# Response of State Owned Enterprises To Corporate Governance Reforms



By

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A research project submitted in partial fulfilment of the requirement for the Master of Business Administration (MBA) degree of the University of Nairobi.

# DECLARATION

The project is my original work and has not been presented for a degree in any other University.

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Date........21/12/04........................................................

This project has been submitted for examination with my approval as University Supervisor.

Signature........................................................................
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Date..............23/12/2004...............................................

# DEDICATION

To my children Shiro and Maina and to my husband Wachira. You are pillars of strength at all times. Thanks for your constant encouragement and support.

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To my supervisor, Mr. Anyangu who could not let me give up even when the temptation to do so was great, my sincere thanks and gratitude.

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# ABSTRACT

State owned enterprises (SOEs) employ approximately 200,000 people and at one time, controlled nearly 30% by value of the GDP in Kenya. Most of the SOEs have performed poorly since inception and problems, largely attributable to poor corporate governance have been identified to be the main contributor to poor performance.

In the past, corporate governance reforms have mainly concentrated on companies listed at the Nairobi Stock Exchange. However, as Yener(2001) notes, corporate governance is an essential tool to combat corruption, which is one of the major vices in the SOEs. The researcher finds it essential therefore, to identify the responses of state owned enterprises to recent corporate governance reforms undertaken worldwide and in Kenya specifically, to gauge the level of acceptance of the principles of good governance and make recommendations on what needs to be done.

Literature indicates that institutional development will assist in the formation of good corporate governance structures. Theories and models of corporate governance have been reviewed in an effort to identify the most suitable model classification, of corporate governance structures in the SOEs and thereafter, predict the most workable approach to developing solutions for their corporate governance problems. There is no particular identifiable model that fits SOE's governance structures. A suitable model can be crafted by combining the best practices in all the models.

Literature on recent developments influencing change in corporate governance and the resultant laws and recommendations reveal that, though dealing with companies quoted at the stock exchanges, the general principles are also applicable to SOEs. The research findings indicate that most of the employees consider issues dealing with corporate governance in SOEs as very confidential information and are therefore unwilling to participate in the research for fear of reprisals. The majority of the respondents are middle level managers aged between 31 to 40 years.

The research revealed that the positions of Chief Executives and the Board Chairpersons are held by different persons. All the respondent organizations have

board committees, with Audit and staff committees being common to all. This is a very commendable level of corporate governance structure development.

The diversity in the answers given on the type and numbers of Board Committees, indicates that the majority of the respondents were not sure of the type of board committees that exist in their corporations. Ranking 4 on a scale of 1 to 5, independence of the Board emerged as the most influential factor affecting board performance. The CEO/CFO certification however was identified as the most important factor influencing good corporate governance. All respondents felt that the vision of good corporate governance would be facilitated through improved communication between CEOs, senior managers and the other cadres of staff.

# 1. Introduction

## 1.1 Background

### 1.1.1 State Owned Enterprises in Kenya

State Owned Enterprises (SOEs) generally known as parastatals, are partially or fully government owned and controlled corporations. There are approximately 200 state owned enterprises in Kenya and they employ approximately 200,000 people. The government, in an attempt to ensure and acquire control of all productive assets, formed the corporations to take up businesses and in the process, promote socialism and guarantee that the public derived maximum benefits from these resources after independence. The government felt that the citizens would reap benefits from such businesses if they were state owned. The primary objectives of the parastatals, according to a study carried out by IEA (1994) was; a desire to take hold of the economy, to promote a Kenyan entrepreneurial class and to earn a share of the profit otherwise received by the private sector.

The initial thought of setting up these organizations was noble but most of the political leaders at the time were capitalists and the vision got lost along the way. Influential individuals turned to these enterprises with a single desire to reap maximum personal benefits at the expense of the rest of the public. This led to mismanagement and hence massive losses. To stem some of the losses realized, an attempt was made to shed off some of the government shareholding to private investors by issue of shares through the Nairobi Stock Exchange. However, as is seen in the management of such firms as National Bank of Kenya and Kenya Commercial Bank, the government still maintained a substantial shareholding, which allowed direct influence in strategic decisions. Due to the influence of government on parastatals, they were used as avenues to reward loyalty by political elites of the day.

Most parastatals have performed poorly since inception and large amounts of money has been injected by the government to meet both operational and capital expenses. Between 1988 and 1993 financial years, for instance, a total of Kshs. 8 billion was injected into 18 state corporations, IEA (1994). (see table I below)

**Table 1- Amount of funds injected into 18 state corporations between 1988 and 1993 financial years, IEA (1994).**

| Parastatal | Kshs. |
|---|---|
| Kenya Power & Lighting Company Limited | 2,945,070,677.31 |
| Tana River Development Authority | 1,696,371,812.40 |
| Kenya Airways Limited | 1,245,913,520.43 |
| Kenya Posts & Telecommunication Corporation | 690,375,634.28 |
| Kenya Railways Corporation | 219,055,006.36 |
| Nzoia Sugar | 434,213,202.95 |
| Kenya Tea Development Authority | 70,516,357.00 |
| Nairobi City Council | 626,416,020.75 |
| National Housing Corporation | 35,383,829.15 |
| East African Sugar Industries | 224,032,680.90 |
| Kenya Broadcasting Corporation | 129,076,146.90 |
| SONY Sugar | 91,548,907.05 |
| East African Portland Cement | 329,833.80 |
| Development Finance Company of Kenya | 160,576,487.76 |
| **Total** | **8,568,880,117.04** |

*Source: IEA (1994)*

Further capital injection has been made through time and some recent cases can be cited. In 2003, the government injected capital into Kenya Power & Lighting Company Limited by converting loans to the corporation into preferential non-cumulative shares. National Bank is also under consideration for capital injection from the government.

The researcher will classify the problems faced by parastatals today into two broad categories, internal management problems and countrywide problems. Internal management problems are characterized by corruption and excessive interference in management of the institutions by the Government. There is also poor planning and budgeting. Most of the public sector projects are not based on a due diligence evaluation of projected returns on investment. Most of these projects end up being abandoned after consuming large amounts of resources.

Countrywide problems are those that affect all players within a political boundary and are usually unique to that country. In Kenya, the withdrawal of donor funding to the government due to massive corruption has led to deterioration of the economy, which has in turn led to Government borrowings from the local market. Dilapidated infrastructure and subsequent relocation of investors to other countries, increase in crime, insecurity and deterioration in law and order are other notable results of general poverty facing the country. The increase in poverty levels has in turn led to low domestic savings and hence weak financial sector.

