Lecturer,

Department of Finance and Accounting

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## **DEDICATION**

I dedicate this work to my family for every support they have accorded me. Exceptional dedication goes to Dr. Patrick Sawa for both moral and financial assistance during my academic journey. To my employer, thank you so much for giving me ample time during my research work. To my colleagues and friends thank you so much for being my pace setters in this crucial process, actually, your words of encouragements helped me so much.

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## **ABBREVIATIONS AND ACRONYMS**

- CG:** Corporate Governance
- FBO:** Faith Based Organization
- OECD:** Organization for Economic Development
- WHO:** World Health Organization

## ABSTRACT

The study sought to find out the relationship between corporate governance practices and performance of faith based health facilities in Nyanza region. The goal of the study was guided by the following corporate governance practices; board composition, size of the board, board sub-committees, CEO duality and the frequency boards meetings. The study employed a cross-sectional survey design to establish the relationship. The study found out that 93.5% of the faith based health facilities in the Nyanza region had sub-committees, 67.7% of the facilities had a board size of 7-8 while 74.2% of the facilities had quarterly board meetings. The study adopted Balance scorecard developed by Kaplan and Norton to measure organizational performance. The study found out financial perspective of performance had high correlations with corporate governance practices ( $R=0.621$ ) with 38% of financial performance influenced by the corporate governance practices. Internal business processes perspectives also had high correlations with corporate governance practices however both the customers perspectives and innovation, learning and growth perspectives had low correlations with corporate governance practices. The study therefore concluded that the corporate governance practices affected performance of faith based health facilities although at a varied degree. The regression analysis showed that there was a positive influence of corporate governance practice on the performance of the faith based health facilities in Nyanza region. Thus the practice of good corporate governance enhance performance of faith based health facilities. The study recommended that the secretariats of the faith based health facilities should establish a clear policies on the terms of engagement of the directors, CEO and performance appraisal of the board to check on their effectiveness. The board should also be given inductions and continuous professional trainings to equip them with new techniques. The study suggested that another study be conducted to ascertain the interconnection between the corporate governance practices and performance of health sector in Kenya.

# CHAPTER ONE: INTRODUCTION

## 1.1 Background of the Study

Corporate governance is a significant factor in responding to the present-day challenges because of the unpredictable and complex business environment. The increasing emphasis on corporate governance and the major role it plays in determining the viability of organizations in the global economy is the driving force to effect the necessary changes to ensure greater accountability and transparency in management of the organizations (Hill, 2001). Corporate governance is how companies are best managed for the benefit of their stakeholders (Edwards & Clough 2005). Most corporations' failures in the world can be attributed to the laxity in implementing the internal control systems, greed, mediocre or absence of board supervision. Organizations gain from effective corporate systems in form of easy financial access, cheaper cost of capital for investment, improved financial status, and enhanced satisfaction of stakeholders (Claessens and Fan 2002).

This study was anchored on the agency and resource dependency theories. Agency theory manifests itself in the principal-agent relationship. The principals delegate the running of the organization to the agents with an aim of maximizing their wealth but, the managers are also entrusted with decision making thereby increasing their influence and power to an extent that they may ignore the interests of the shareholders (Machuki and Oketch, 2013). The agent becomes selfish and acts contrary to the principal's interest and otherwise serve his/her own interests. On contrary, the theory of resource dependency centre of interest is the roles that board of governance undertake to ensure supply of necessary resources to an entity via linkages to the macro-environment ( Hillman, Canella and Paetzold 2000),

Governance has been identified as one of the Faith Based Health facilities' major challenges (Governance Policy for CHAK dispensaries and health centre, 2018). Faith Based Health facilities have unique challenges and opportunities notwithstanding their size or years they have been in operation. The complexities experienced in this sector can be attributed to capital structure in place, IT systems and applications, life-dependent processes, health insurance interfaces, and additional regulations by the government and other relevant authorities. Nevertheless, there is absolutely no reason whatsoever not to practice good corporate governance. This is due to a lot of public scrutiny that the health care sector have been subjected to by both the local governmental authorities and the international health bodies such as World Health Organization (WHO). The need to strengthen corporate governance practices in health facilities in Kenya have been further accelerated by government through the Health Sector Services Fund Regulations 2007, which was published in the Kenya Gazette Supplement No. 123 as a Legal Notice No. 401. Thus, for any business to be successful in attaining improved performance in the current complex and dynamic business environment, it should accept desired corporate governance principles as stated in the codes for instance, the Cadbury code practiced mostly in the United Kingdom (Edwards & Cough 2005).

### **1.1.1 Corporate Governance Practices**

Edwards & Clough (2005), the Cadbury Committee of United Kingdom described corporate governance as the structure through which managerial functions of directing and controlling the activities of companies are exercised in the benefit of the stockholders and other stakeholders. It is thus a body of rules that guide the relationship among the stakeholders of the organization especially the management and the owners (Ching et al 2006). Corporate governance takes into account

relationship that exist between the corporation's internal governance mechanisms and belief of the society about the extent of accountability expected from corporate (Ayogo, 2005). This study adopted the interpretation given by Park and Shin that corporate governance is a system of the processes, structures, and cultures that give rise to prosperous operation of entities.

The corporate governance principles include independence, openness and transparency, accountability, integrity, responsibility and effectiveness (OECD, 2004). Good Corporate governance practices demands for a functional board that is fully in charge of the success and survival of the organization it leads. Haspeslagh (2010), proposed that the board's key roles and responsibilities are: give direction and accept strategy, play an oversight role on the firm's performance and risk management, ensure that appropriate management team is in place to drive the affairs of the business and at the same time reward their efforts. OECD (2004) elaborates corporate governance as practice that enable company to set her objectives, provides means of achieving them, and ensuring that they are continuously monitored to ascertain the performance. Business values are built through proper implementation of corporate governance principles an effective internal control and clear business processes and structures (Bhagat and Black, 2002).