### 1.1.2 Corporate Governance Reforms

The Capital Markets Authority (CMA) defines corporate governance as " the manner in which the power of a corporation is exercised in the running of the corporation's total portfolio of assets and resources with the objective of maintaining and increasing shareholders' long term value while taking into account the interest of other stakeholders"

The OECD (1999) defines Corporate Governance as the system by which organizations are directed and controlled. It further states that Corporate Governance structures specifies the distribution of rights and responsibilities among different participants in the corporation, such as board, managers, shareholders and other stakeholders, and spells out the rules and procedures for making decisions on corporate affairs.

There has been a lot of literature in the recent past on principles of good governance. It has been observed that the collapse of corporations has significant effects on the overall economy of any country. To avoid the negative repercussions on the citizenry, different governments have taken measures in their respective countries to institute some measures of control on how companies are governed.

In Kenya, the CMA has developed corporate governance guidelines to be practiced by listed companies in Kenya's stock exchange. In Britain, like Kenya, guidelines have been drawn and companies are expected to comply with the guidelines drawn, failure to which they are supposed to explain the reason for their non-compliance. The following are some of the highlights of developments in the area of corporate governance.

The Hampel Committee (1998) outlined rules on corporate governance in a report entitled "*Combined Code On Corporate Governance*", which was a follow up of various publications in the field of Corporate Governance. In September 1999, the Turnbull report entitled, "*Internal Control: Guidance for Directors on the Combined Code*" was published and was meant to offer guidance to the directors on how to comply with the *Combined Code On Corporate Governance*. It focused on internal controls and risk management. The report emphasized importance of proper records and processes. This is also emphasized in The King Report on Corporate Governance of 1994, in South Africa.

The earlier work, as illustrated above, focused on the role of directors as the main determinants of corporate behavior. This focus has somehow changed in the recent past where responsibility has been apportioned to different players in a corporate entity. This has come about with the enactment of the Sarbane's Oxley Act (2002) in the US, revision of The Combined Code on Corporate Governance (2003) in Britain and the revision of the King Report on Corporate Governance (2002) in South Africa among others.

The US, unlike European countries, has enacted legislation to deal with corporate governance issues. The reason for going the legislative way could be attributed largely to the nature of corporate governance failures in the respective systems. In the US most failures have an element of fraud or malpractice while in Europe and especially UK, causes of failures are largely attributable to insufficient oversight by directors, resulting into corporate underperformance and loss of shareholder value.

## 1.2 Statement of The Problem

Godfrey(2002) notes that Africa has special conditions, which should be specifically addressed when applying the Corporate Governance practices developed internationally. These conditions should be recognized and targets, indicators and benchmarks adapted accordingly. Prominent among these conditions is the predominance of state owned or state-controlled enterprises in all sectors of the economy. He notes that while general principles of corporate governance apply, these entities require special rules, especially regarding appointments of senior personnel, and on the relationships between the executive, parliament and the managers of the business.

Motinga(2004) observes that parastatals play an important role in national economic development. They represent the extended arm of government providing key goods and services to the economy that would otherwise not be served by private enterprise. In addition, the SOEs play an important regulatory role. As a result they are set up with state funds – monies we are learning may be misappropriated due to lack of timely reporting, monitoring, and scrutiny. This is often due to the limited enforcement of basic corporate governance principles.

Jebet(2001) notes that there was concern in the late 1980's and the early 1990's on the governance of the public sector. The underlying reasons for these concerns had been the realization that poor governance had led to wastage and misuse of public resources. It is in view of this that efforts were focused on privatization during that period.

Multilateral donors have on several occasions decried the manner in which most of the state owned enterprises are run and this has led to introduction of conditionalities pegged on their privatization. The citizens have also felt the burden imposed by having to support some of the non-performing state owned enterprises.

Obasanjo(Africa Recovery-April 2000) notes that, "state enterprises suffer from fundamental problems of defective capital structure, excessive bureaucratic control or intervention, inappropriate technology, gross incompetence, mismanagement, blatant corruption and crippling complacency". This sums up well the problems afflicting SOEs.

Tsumba(2002) observes that governance structures cascade down from state to the private sector. He notes the need to have well developed institutions that support the workings of a private market economy. He expounds on the importance of governance issues and adds that without the establishment of adequate institutional structures, even if the institutions are privatized, it will not lead to sustainable economic development. He further observes that at the micro level, good corporate governance improves strategic direction, attracts outside investment, sets standards of transparency, accountability and promotes integrity as well as high standards of corporate citizenship. Additionally, he notes that Corporate Governance reforms should ensure that, functional appointments are determined by the market practice while the appointment of chairmen and chief executive officers, though likely to be the responsibility of the executive, is subject to confirmation by parliament.

Yener (2001) notes that corporate governance is an essential tool to combat corruption, which is one of the major vices in the state owned enterprises. To effectively fight the vice both in the public and the private sector, the government, the business community and the civil society must work together to promote transparency, accountability, and integrity in public sector organizations and in transactions between and among public and private sector actors. Given the importance of good governance as enumerated above, it is imperative to study the governance structures of parastatals in Kenya with a view to establishing whether they are taking on board generally accepted principles of good corporate governance.

## 1.3 Objectives of The Study

To identify the responses of state owned enterprises to recent corporate governance reforms undertaken in Kenya.

## 1.4 Importance of The Study

As Yener (2001) puts it, sound corporate governance is an essential pillar of a holistic anti-corruption strategy; one that promotes integrity in both the public and private sectors. Effective corporate governance extends beyond the critically important task of preventing and deterring bribery of public officials. To successfully combat public and private sector corruption, which he defines as the abuse of a position of trust by an agent for private gain at the expense of the principal-the government, the business community and civil society must work together in promoting principles of good governance in the public sector which are, transparency, accountability and integrity. At one point, parastatals in Kenya accounted for nearly 30% (by value) of the GDP of the country. Bad corporate governance in these enterprises has had dramatic effects on welfare and economic growth.

The study will help in the deduction of what the public sector has so far done and whether good governance is being embraced with meaningful results, as far as achievement of the individual entities' goals are concerned, both in the performance of their core businesses and in the way they perceive themselves. The corporate governance gaps will be identified and suggestions made on how best they can be bridged.

# 2. Literature Review

## 2.1 General Overview

World Bank(1994) defines governance in relation to government as the "practical exercise of power and authority by governments in the management of their affairs in general and of economic development in particular". Good governance is an important concept for African Development and is related, first of all, to the necessity to create the basic extra-economic conditions that are important for the growth of African economies, as for example, an effective public administration, a functioning legal framework, efficient regulatory structures, and transparent systems for financial and legal accountability. In this context, it is the issue of the quality of the public goods supplied at country-level that makes good governance such an important concept ADB(1994).

Given the need for quality public goods, it is not feasible that the parastatals with their myriad problems can deliver unless there is proper governance in the public corporations and the country has well functioning institutions, which will facilitate corrective mechanisms. Such corrective mechanisms include movement of capital from areas where it is poorly utilized to where it will be well utilized. In an attempt to give the citizenry quality public goods, there are areas that should be addressed by good governance structures. Top on the list is defective capital structure; most of the state owned enterprises were undercapitalized from the onset and a number of them ended up being wound up not long after commencing business. These include, Kenya Furfural, Kenya Fibre Corporation and Synthetic Fibres among others. Others whose financial viability is at stake include Nzoia Sugar, SONY sugar, Muhoroni Sugar, Kenya Railways, Kenya Posts and Telecommunications and Kenya Power and Lighting Company. *IEA (1994)*. When there is undercapitalization, even the little capital employed goes to waste and it is better off not to have undertaken the project at all.

Excessive bureaucratic control and intervention- the organizations are run through patronage and have large numbers of employees, most of who are not technically qualified to do their jobs. In this case, an organization ends up paying staff who do not add value to the management of the institution.

Transparency, accountability and integrity are important indicators of good corporate governance structures in the public sector. At a glance, it is clear that these important indicators are lacking and the result has been poor performance.

Institutional development would dictate a clear separation of powers between the judiciary, the executive and the legislature. As L.L. Tsumba (2002) points out, there is need to create an environment where stakeholders, citizens or other interested parties are assured that "the goings on" are not detrimental to their own political and financial interests.

Institutional development will equally benefit the private investor. Corporate Governance structures, as has been revealed by research world wide, is important in the proper functioning of privately run institutions, be they fully privately owned or having distributed ownership, such as the companies quoted at the Nairobi Stock Exchange. There is however a glaring lack of a mechanism that could be used to enforce good corporate governance practices in Kenya.

In a past-unpublished research-Jebet (2002), the findings were that in all companies listed at the Nairobi Stock Exchange, the positions of chairman and that of CEO are held by different persons. This is a notable finding since most countries have been struggling with the issue and it has been one of the corporate governance requirements that the two roles be separated.

Of the companies sampled, only 28% had formed Audit Committees and only two of those made use of other committees. One of the two companies had a remuneration committee. Though the Capital Markets Authority required disclosure, most of the companies sampled did not disclose information on corporate governance on the face of their accounts. It seems then, that disclosure is not mandatory and the shareholders do not even understand the need for disclosure. What is of note however, is the fact that over 30% of the companies quoted at the Nairobi Stock Exchange are not locally controlled. One would expect that the foreign controlled companies should be at the forefront leading the way for the rest in best practice, but this is not the case.

It was found that most companies did not disclose how many of their directors were executive and how many were non-executive. For those that did, the distribution ranged from 83% to

40% non-executive directors in the board. The size of the Audit committees also ranged from 3 to 9 persons.

The analysis of financial performance and corporate governance was not conclusive since there were differences in performance despite similarities in governance structure. This means that the Kenyan investor is indifferent to corporate governance and the market does not reward good corporate governance practices.

## 2.2 Theories and Models of Corporate Governance

Letza(2002) explains that the current debate on corporate governance has been 'polarised' between, on the one hand, the shareholding paradigm and, on the other hand, the stakeholding paradigm. Letza(2002) has summarized the two by grouping the main theories and models of corporate governance into either the shareholding camp or the stakeholding camp according to their mutually exclusive propositions and assertions.

### 2.2.1 Shareholding Perspectives

The shareholder model is common in the US and Britain and is characterized by distributed ownership, with majority of the shares held by individuals.

#### 2.2.1.1 Inherent Property Rights Theory

The inherent property rights concept is based on the view that private ownership is fundamental to a desirable social order and to the development of an efficient economy. Thus, the assumption is that private ownership rights are inviolable in any way. The 'inherence' perspective was developed during the seventeenth and eighteenth centuries in corporate law theory. Letza(2002) points out that it was assumed that the right to incorporate is inherent in the right to own property and write contracts, and corporations should be regarded as legal extensions of their owners. This theory has further developed to a stage where the corporation is viewed as a separate legal entity, which can own property, have rights and obligations. The directors and managers are therefore viewed as agents of the shareholders and have a fiduciary duty to the shareholders.

According to Letza(2002) corporate governance is maintained through enhanced accountability of the company to shareholders. This could be done either through effective internal monitoring such as shareholder voting rights, independent non-executive directors, and information disclosure to shareholders, or through the market for corporate control.

#### 2.2.1.2 Agency Theory

Agency theory can be traced back to Adam Smith. Letza(2002) explains the basis of the theory as the assumption that, individuals have a desire to maximize their own utility. The agency theory asserts that managers as agents will not always act in the best interests of the shareholders and may pursue their own interest at the expense of the shareholders.

This theory is associated with agency costs. It is assumed that if the agent is being watched, the agent will act better for the welfare of the principal. The shareholder therefore observes the behaviour of the agent(through auditors) and the outcome of the behaviour in the form of firm profitability.

#### 2.2.1.3 Stewardship Theory

The stewardship theory is based on the assumption that managers are good stewards of the corporation. Letza(2002) explains that, according to the theory, managers have a wide range of motives beyond a simple self-interest, this includes achievement, recognition and responsibility needs, the intrinsic satisfaction and pleasure of successful performance, respect for authority, social status and work ethics. Thus, the separation of ownership from control does not inherently lead to a goal and interest conflict between shareholders and managers. The separation actually promotes the development of managerial profession, which is certainly beneficial for corporate performance and shareholder wealth. In this regard, empowering managers to exercise unencumbered authority and responsibility is necessary for the maximization of corporate profits and shareholders' value.