Good corporate governance can be applied by all forms of organizations (Machuki and Oketch, 2013). It's however worth noting that application of corporate governance practices differs among several organizations, and thus the viability of governance regulation that is flexible in nature incorporating the uniqueness of the situation at hand (Onyango, 2009). This can be illustrated by the fact that while Sanda et al (2005) and Abor (2007) proposed that an explicit separation of responsibilities between running the affairs of the board and management of the organization by executives

improve organizational performance, Dahya, Lonie and Power (1996) claim that board effectiveness is enhance on duality of role.

### **1.1.2 Performance of Faith Based Health Facilities**

Performance refers to accomplishments of organizations(Euske, 1984). The classical approach to performance measurement of an organization is a complex interrelation between six performance criteria: efficiency, effectiveness, quality, productivity, innovation and profitability (Rolstades, 1998). Claessens (2004), proposed that performance may also be determined by the outcomes of all organization's operations and processes. Thus, the ultimate effectiveness can only be obtained through the behavior of the organization's members (Steers, 1997).

Organizational performance is made up of the actual output or outcome of an organization whereby they quantify the efficiency and effectiveness of their actions, decisions and operations as gauged against its expected goals and objectives as stipulated in the strategic plans (Neely, Platts & Gregory, 2005). Thus a well performing organization is seen an organization which carefully select a suitable mix of strategies which enhances its growth and sustainability

Financial performance have been employed in most empirical literatures as a measure of performance, (Abdullah 2004, Bhagat & Black 2002, Lam & Lee 2008). Its however gives past information on performance and can hardly be relied on the long term value creation of the organizations. Other organizations measures performance from three organizational outcomes namely; financial performance (profitability, liquidity) market performance and return on shareholder's equity (Decoene and Bruggenman, 2006). However, this study adopted Balance scorecard developed by Kaplan and Norton (1996) to measure organizational performance. This system

retained the financial measurement but complimented it with the customer perspectives, the internal processes perspectives, and innovation, learning and growth perspectives.

### **1.1.3 Corporate Governance Practices and Performance**

Corporate Governance covers the means that all parties who are interested in the affairs of the organization (stakeholders) use, to make sure that management team and other insiders take precautions or employ mechanisms that protect their interest (Sanda, Milkailu and Garba 2005). Good corporate governance system protects an organization against activities that may make it suffer financial distress in the future (Bhagat and Jefferis 2002). The board of directors has primary duty of safeguarding the shareholders' interest by continuously monitoring management performance. Lack of basic financial skills in the board can hinder its mandate of monitoring and evaluation of management activities. Shaw (2006) proposed that inclusion of informed members in the board might help a corporation to achieve its financial performance objectives.

Effective corporate framework benefits the organizations through improved access financial resources, cheaper cost of capital, enhanced overall performance and commendable services to all stakeholders. This increases the firms' profitability and sustainability Claessens et al. (2003). Weak corporate governance practices on the other hand leads to agency problems which increases the agency costs of the firms. Gathura (2007) researched on the relationship between various components of corporate governance and financial performance of manufacturing companies quoted in the NSE and established a linear correspondence between performance, frequency of board meetings, CEO and board compensation.



Board structure has been confirmed to have effect on the performance of the firm. It is widely agreed that the separation of executive management of the organizations and running of board yield better performance as compared to the concentration of management (Abdullah, 2004, Fama and Jensen 1983). Larger board has also been found to improve the performance of firms because it brings on board a wide range of expertise and resources (Daily et al, 2003). Sanda et al, (2005) argues that high membership of non-executive directors strengthens the monitoring role of management and thus enhances organizational performance. The board should thus put in place a suitable internal control system to protect the owners' investment and organization resources.

### **Faith Based Health Facilities in Nyanza, Kenya**

Faith based health facilities in Kenya contribute significantly to the success of health care service delivery. Faith Based organization contributes approximately 12 % health care facilities in Kenya (Master Facility List, Ministry of Health). The Kenya Conference of Catholic Bishops and Christian Health Association of Kenya secretariats are the main national coordinators of faith based health facilities with core functions such as:- advocacy and lobbying on behalf of its members with the government and other key stakeholders, capacity building for health workers in its member health units, development, coordination and implementation of various HIV & AIDs programs and interventions, procurement, installation and maintenance of medical equipment among others (Governance Policy Guidelines for CHAK health facilities, 2018).

Nyanza region is one of the eight former administrative provinces in Kenya before the formation of 47 counties. It is located along Lake Victoria with an area 16.162kilometre square and a population of a 5.4 million. Nyanza province is

currently constituted by six counties: Siaya, Kisumu, Homabay, Migori, Kisii and Nyamira counties. Nyanza region host a total of 50 faith based health facilities (Kenya Medical Directorate 2010). These facilities have been effective in ensuring accessible and affordable medical care to the communities within the region.