#### 2.2.1.4 The Finance Model

Letza(2002) notes that a financial economics theorem assumes that the share price today fully reflects the market value of all future profits and growth that will accrue to the company. Believing in this assumption, the advocates of the finance model hold that shareholders' interests are best served by maximising share price in the short run. The share price is an indicator of corporate performance and the stock market is the only objective evaluation of management performance. If a firm under-performs, its share price will be lower, which provides a chance for outsiders to buy the firm's stock and run the firm more efficiently in order to obtain a larger reward. The threat of a takeover provides management with an incentive to make efforts to perform better and maximise shareholders' return in order to make their firm bid-proof.

Supporters of the finance model argue that corporate governance failures are best addressed by removing restrictions on factor markets and the market for corporate control (Fama, 1980).

#### 2.2.1.5 The Myopic Market Model

Letza(2002) points out that the myopic market model shares a common view with the agency theory, the view is that the corporation should serve shareholders' interests only. However, the model criticizes the Anglo-American model of corporate governance as being fundamentally flawed by being overly concerned with short-term interest, short-term return on investment, short-term corporate profits, short-term management performance, short-term stock market prices, and short-term expenditures, due to huge market pressures. This model argues that the current corporate governance systems encourage managers to focus on short-term performance by sacrificing long-term value and competitive capacity of the corporation (e.g., Sykes, 1994; Moreland, 1995).

The myopic market model contends that corporate governance reform should encourage shareholders and managers to share long-term performance horizons.

### 2.2.2 Stakeholding Perspectives

The stakeholder model is common in the Japan and the other eastern countries. It is characterized by concentrated ownership, with majority of the shares held by families, other companies and government.

#### 2.2.2.1 Social Entity Theory

The social entity concept of the corporation is directly at odds with inherent property rights theory and regards the corporation, not as a private association united by individual property rights, but as a public association constituted through political and legal processes and as a social entity for pursuing collective goals with public obligations (Gamble and Kelly, 2001). This perspective is primarily associated with communism theories that view the corporation as a political tool for social purposes (Dine, 2000) and the communitarian view of property conditionality which argues that individual property rights are conditioned and restrained in a social context and in community (Warren, 2000).

Corporations are granted by the state to the individual not only as an economic entity for a commercial purpose, but more importantly, as a social entity for general community needs. The corporation has a collective, rather than individual identity and executives are representatives and guardians of all corporate stakeholders' interests (Hall, 1989). This theory prefers to resolve disputes, conflicts of interests, overcome market failures and reduce transaction costs by nationalising corporations or by using legal intervention within a public law framework and improving the system of checks and balances (Millon, 1990).

#### 2.2.2.2 The Pluralistic Model

The pluralistic model supports the idea of multiple interests of stakeholders, rather than shareholder interest alone. It argues that the corporation should serve and accommodate wider stakeholder interests in order to make the corporation more efficient and more legitimate.

The pluralistic model is often connected with the instrumental position in claiming wide stakeholder interests (e.g., Campbell, 1997; Plender, 1997; CTC, 1998). Stakeholding is regarded as an effective means of achieving specific ends, rather than as an end in itself. 'Most commonly, it is argued that stakeholding is instrumental in increasing efficiency, competition and profitability' (Stoney and Winstanley, 2001). It is asserted that if corporations practice stakeholder management, their performance such as profitability, stability and growth will be more successful.

**2.2.2.3 The Trusteeship Model**

Letza(2002) notes that the trusteeship model adopts a realistic and descriptive perspective in viewing the current governing situation of a publicly held corporation. The trusteeship model differs from the agency model in two ways. First, the fiduciary duty of the trustees is to sustain the corporation's assets, including not only the shareholders' wealth, but also broader stakeholders' value such as the skills of employees, the expectations of customers and suppliers, and the company's reputation in the community. Managers as trustees are to promote the broader interests of the corporation as a whole, not solely the financial interest of its shareholders. Second, managers have to balance the conflicting interests of current stakeholders and future stakeholders and to develop the company's capacities in a long term perspective rather than focus on short-term shareholder gains. To establish a trusteeship model, they ask for statutory changes in corporate governance, such as changing the current statutory duties of the directors, ensuring the power of independent directors to nominate directors and select senior managers and appoint CEOs for a fixed four-year term, etc.

None of the models listed above fits the SOE's governance structures. Identifying the most suitable model or alternatively crafting a suitable model from available theories by picking the best practice in each classification could help in designing the corporate governance structures that will encourage best practice in SOE's management.

## 2.3 Recent Developments Influencing Change in Corporate Governance

### 2.3.1 Sarbanes-Oxley Act

The Sarbanes-Oxley Act (2002) was the first attempt for United States to address the issue of corporate Governance as an item of national importance. Previously, the observance of good corporate governance in companies had been left to the various stock exchanges and the Securities & Exchange Commission (SEC). The stock exchanges, notably New York Stock Exchange (NYSE) and National Association of Securities Dealers Automatic Quotations (Nasdaq) had pretty well developed rules. The SEC requirements were for checking and ensuring compliance to general Company Laws, but not on governance issues. NYSE listing rules were mainly meant to make companies that are domiciled in other states but trading in New York comply with the New York State Company Laws. In the United States, company law has largely been the docket of the state laws. The state had not found a good enough reason to interfere in designing and implementing corporate law.

In the USA, after the collapse of ENRON, millions of workers lost trillions of dollars of pension funds. Given the impact of the collapse of ENRON, on the economy, the federal Government Commissioned researchers who came up with a list of prescriptions on how best to deal with the problem, some of the highlights included; enhancing the independence of the board as a whole, establishing an **audit committee, nominating committee and a compensation committee**- each composed entirely of independent directors. The other notable recommendations were; CEO certification and broadened shareholder approval requirements for equity based compensation plans.

Vlahakis *et al (2002)* , expounds that the Sarbanes-Oxley Act covers a variety of areas and seeks among other things to promote corporate responsibility, enhance public disclosure, improve the quality and transparency of financial reporting and auditing, create a Public Company Accounting Oversight Board, protect the objectivity of research analysts, and strengthen penalties for securities law violations.