### **1.1 Research Problem**

Good Corporate Governance practices have been cited in several research findings as having an impact in the overall performance of the firms; it revolves around stakeholders' political power interest and influence as well as overall direction and leadership of organizations (John, Schole and Whittington, 2006). However, no set of governance practices is appropriate in all organizations; this is because of uniqueness of organization arising from factors from legal environment and financial structures in place, socio-cultural environment, system of corporate ownership and economic factors (Onyango, 2009). A study by Machuki and Oketch (2013), examined the association between structure of corporate governance and performance of HIV/AIDS Non-Governmental Organizations and found out that corporate governance affects performance positively. Muriithi (2005), studied the relationship between Corporate Governance principles and performance of companies quoted on the Nairobi Stock Exchange, the study revealed that an optimal board composition results into improved performance of firms

Faith Based Health facilities plays a pivotal role in improving the provision of health care services in Nyanza region. For a long time, they have actually filled the gap left by the governmental institutions in relation to the provision of accessible and affordable healthcare service to its population. However, conflicts in the management faith based health facilities witnessed between sponsor/church, management and the community often is a result of lack of clarity in the process and procedures of

governance decisions making and the relationship and communication between various stakeholders(Governance policy for CHAK dispensaries and health centre, 2018). Currently, most faith based health facilities are facing multiple challenges ranging from reduced donor funding, competition from other Not for profit organizations and profit making corporate entities, increased demand for better services, inability of recruiting qualified board members and high expectation from stakeholders among others. These challenges can only be addressed when all the practices and the processes of the organization have been streamlined and adequate measures are put in place to adhere principles of good corporate governance.

Several empirical studies in Kenya have focused on relationship of corporate governance and performance of firms in various sectors of the economy (Matengo 2008, Kemei 2010, Machuki and Oketch 2013, Muriithi 2005) and all have established relationship exist between corporate governance and performance. However, there has been very little study of corporate governance and performance of faith based health facilities in Nyanza region. This study therefore, purpose to answer the following question; Is corporate governance practices relevant to faith based health facilities in Nyanza region?

## **1.2 Objective of the Study**

To determine the impact of corporate governance to the performance of faith based health organization in Nyanza region.

## **1.3 Value of the Study**

The study findings will be important to different groups of individuals in the entire country. The study will help the board of trustees and management of the Faith Based Hospitals in identifying the corporate governance structures and policy guidelines that

will enhance transparency and accountability in all their operations and processes to all their stakeholders.

This study will provide addition information on the already existing literatures regarding the interconnection of corporate governance on the performance FBOs. Scholars may also use the findings of this research to stimulate other studies on Faith Based Organizations.

## **CHAPTER TWO: LITERATURE REVIEW**

### **2.1 Introduction**

This chapter reviewed the relevant past studies on the theoretical framework, and empirical studies.

### **2.2 Theoretical Framework**

This literature, reviews some of the theories that can be linked to corporate governance practices and performance. These includes; agency theory (Jensen & Meckling, 1976), stakeholder theory (Freeman, 1984), stewardship theory (Donaldson & Davis, 1994) and resource dependency theory (Aldrich & Pfeffer, 1976).

#### **2.2.1 Agency Theory**

Jensen and Meckling first conceived agency theory in 1976. It can be defined as the relationship between principal (shareholder) and agent (management) of an organization. This kind of relationship allows the shareholders to delegate the running of the affairs of firm to the management. This is because the principal (shareholders) may lack either the requisite skills or the time to efficiently and effectively run the business on day-to-day basis. However, the agent may succumb to individualism or opportunist behavior and fail to act on the principal's best interests thus creating an agency problem. Agency problems arise whenever investment ideas and preferences of the principals are at variance with those of the agents (Ongore & Kōbonyo, 2011). The principal-agent model perceives the chief problem of corporate governance as self-interested managerial attitude and agency problems arises when an agent is not following the principal's objectives (Mallin, 2010). This problem arises because of the divergent interests and asymmetric information that exist between the principal

and the agent. The Board of directors is therefore entrusted to play monitoring roles on activities of the management to protect the interests of the shareholders (Ongore et al, 2011).

### **2.2.2 Stewardship Theory**

On contrary to the agency theory, stewardship theory developed in 1994 by Donaldson and Davis, proposed that management team of the company are devoid of self-interests and individualism hence protects and make profit for the shareholders. Schoorman & Donaldson (1997) explained stewardship that managers acting as stewards aim at safeguarding and maximizing value for shareholders via organization performance and in so doing the utility function of stewards is maximized as well. Machuki and Oketch (2013), argues that the managers should identify a need to be achieved compliment it with internal satisfaction then work as stewards of the organizational resources to meet those needs. The stewards therefore align their interests with the interests of the shareholders and are motivated by organizational success. Unlike the agency theory, shareholders empowers and promote policies that enhance trust on the executives of the company, thus reduction of agency cost.

### **2.2.3 Stakeholder Theory**

Organizations do not operate in a vacuum; they must therefore enhance their relationship with the source that supply the necessary resources, workers and other business peers in the industry. Stakeholder theory proposes that apart from the shareholders, other parties' interests are also affected the organization's decisions. Freeman (1984) to ensure that all firms are accountable for their actions to their stakeholders unlike the agency theory, which had focused in the shareholders only, put the stakeholder theory forward. Donaldson and Preston (1995) agreed that to this:

all interests of stakeholders contain essential value and all the interests have same magnitude on the financial performance of the organization. Machuki and Oketch (2013) advanced this argument by proposing that organization need to articulate its management policies and attends to a diverse stakeholders.

#### **2.2.4 Resource Dependency Theory**

The centre of interest in Resource Dependency theory is the responsibility of board in the provision of resources necessary for organization functioning, financial performance and its survival. This theory argues that organizations are unable to produce all the resources or functions needed internally thus must create relationships with partners in the external environment (Conner and Prahalad, 1996). The organizations have realign their board to include outside directors, which are used as a bridge to access the crucial external environment resources which are otherwise expensive to acquire. Hillman et al (2000), argues that directors introduce valuable resources to the company, which include informational resources, beneficial skills and accessibility to vital suppliers, consumers, policy makers etc.

From the above theoretical discussion, it can be noted that corporate governance practices advances the interest of all the stakeholders. Corporate governance practices encourages better policies, effective oversight and co-ordination of health systems which enhances growth and sustainability. It therefore ensures that the organizations are accountable to all its stakeholders.