The presence of various board committees, largely composed of independent directors is aimed at ensuring objectivity in decision making when carrying out board activities. As Raber(2003) observes, independent directors are more likely to detect problems and to question and challenge unwise or unethical behavior. Independence also minimizes potential conflicts of interest that could interfere with the decision-making process in evaluating risks and dealing with crises. Board independence can be compromised by any number of factors. Raber(2003) notes that in addition to remuneration, independence can also be affected by such pre-existing conditions as the nominees having received consulting contracts or having accepted loans from the corporation, or if the company has made donations for a charity affiliated to the nominee director in any way. The CEO certification is in turn meant to ensure ownership of the Company financial statements. The financial statements are largely a management report to stakeholder and hence the need for CEO certification.

However, a glaring question has been left unanswered. Given the amount of time that a board member is expected to spend on the company's affairs, the remuneration is likely to be high. The act does not state how much compensation a board member can receive without the independence of such a board member getting compromised.

Most of the state laws demand that the board members be responsible for the running of the company. The Sarbanes-Oxley act demands that the Chief Executive Officer (CEO) who is an employee of the company and an agent appointed by the board, and therefore exercising delegated authority, be responsible for the correctness of the company's financial statement.

Though the Act calls for broadened shareholder approval for directors to be compensated with share options, this should expressly state when it would be prudent for the directors to exercise their options. For a director to be seen to be independent, the share options if they must be part of the remuneration package should have riders, specifying the time frames within which the share options could be exercised, preferably after the directors have retired. The issue of retaining the share options as a remuneration avenue is to ensure that the directors not only concern themselves about proper governance but also performance.

### 2.3.2 Combined Code Of Corporate Governance

In the United Kingdom, corporate governance, like the Constitution, has evolved through time. However, unlike the constitution, corporate governance practice is quite young. The Government got involved early, though just like in the US, involvement was triggered by the collapse of an institution. In the case of UK, the collapse of Bank of Commerce & Credit

International (BCCI). The government commissioned various studies, which culminated in the *Combined Code on Corporate Governance* compiled in 1999 by the Hampel committee. The combined code was quite exhaustive and it has only required minor changes in order to comply with the subsequent global changes. The main contributor to the changes is the Higgs report, *"Review Of The Role And Effectiveness Of Non-Executive Directors"*. The role of the non-executive directors has been given enhanced recognition. The non- executive director oversight role is stressed on.

The combined code of good governance is not a law, companies listed at the London Stock exchange are nevertheless encouraged to comply or explain reason for non-compliance. The London stock exchange has further been assisted by formation of some committees, which have expounded on the processes to be followed to ensure compliance. This is done using various Guidance reports that detail the clauses deal with particular issues, and hence grouping them together for ease of reference. Such guides are *The Turnbull Guidance* and *The Smith Guidance*. The United Kingdom Model is much more structured and this could be a reflection of the amount of debate that has gone into it.

### 2.3.3 The King Report

In 1994, a committee headed by a former South African High Court judge, Mervyn King S.C. King I, published the above report incorporating a code of Corporate Practices and Conduct for Corporate Governance in South Africa. The original report stressed on the protection the shareholders' wealth and maximization of the same. The report was however, revised in 2002 to incorporate wider changes that were taking place internationally. The King report 2002, recognizes that any organization's long-term success is inextricably linked to the sustainable development of the social and economic communities-whether local, national or international-(SAGA-2002). It enumerates some guiding principles for good corporate Governance and these are; discipline, transparency, independence, accountability, responsibility, fairness and social responsibility.

KPMG(2001) commenting on the King II report observes that the recommendations for ethics have shifted from requiring a code to recommending that corporations clearly communicate how organizational integrity is achieved, a code being one possible element. The standard by which corporations wish to be measured in terms of achieving organizational integrity are at the corporation's discretion. However, KPMG(2001) enumerates criteria by which the achievement of organizational integrity can be measured. This includes: establishment of compliance standards and procedures; assignment of high level individuals to oversee compliance; exercising due care in delegating discretionary authority; communication and training; monitoring, audit and provision of safe reporting systems(whistle blowing); enforcing appropriate discipline and reward for consistency; response to offences and prevention of recurrence.

### 2.3.4 Capital Markets Authority Rules in Kenya

The Capital Markets Authority (the Authority) has developed guidelines for good corporate governance practices by publicly listed companies in Kenya in response to the growing importance of governance issues both in emerging and developing economies and for promoting growth in domestic and regional capital markets. It is also in recognition of the role of good governance in corporate performance, capital formation and maximization of shareholders value as well as protection of investors' rights.

The act defines Corporate governance, as the process and structure used to direct and manage business affairs of the company towards enhancing prosperity and corporate accounting with the ultimate objective of realizing shareholders long-term value while taking into account the interest of other stakeholders.

The Authority, in developing these guidelines has adopted both a prescriptive and a non-prescriptive approach in order to provide for flexibility and innovative dynamism to corporate governance practices by public listed companies.

The Act covers the roles and obligations of the various players in a corporate entity, which includes Directors, Chairman of the board, the chief executive and shareholders.

It prescribes best practices by public listed companies and expect the directors of every public listed company to undertake or commit themselves to adopt good corporate governance practices as part of their continuing listing obligations.

It is notable that the guidelines only cover listed companies, which are a total of 48 companies in the various sectors. This is a very small proportion of total companies operating in Kenya and only equal to approximately 25% of the parastatals operating in Kenya. Given the above scenario, it means that the guidelines issued by CMA should be extended to cover other organizations.

### 2.3.5 Principles For Corporate Governance In Kenya

This is a document authored by the Private Sector Corporate Governance Trust, which was later to become and is still known as the Centre for Corporate Governance. This was a good start, but the initiative has not been very well supported. The Centre for Corporate Governance is a non-governmental organization without a wide mandate. It has done exemplary work given the constraints. The organization has recommended the principles of best practice but cannot ensure compliance.

The principles, though modeled around those of the combined code, need updating to keep in touch with changes taking place elsewhere. We need to re-evaluate the recommended practice and see if it has stood the test of time and if it is applicable to the Kenyan situation. Kenya needs to, identify a benchmark against which to model the best practice and identify the best method, to ensure compliance to best practice. In this case, the decision should either be for legislating or developing other means of enforcement like creating watchdog bodies.