### **2.3 Corporate Governance Practices and Performance**

There is general agreement by both local and international researchers that good corporate governance practices increase performance of organization. Waseem, Saleh &Fares (2014), Ngugi (2007), Abdullah (2004), and Onyim et al (2017) found a

positive correlation between corporate governance and the firm performance. This study has identified four corporate governance practices that affect the performance of faith based health facilities in Nyanza region, they include; CEO/Chairman Duality, size of the board, composition of the board and board committees.

### **2.3.1 CEO Duality**

CEO duality is a situation where role of the executive running of the organization and running of the board activities are done by one person. Thus, the chairperson of the board and the CEO of the organization is the same person. Abdullah (2004) proposed that the separation should most sought because when both the monitoring and the implementation roles are entrusted with a single person then monitoring role will be adversely impaired. CEO duality can help in protecting the ownership structure but may lead to abuse of power especially if the CEO wields many powers over independent directors (Rathmell, Bergin, Hua, Li & Wiley 2010). Concentration of management and control of decisions on one individual reduces the fruitfulness of the board in monitoring the top management (Fama and Jensen, 1983).

Locally, a study done by Mutuku (2012), on Corporate Governance and Accountability mechanisms and challenges in private hospital in Kiambu County, Kenya established that corporate governance and accountability was applied in the private hospitals since the board members were appointed for a fixed term of 3 years and there was a clear split between the chairman of the board and the hospital Administrator.

### **2.3.2 Board Composition**

Empirical studies relating board composition with performance of organization have yielded mixed outcomes and thus not conclusive. It's widely perceived that greater



number of independent directors help to contain the misunderstandings between the shareholders and the management and hence have positive impact on firms' performance (Onyim, Wanjare, Ooko & Olouch, 2017; Agrawal and Knoeber, 2012; Fama and Jensen, 1983). Onyim et al (2017) further recommended that the independent directors be trained in the internal corporate governance mechanisms so as to enhance their scopes.

However, it can be noted that some studies such as Agrawal and Knoeber (1996) and Coles et al (2001) found a negative impact of a greater representation of outside directors on firms' performance while Abdullah (2004) and Daily and Dalton (1992) found no relationship between board composition and firm performance.

### **2.3.3 Board Size**

The argument of size of the board of directors on the financial performance of firms is basically based on the Agency theory. The board size can have impact on the monitoring and control activities, larger boards have been argued to offer a greater range of expertise and resources (Daily et al, 2003). Goodstein et al (1994) in his study found out that larger boards minimize the domination by the CEO.

### **2.3.4 Board Committees**

Cadbury (1992), proposes the establishment of the board sub committees because the committee members may exhibit a higher degree of responsibility than the other members. These include auditing committee, remuneration committee and nomination committee (Spira & Bender 2004)

The nomination committee is expected to appoint into the board the directors with the requisite skills and experience. This committee identifies the vacancies in the board and ensured that vacancy is filled by an appropriate personnel. Remuneration

committee on the other hand helps to determine the remuneration packages of all the senior management team of the firms and the board. The package should be reasonable and sufficient to attract and retain good management team. The Auditing committee majorly reviews the financial reports, assess risk and internal control systems with both the external auditor and the internal audit department.

## 2.4 Conceptual Framework

This framework describe the relationship between the independent and dependent variables. It shows relationship between CEO Duality, board composition, board size and board committees and performance of faith based health facilities in Nyanza region.