## 2.4 Corporate Governance Practices In The Private Sector Vis A Vis The Public Sector.

The above literature deals mainly with the private sector, whereby the emphasis is on the role, structure and rules relating to boards of directors, especially in their accountability relationships with shareholders in ensuring the organization's financial performance-Pat Barret(2003). However, as Barret further notes, the public sector governance is a broader concept, driven by the breadth and complexity of the powers and responsibilities of public institutions and multiple levels of accountability. In emphasizing the diversity that the public sector is faced with, a proposed study by IFAC(2000) notes that it is not possible to develop one framework and one set of recommendations of corporate governance that would be applicable to all public sector entities, but similar principles nevertheless apply whether the controlling body is elected or appointed. In particular, public sector entities have to satisfy a complex range of political, economic and social objectives, which subject them to a different set of external constraints. They are also subject to forms of accountability to various stakeholders, which are different to those that a company in the private sector has to it's shareholders, customers e.t.c. The stakeholders in the public sector may include the ministers, other government officials, the electorate (Parliament), customers and clients, and the general public, each with a legitimate interst in public sector entities, but not necessarily with any "ownership rights".

Barret(2003) gives four key attributes of good governance, which he believes are more important in the public sector, than are financial performance and shareholder value. These attributes are, transparency, integrity, accountability and stewardship

Transparency means being open through meaningful consultation with stakeholders and communication of full, accurate and clear information. Integrity is based on honesty, objectivity, high standards of propriety, probity in the stewardship of public resources and management of the entity's affairs. Accountability as defined by Barret (2003) is the process through which, the public sector entities and the individuals within them are responsible for their own decisions and actions and submit themselves to appropriate external scrutiny. Stewardship is the knowledge that the resources under the management of individuals in the public sector belong to the public and that the role of managers is mainly that of being stewards and hence, exercise their powers on behalf of a wider stakeholder, the nation.

In trying to arrive at a benchmark of public sector corporate governance best practice, five parastals will be sampled. Their systems, operations, activities, policies and organizational behavior compared vis a vis their general performance. The findings will be studied, findings summarized and analyzed and inferences drawn.

# 3. Research Methodology

## 3.1 Research Design

This is a cross-sectional research design intended to find out the current state of implementation of recent corporate governance changes among the SOEs registered and in operation in Kenya as at 31st December 2003.

## 3.2 Population

The population consists of about 200 SOEs (IEA-1994). A listing obtained from various sources made up of the biggest 100 SOEs from all sectors is attached. Some are too small and insignificant to warrant mention.

## 3.3 Sampling

I have classified the list according to the following categories, Agricultural, Financial, Industrial & Allied and Services Sectors. A convenient sample has been selected cutting across each of the above categories and also reflecting size and geographical distribution considerations. A sample size of 10 SOEs has been used.

## 3.4 Data Collection

The study has relied mainly on primary data. The data was collected using structured questionnaires. The questionnaires is a mixture of open ended and closed ended questions. The questionnaires were administered through personal delivery, and collected at a pre-agreed time.

## 3.5 Data Analysis

Data was analyzed using descriptive statistics such as mean, mode and median.

# 4. Data Analysis and Findings.

## 4.1 Introduction

The target sample size was ten State Owned Enterprises. Of those selected, only four were willing to accept the questionnaires while the rest thought the topic too sensitive and declined to participate. The researcher received back all the questionnaires distributed to one of the target organization unfilled, which meant that only three organizations responded. This forms 30% organizational participation. The distribution of the questionnaires was thereafter done to senior and middle level managers in the participating organizations of which, out of a total of 50 questionnaires distributed, 24 were completed and returned to the researcher, which forms 48% response rate.

## 4.2 Operational and Organizational Behaviour

The following section is aimed at establishing the response from the managers on current organizational practices. The profile of the managers who responded can generally be described as middle level managers, between 31 to 40 years old. This is illustrated in the two tables and figures below.

**Table 2-description of the respondents**

| DESCRIPTION OF MANAGER | NO. IN CATEGORY |
|---|---|
| Senior Managers | 6 |
| Middle Level Managers | 13 |
| Not Indicated | 5 |
| **TOTAL** | **24** |
| | |

**Figure I-Description of the respondents.**

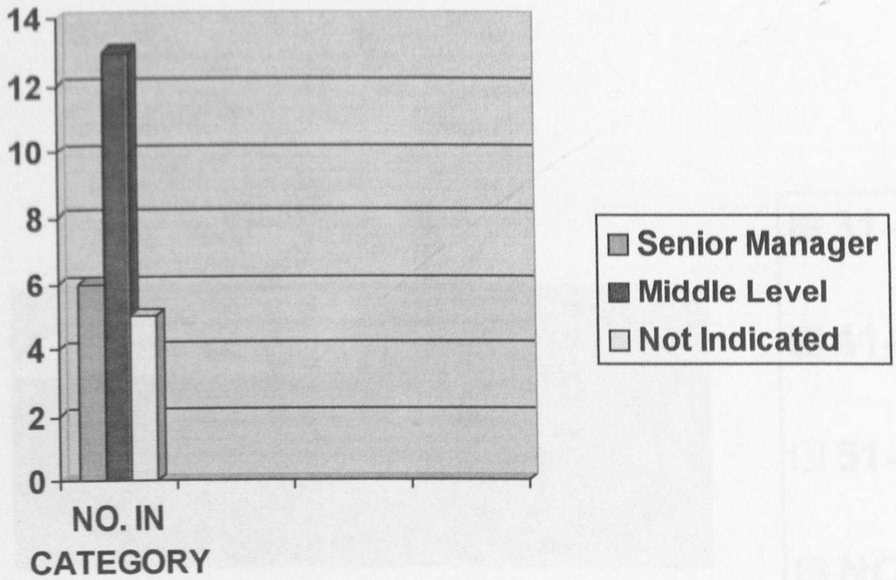
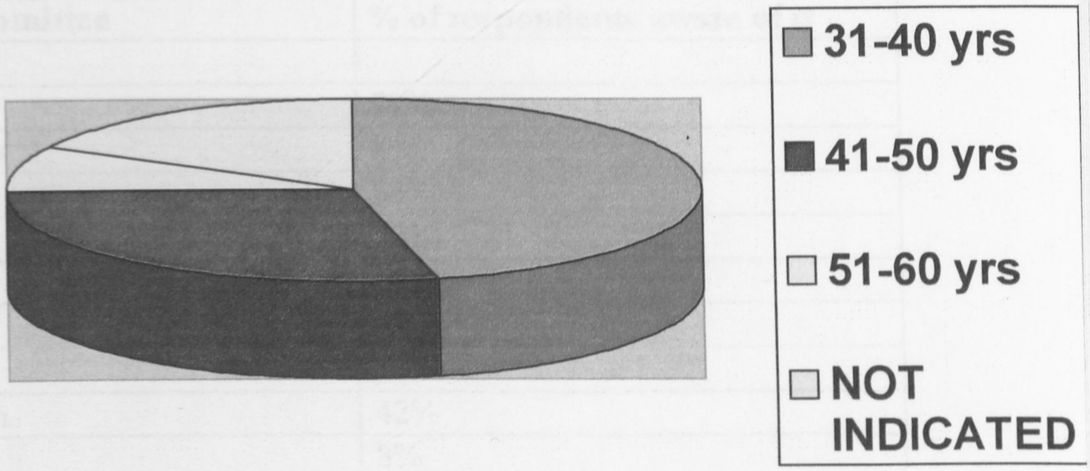



**Table 3-Distribution by age.**

| AGE BRACKET (yrs) | NO. IN CATEGORY |
|---|---|
| 21-30 | - |
| 31-40 | 11 |
| 41-50 | 7 |
| 61 and above | 2 |
| Not Indicated | 4 |
| TOTAL | 24 |

**Figure II-Distribution by age**




The core business of the respondent organizations ranged from banking services to revenue collection. 66% of the respondents indicated that their organizations are involved in other non-core activities. The non-core activities ranged from training to protection of society. However 92% felt that their organizations were effectively carrying out the core activity. 92% felt that there were no constraints in carrying out their core business, while 8% felt that financial and political uncertainty were constraining factors.

On the number of board members in the organizations, there were ten different answers. This shows some anomaly since the organizations that responded were less than ten. The indication therefore is that most of the respondents do not know the total number of board members in their organizations.

96% of the respondents indicated that their organization have board committees. The response as to which board committees there are, was varied.
The varying answers of the number and type of the board committee in the various organizations, is tabulated below.

**Table 4-Board committees by type and level of awareness**

| Board Committee | % of respondents aware of it |
|---|---|
| | |
| Finance | 79% |
| Investments | 8% |
| Tender | 58% |
| Staff | 79% |
| Credit | 13% |
| Marketing | 13% |
| Audit | 42% |
| Automation | 42% |
| Pension | 8% |
| Board trustee | 21% |

From the above analysis, of the total respondents 79% were aware of finance and staff committees, while 58% were aware of the tender committee. 42% were aware of the audit and automation committees.

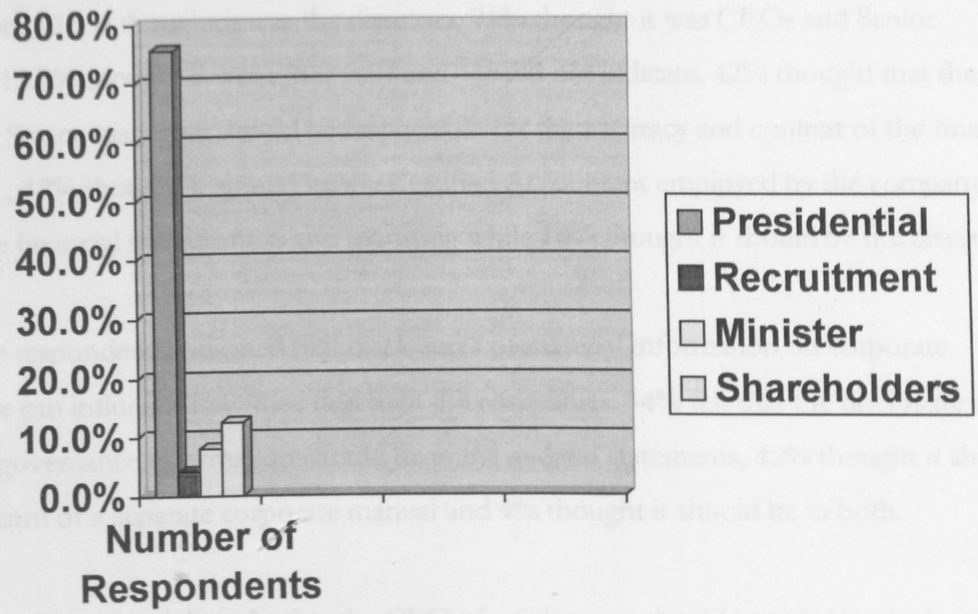
On average, the respondents indicated that board independence was the most significant factor influencing board performance. The following table shows average weights.

**Table 5-Factors influencing board performance**

| Factor influencing board performance | Mean weight |
|---|---|
| Board member's educational qualifications | 3.50 |
| Board member's professional qualifications | 3.83 |
| Board member's experience at board level | 3.38 |
| Proportion of outside directors | 3.08 |
| Independence of the Board | 4.04 |
| Size of the Board | 2.71 |

In trying to find out whether respondents know how their board of directors and the CEOs are appointed, 75.5% responded that it was through a direct presidential appointment. 4% through a recruitment process, 8% by the Minister and 12.5% by shareholders.

Figure III-Appointments of Board of Directors and CEOs




The respondents indicated that they thought the process would be more transparent if the board and CEO were appointed after a recruitment process. Some indicated that there would be better qualified people in the board if this was done.

When asked directly whether there was a staff committee in their organization, 87.5% responded that it was present. This contrasts to the answer obtained above where the respondents were listing the committees of the board in their organization, 79% had indicated that there was a tender committee. This reflects a negative variance of 8.5% between the two answers. The guided answer had a higher affirmative response

96% of the respondents indicated that tenders in their organizations are awarded through a well understood evaluation criteria publicized in the press. The guided answer on whether there is a tender committee produced 96% affirmative response. This also contrasts sharply with the answer previously obtained above, where 58% had indicated there is a tender committee. The negative variance is wider, being 38% in this case, which poses a problem for the researcher.

## 4.3 Corporate Governance Reforms

On the question of who the respondents thought were the most knowledgeable group in their organization, 12.5% thought it was the directors, 71% thought it was CEOs and Senior Managers, 12.5% thought it was other staff and 4% did not indicate. 42% thought that the CEOs and Senior managers should be responsible for the accuracy and content of the financial statements , 42% thought it should be the Certified Accountant employed by the company to oversee the financial management and reporting while 16% thought it should be the directors.