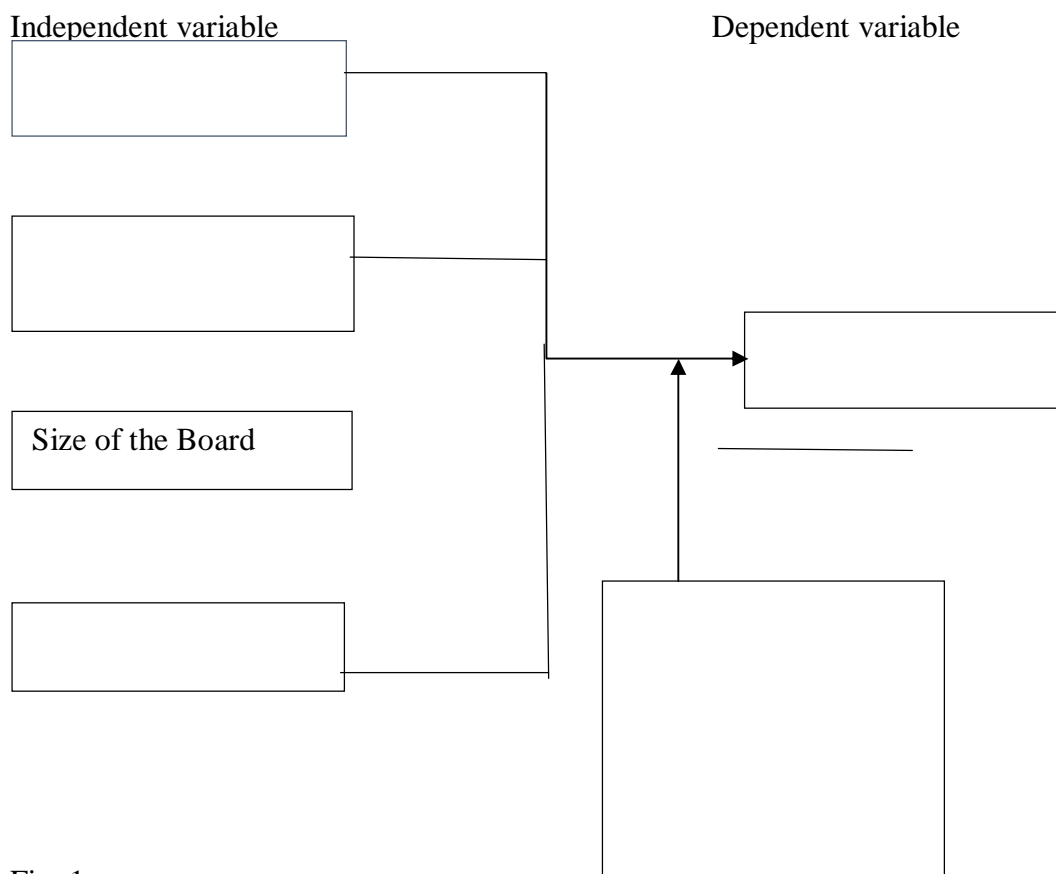


Fig. 1

## **2.5 Summary of Knowledge Gaps**

Corporate Governance and organizational performance has been of great interest to most researchers in the recent past. However there are different views on the corporate governance and performance of organization from the theoretical literature, for example the agency theorists portray the management as selfish and only interested in themselves at the expense of the shareholders while the stewardship theorist are motivated by the performance of the organization and thus maximizes shareholders' wealth.

## **CHAPTER THREE: RESEARCH METHODOLOGY**

### **3.1 Introduction**

This chapter covered the proposed research methodology that was employed for the study. It enumerates the population being targeted, data collection methods, determination of sample size, data analysis and data presentation.

### **3.2 Research Design**

This study used a descriptive research design. A descriptive research work towards elaborating the phenomenon through a process of collecting data that enables the researchers to define the situation more comprehensively. This research design assisted researcher to establish why and how a variable produced change in another variable. The researcher in this case relied on the current status of the variables in the research questions without any manipulation.

### **3.3 Target Population**

The target population for this study was 47 Faith Based Health facilities in Nyanza region. The study will carry out a census survey of all the 47 Health facilities. A schedule of these health facilities Appendix I

### **3.4 Data Collection**

In this study, data was obtained from primary sources and secondary sources. The primary data was collected by use of mail and òdrop and pick laterö semi-structured questionnaires. The questionnaires was administered to the Senior Management Teams (the Administrator/CEO, the Chief Finance Officer, the head of Internal Audit, Medical Officer in charge/ Lead Clinician or the Nursing officer in-charge) of the

various health facilities to enhance reliability of the data collected. The secondary data will be collected from the publications of the respective health facilities in the region.

### 3.5 Data Analysis

The researcher used both the descriptive and inferential statistics to explore the relationship of corporate governance practices and performance of faith based health facilities. The following multi variate regression model was used;

$$Y = \theta_0 + \theta_1 X_1 + \theta_2 X_2 + \theta_3 X_3 + \theta_4 X_4 +$$

Where;

Y= performance

$\theta_0$ = constant

$\theta_1, \theta_2, \theta_3, \theta_4$ = regression coefficients

$X_1$  ó Board composition

$X_2$  ó dummy variable for CEO duality

$X_3$  ó Size of the board

$X_4$  ó Board committees

- Error term

## **CHAPTER FOUR: DATA ANALYSIS, RESULTS AND DISCUSSION**

### **4.1 Introduction**

This chapter analyzed the research findings from the questionnaires and the research objectives. The data collected was analyzed and presented in a tabular form depicting the percentages and totals.

### **4.2 Data Analysis and Presentation of Results**

#### **4.2.1 Response Rate**

Out of the 49 questionnaires administered to Faith Based Health Facilities in Nyanza region, only 31 were filled and returned. This represent a 66 percent response rate.

Table 1: Response Rate

	Frequency	Percentage
Returned questionnaires	31	66
Unreturned questionnaires	16	34
Total	47	100

#### **4.2.2 Existence of sub-committees**

This study attempted to establish the existence of board sub-committee in faith based health facilities in Nyanza region. Existence of sub-committees is very instrumental in determining the level of division of responsibilities within the board. The study found out that 6.5% didn't have sub-committee, 22.6% had 1 sub-committee, 48.4% had 2 sub-committees and 22.6% had more than 2 sub-committees. In addition to this

findings, the study found out that 74.2% of boards of the faith based health facilities in Nyanza region had 74.2% had Audit committee whereas 25.8% had no audit committee.

**Table 2: Number of board sub committee**

	Frequency	Percent	Cumulative Percent
None	2	6.5	6.5
1	7	22.6	29.0
2	15	48.4	77.4
Valid More than	7	22.6	100.0
2			
N	31	100.0	

**Table 3: Availability of Audit committee**

	Frequency	Percent	Cumulative Percent
Yes	23	74.2	74.2
Valid No	8	25.8	100.0
N	31	100.0	

### 4.2.3 Size of the Board

The study sought to determine the size of the boards, it found out that 67.7% of the boards had a membership of 7-8 members, 25.8% had a membership of 9-10 while 6.5% had a membership 11-12 members.

**Table 4: Board size**

	Frequency	Percent	Cumulative Percent
Valid 7-8members	21	67.7	67.7
9-10members	8	25.8	93.5
11-12members	2	6.5	100.0
Total	31	100.0	

### 4.2.4 Frequency of board meetings

Board meetings are the backbone of good corporate governance practices since they perform the core mandates in the meetings. Whereas too many board meetings may be interpreted as micromanagement of the organizations, too few board meetings may results to an agency problems and thus the need to establish an optimal number of board meetings. The study found out that majority of the board hold their meetings quarterly in a year at 74.2%, whereas 16.1% held their meeting 3 times in a year, 6.5% held their meeting 2 times a year and 3.2% held their meeting 1 times in a year.



**Table 5: Frequency of board meetings in a year**

	Frequency	Percent	Cumulative Percent
1 Times	1	3.2	3.2
2 Times	2	6.5	9.7
Valid 3 Times	5	16.1	25.8
4 Times	23	74.2	100.0
Total	31	100.0	

#### **4.3 Descriptive Statistics**

The study further sought to ascertain the level of practice of corporate governance on the faith based health facilities in the Nyanza region. The results of the board establishment and functions were captured using the 16 descriptive statements. The results showed a high rating of the majority of all the descriptive statements (mean scores between 3.84 and 4.71 with standard deviations of between 0.00 and 1.05)

**Table 6; Board Composition and Functions**

N	Effective Oversight and coordination	Board directors/members are appointed through formal rigorous process	The hospital offer induction/regular training to its Board members	Board reviews material transactions of the hospital	Board members are appointed for a specified term	Majority of the Board members are independent of management	There is a current mix of skills and experience in the Board of the hospital	The hospital have adequate internal control systems
N	31	31	31	31	31	31	31	31
Minimum	2	1	2	1	1	3	1	1
Maximum	5	5	5	5	5	5	5	5
Mean	4.19	3.84	4.10	4.48	4.45	4.71	4.52	4.35
Std. Deviation	.792	.860	0.79	0.890	1.028	0.643	.926	1.05

Findings indicated that appointment of board members, existence of board sub committees, review of material transactions and mix of skills and experience at the board level were highly rated indicating that most faith based health facilities boards had appointment letters, well laid out functions and regularly review the transaction of the facilities.

#### **4.4 Corporate Governance Practices and Performance**

In determining the impact of the corporate governance practices on the performance of faith based health facilities in Nyanza region, the study used a balanced scorecard model. This includes the performance on the following indicators; financial perspectives, customer focus, internal business processes, innovation, learning and growth.

The independent effect of corporate governance practices on financial performance is reported in Table 7.

**Table 7: Independent Effect of CG Practices on Financial Performance****Perspective**

	N	Minimum	Maximum	Mean	Std. Deviation
Board composition (Mix of skills & experience)	31	3	5	4.48	.677
Board size	31	1	5	4.23	.845
Board committees	31	2	5	4.45	.810
Regulatory framework	31	3	5	4.42	.720
Number of Board meetings	31	1	5	4.06	.929
N	31				

The results in Table 7 showed that financial perspectives are influenced by the board composition, board size, board committees, regulatory framework and number of board meetings. Highest impact is reported on the composition of board whereas lowest impact is reported on the number of board meetings.

The independent effect of corporate governance practices on customer perspectives is reported in Table 8

**Table 8: Independent Effect of CG Practices on Customer Perspectives**

	N	Minimum	Maximum	Mean	Std. Deviation
Board composition (Mix of skills & experience)	31	2	5	4.48	.769
Board size	31	3	5	4.06	.680
Board committees	31	2	5	4.26	.893
Regulatory framework	31	3	5	4.45	.675
Number of Board meetings	31	2	5	4.13	.763
Valid N (listwise)	31				

Table 8 indicated that corporate practices of board composition, board size, board sub-committees, regulatory framework and number of board meetings changes the customers' perspectives. The study found out that board composition has a relatively higher influence on the customer perspective.

The independent effects of CG practices on the internal business processes perspectives are reported in the table 9.

**Table 9: The independent effects of CG practices on the internal business processes perspectives**

	N	Minimum	Maximum	Mean	Std. Deviation
Board composition (Mix of skills & experience)	31	3	5	4.58	.672
Board size	31	3	5	4.03	.706
Board committees	31	3	5	4.39	.715
Regulatory framework	31	3	5	4.52	.724
Number of Board meetings	31	3	5	4.16	.735
Valid N (listwise)	31				

As portrayed in Table 9, board composition and regulatory framework have high impacts with a mean and standard deviation of 4.58 and 0.672, 4.52 and 0.724 respectively. The diversity of the board enables them in the development of strategic objectives and ensuring proper control and monitoring practices. Majority of the respondents agreed that the internal business processes are influenced corporate governance practices.

The independent effects of CG practices on the innovation, learning and growth perceptives are reported on table 10.

**Table 10: The independent effects of CG practices on the innovation, learning and growth perspectives**

	N	Minimum	Maximum	Mean	Std. Deviation
Board composition					
(Mix of skills & experience)	31	3	5	4.48	.724
Board size	31	3	5	4.03	.752
Board committees	31	3	5	4.48	.677
Regulatory framework	31	3	5	4.45	.723
Number of Board meetings	31	2	5	4.06	.814
Valid N (listwise)	31				

The study reported remarkable outcomes for the independent effects of the CG structures of board composition, board size, board committees, regulatory framework and number of board meetings. Thus innovation, learning and growth are influenced by board function and management structures.

**Table 11: Combined CG Practices and Performance**

Model	N	Multiple R	$R^2$	F	Sig.
Financial Performance measures	31	.621	.386	2.984	.006
Customers perspective measures	31	.339	.115	2.131	.043
Internal business processes perspective measures	31	.431	.186	1.405	.172
Innovation, learning and growth perspective measures	31	.298	.089	1.385	.178

The results disclosed a positive correlation between corporate governance practices and the various measures of performance. Corporate governance practices has a strong correlation with financial performance perspective ( $R=0.621$ ) with 38.6% of financial performance explained by the corporate governance practices. This statistic is significant ( $F=2.984$ ,  $p>0.05$ ). Corporate governance practices has weak correlation with customer perspective ( $R=0.339$ ) with 11.5% of the customer explained by the corporate governance practices. This statistic is insignificant ( $F=2.131$ ,  $p>0.05$ ). The outcome of the study divulged a strong correlation between corporate governance practices and internal business process ( $R=0.48$ ) with 18.6% of internal business process being as a result of good corporate governance practices. Corporate governance practices has a weak correlation with innovation, learning and growth perspective ( $R=0.29$ ) with 8.9% of the innovation, learning and growth being as a result of good corporate governance practices. The influence is statistically insignificant ( $F=1.385$ ,  $p>0.05$ ).



#### **4.5 Discussion of Findings**

The intention of this work was to demonstrate corporate governance practices and performance of FB health facilities in Nyanza region. It was manifested in the study that most boards had sub committees hence an indication of division of responsibilities within the board. From the study, it became apparent that most board memberships were at a range of seven (7) to eight (8), this was in agreement with Liton and Lorsch (1992) suggestions that an optimal membership should be between seven and eight.

The study also affirmed that the boards were composed by a multiple mix of skills and expertise. This brought in a pool of varied resources to the organizations at a lower cost that enhanced their internal processes and quality of services. The study further upheld that there was a split of functions of the CEO and the chairperson of the board. The study also confirmed in most boards had high number of non-executive members. This was a clear demonstration that the role monitoring the management was not manipulated.

This study had also concluded that there was link between corporate governance practices and performance. It had emerged that corporate governance practices are correlated with organizational performance.

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

### **5.1 Introduction**

This chapter presents the summary of the findings, conclusions drawn from findings and the recommendations made.

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

The study sought to establish corporate governance practice and performance in the FB health facilities in Nyanza region. The study targeted a total of 47 FB health facilities in Nyanza region and the response rate was 66%. From this study, it is clearly evident that all faith based health facilities have board of directors in place. Key corporate governance variables revolves around the composition of the board, independence of the board of directors, CEO-Chair duality, and the frequency of the board meeting.

The findings from the study showed the majority of the board had a size of 7-8 members, this enhance faster decision making and thus increase efficiency within the board of directors. The study further established the existence of board sub-committees in the majority of the boards which enhance proper division of responsibilities and hence enhancing effective monitoring and oversight roles of the board. The finding also indicate that majority of the boards has a mix of skills and experience thus bringing onboard a pool of skills.

The findings of this study indicates that the functions of the chairperson of the board and CEO of the facilities are separate and the position are held by different persons in all faith based health facilities. Good corporate governance always demands for detachment of the executive role of managing the organization and running of the board.

The study also sought to establish the frequency of board meeting and found out that the board meeting adhere to the organizational policies. Majority of the boards meet quarterly in a year and thus give the management time to implement the strategic objectives without micro-managing the executives. However, care must be taken on the frequency of board meetings so as not to create a probable agency problems in care less meetings especially in organization with weak internal control systems.

This study also found that corporate governance practices increase operation efficiency, transparency and accountability, market share, and business strategy of the faith based health facilities in the Nyanza region. Good corporate governance practices thus improves organizational performance.

### **5.3 Conclusion**

The findings of this study also indicates that the corporate governance practices affected performance of the faith based health facilities although at a varied degree. This study further found out the practices of good corporate governance improves performance of faith based health facilities. The result support findings from several other studies on corporate governance practices and organizational performance. (Onyim at el, 2017; Machuki and Oketch 2013; Muriithi, 2005; Matengo, 2008) have found out that there is a relationship between organizational performance and frequency of board meetings, separation of duties of CEO and Chair of the board, independence of the board, and board size.

### **5.4 Recommendations**

This study recommended that the faith based health facilities should implement and maintain good corporate governance practices to improve on their performance (financial, innovation, learning and growth, internal business process and customers perspective).

To the faith based secretariats (KCCB and CHAK) the study further recommends the establishment of clear policies on terms of engagement of the directors, and performance appraisal of the board to check on their effectiveness.

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

Some respondents were reluctant to fill the questionnaire due to the insecurity of the information and the fear of unknown. The researcher made frequent follow ups to persuade and assure the respondents of the security of the information gathered on field. In addition, the study was limited in terms of resources i.e. time and finances, the resource required for field work to ascertain whether information being provided was a true picture of whatever happens in organization. Thus, the researcher was forced to wholesomely depend on the data given by the respondents in the questionnaire.

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

This study accented on corporate governance practices and performance of faith based health facilities in Nyanza region. The study suggest that another study be conducted to establish the corporate governance practices and performance of health sector in Kenya.

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## APPENDIX 1: LIST OF FAITH BASED HEALTH FACILITIES

1. Kendu Adventist Hospital
2. St. Joseph Mission Hospital
3. St. Camillus Mission Hospital
4. Nyabondo Mission Hospital
5. Maseno Mission Hospital
6. St. Monica Hospital
7. St. Monica Rapogi Health Centre
8. Pandipieri
9. St. Elizabeth Chiga Health Centre
10. Asumbi Health Centre
11. Holy Family Oriang Mission Dispensary
12. Mirogi Health Centre
13. St. Paulø Health Centre
14. Tabaka Mission Hospital
15. Homa Hills Health Centre
16. Awasi Mission Hospital
17. Verna Health Centre
18. Nyangøma Mission Health Centre
19. OLPS
20. Kadem TB & Leprosy Dispensary
21. Christamarianne Mission Hospital
22. St. Clare Bolo Health Centre
23. Mawego Health Centre
24. Ngiya Health Centre



25. Ringa Dispensary
26. Rangala Health Centre
27. Sega Mission Hospital
28. St. Pauls Methodist
29. Osani Community Dispensary
30. Wire Dispensary
31. Angiya Dispensary
32. Nyambare Health Centre
33. Uradi Health Centre
34. Nyakach A.I.C dispensary
35. St. Vincent de Paul Health Centre
36. St. Pius Musoli Health Centre
37. Aluor Mission Health centre
38. Nyanchwa Dispensary
39. Koru Mission Health Centre
40. Ulanda Dispensary
41. Manyatta SDA Dispensary
42. St. Merceline Roo Dispensary
43. Mbagga Health Centre
44. St. Barnabas Health centre
45. Nyamonye Mission Health Centre
46. Riokindo Dispensary
47. Rangwe SDA

## LETTER OF INTRODUCTION

Cornel Otieno Odhiambo

P. O. Box 4-40614,

SEGA.

To \_\_\_\_\_

Dear Sir/Madam

**RE: INTRODUCTION LETTER FOR MR. CORNEL OTIENO ODHIAMBO**

I am master's student in the School of Business, University of Nairobi. In partial fulfillment of the requirements of the degree of Masters in Business Administration, I am conducting an academic research project titled the "Corporate Governance Practices and performance of Faith Based Health facilities in Nyanza region.

Your honest participation in this exercise will be of great importance to this study, thus the request for your assistance to fill out this questionnaire.

The information acquired during this research are for educational purposes only and will be treated with utmost confidentiality.

Thank you in advance for your cooperation.

Yours faithfully,

Cornel Otieno Odhiambo

## QUESTIONNAIRE

### CORPORATE GOVERNANCE PRACTICES AND PERFORMANCE OF FAITH BASED HEALTH FACILITIES IN NYANZA REGION.

Kindly take a few minutes out of your busy schedule to complete this questionnaire.

Your views in combination with others are very important in building knowledge on the impact of Corporate Governance Practices and Performance of Faith Based Health facilities in Nyanza region.

Kindly answer all the questions.

#### PART A: BIODATA

1. Gender

Male { }

Female { }

2. Age

20-29 { }

30-39 { }

40-49 { }

50-59 { }

Above 60 { }

3. Level of Education

Post-graduate { }

Graduate { }

Undergraduate { }

Diploma/certificate { }

High school { }

Other (please specify) í í í í í í í í í í í í .

4. Number of years in the organization

1- 10 { }

11- 20 { }

21- 30 { }

Above 30 years { }

**PART B: DEMOGRAPHIC INFORMATION**

This section requires information on the demographic profile of the health facility.

5. Name of the Health facility

(optional) í í í í í í í í í í í í í í í í ..

6. What is the year of incorporation? í í í í í í í í í í í í í í

7. Does your organization have a Board of Management?

Yes { } No { }

8. What is the size of facility's assets?

A. Below 10M { }

B. 10M- 20M { }

C. 20M- 30M { }

D. Above 30M { }

**PART C: CORPORATE GOVERNANCE**

9. What is the position held in the organization?

Administrator { }

- Finance Manager { }
- Human Resource Manager { }
- Medical officer in-charge { }
- Nursing officer in-charge { }
- Other (kindly specify) í í í í í í í í í í í í í í í í .

10. What is the size of the Board of Management?

- A. 5-6 members { }
- B. 7-8 members { }
- C. 9-10 members { }
- D. 11-12 members { }
- E. Any other (specify) í í í í í í ..

11. How times does the Board of Management of your organization meet in a year? í í í í í í í í

12. How many board sub committees does your organization have?

- A. None { }
- B. 1 { }
- C. 2 { }
- D. More than 2 { }

13. Does your organization have an audit committee?

- Yes { } No { }

14. To what extent has the practice of corporate governance in your organization achieved the following objectives. Rank them in the range of 1-5 where 1 is the least preferred while 5 is the most preferred.

Factors	1	2	3	4	5
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Increase market share					
Increased transparency and accountability					
Increased operation efficiency					
Improved business strategies					
Effective oversight and co-ordination					

Any other (specify)í í í í í í í .

15. To what extent do you agree with the following statements that relate to the good corporate practices in your hospital? Use a scale of 1-5, where 1=strongly disagree, 2= disagree, 3 = neutral, 4 =Agree, 5= strongly agree; ( please tick in the appropriate column)

	1	2	3	4	5
Board directors/members are appointed through formal rigorous process					
The hospital offer induction/regular training to its Board members					
Board reviews material transactions of the hospital					
Board members are appointed for a specified term					
Majority of the Board members are independent of management					
There is a current mix of skills and experience in the Board of the hospital					
The hospital have adequate internal control systems					
Audit committee is composed by independent					

directors					
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**PART D: CORPORATE GOVERNANCE PRACTICES AND PERFORMANCE**

16. To what extent do you think that the following corporate governance practices improve financial perceptive performance of your hospital? Use a scale of 1-5, where 1=strongly disagree, 2=disagree, 3 =neutral, 4=agree, and 5=strongly agree (Please tick the appropriate column)

	1	2	3	4	5
Board composition (Mix of skills & experience)					
Board size					
Board committees					
Regulatory framework					

17. To what extent do you think the following corporate governance practices improve performance on customers perceptive in your hospital? Use a scale of 1-5, where 1=strongly disagree, 2=disagree, 3 =neutral, 4=agree, and 5=strongly agree (Please tick the appropriate column)

	1	2	3	4	5
Board composition (Mix of skills & experience)					
Board size					
Board committees					
Regulatory framework					

18. To what extent do you think the following corporate governance practices improve performance on internal business processes perceptively in your hospital? Use a scale of 1-5, where 1=strongly disagree, 2=disagree, 3=neutral, 4=agree, and 5=strongly agree (Please tick the appropriate column)

	1	2	3	4	5
Board composition (Mix of skills & experience)					
Board size					
Board committees					
Regulatory framework					

19. To what extent do you think the following corporate governance practices improve performance on innovation, learning and growth perceptively in your hospital? Use a scale of 1-5, where 1=strongly disagree, 2=disagree, 3=neutral, 4=agree, and 5=strongly agree (Please tick the appropriate column)

	1	2	3	4	5
Board composition (Mix of skills & experience)					
Board size					
Board committees					
Regulatory framework					

Any other

commentí í í í í í í í í í í í í í í í .....

Thank you for your co-operation.