96% of the respondents indicated that disclosures of material information on corporate governance can influence how they deal with the companies. 54% felt that the disclosure of corporate governance information should be in the audited statements, 42% thought it should be in the form of a separate corporate manual and 4% thought it should be in both.

92% of the respondents thought that the CEO of a Company should not also be the board chairman. Respondents felt that the CEO oversees the day to day running of the organization and there would be conflict of interest if the CEO was to double up as the board chairman. There was indication that normally, the Board chairman acts as an arbitrator whenever issues arose.

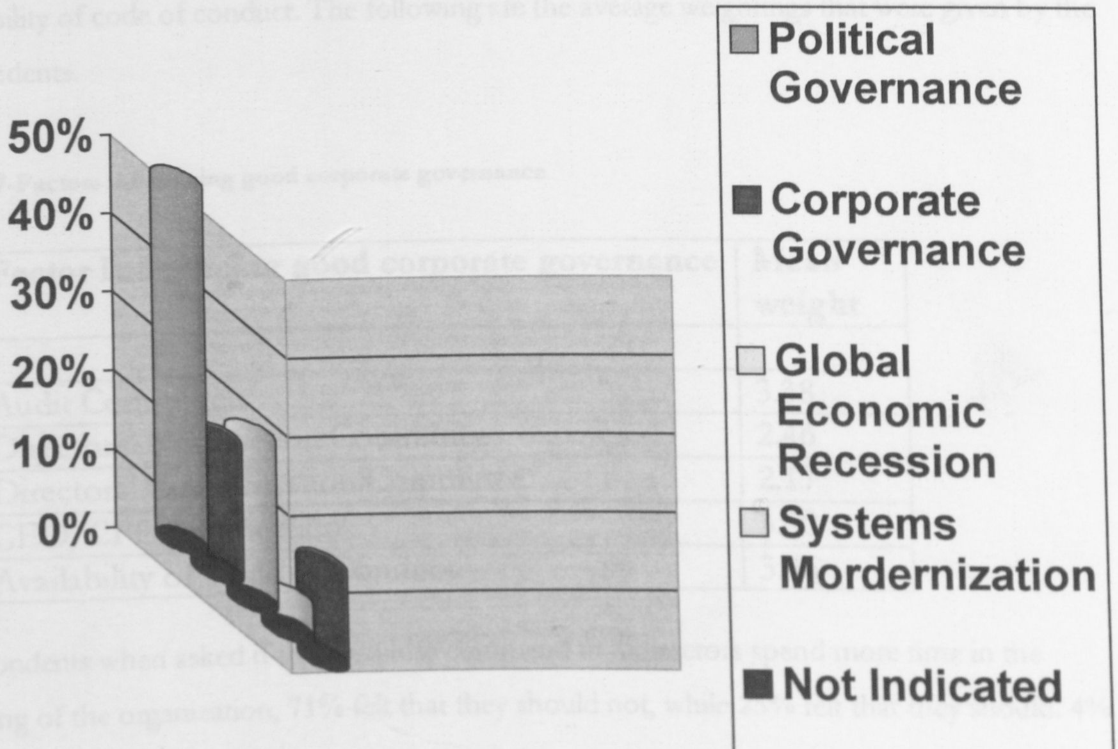
Others felt that the separation of the two offices would create accountability and performance checks within the organization. It was felt that if the two offices are combined, the CEO would wield a lot of power in the company, thereby influencing decision making. This it was found, would not be appropriate as the opinions of other directors need to be considered.

## 4.4 Improving Corporate Governance

**Table 6-Factors that affect corporate governance practices.**

| Biggest constraint to performance | Score |
|---|---|
| Political Governance | 46% |
| Corporate Governance | 17% |
| Global Economic Recession | 21% |
| Other-Systems Mordernization | 4% |
| Not indicated | 12% |

**Figure IV-Factors that affect corporate governance practices.**




The Sarbanes-Oxley Act (2002) took effect in 2002, when it was enacted in the US. It set out corporate governance standards to be followed by companies listed in the stock exchanges. It required that independent directors must comprise the entire of the Audit Committee, Nominating Committee and Compensation Committee.

There was also a requirement that the Chief Executive Officers or Chief Finance Officers must give certifications that they are not aware of any Company violations of corporate governance standards. If such violations are later found, the CEO or CFO would be held liable. In addition, all companies must have a publicly available Code of Conduct applicable to all directors and employees.

On a scale of 5-1 (range is from most important to least important), the respondents specified the importance of each of the factors prescribed by the Sarbanes-Oxley Act (2002) in influencing good corporate governance practices within their organization. The CEO certification was given the highest weight at 3.50 out of 5, followed in importance by availability of code of conduct. The following are the average weightings that were given by the respondents.

**Table 7-Factors influencing good corporate governance**

| Factor Influencing good corporate governance | Mean weight |
|---|---|
| | |
| Audit Committee | 3.38 |
| Directors' Nomination Committee | 2.46 |
| Directors' Compensation Committee | 2.17 |
| CEO/CFO certification | 3.50 |
| Availability of Code of Conduct | 3.46 |

Respondents when asked if they would recommend that directors spend more time in the running of the organization, 71% felt that they should not, while 25% felt that they should. 4% of the respondents did not give a recommendation.

Asked if they thought that their organization would perform better if the Directors' pay were to be increased, 88% felt it would not, 8% felt it would and 4% did not indicate.

For the respondents who felt that the organization would do better if the director's pay were to be increased, their justification was that better pay would result to more motivated directors who would thereafter deliver better and more efficient services.

The respondents gave suggestions on how to improve corporate governance in the organization. Some felt that corporate governance would improve if there is less board involvement in management matters. Others felt that corporate governance should be the responsibility of all senior managers and the board and not only the CFO, CEO and Audit committees. There was a feeling that the senior managers should be sensitized on issues of corporate governance through seminars and workshops.

Other respondents felt that there should be improvement of communication between the CEOs, Senior Managers and the lower cadres of staff. It was felt that by doing this, the vision of good corporate governance will be shared resulting to a better understanding of the benefits that can be derived from the same.

# 5. Summary of Findings, Conclusions and Recommendations

## 5.1 Summary and Conclusions

The response rate achieved was not good enough, given the importance of the subject. This shows that the level of disclosure of corporate governance issues is low in SOEs. The younger, middle level managers were not only more willing to participate in the research but manifested deep knowledge and understanding of corporate governance issues. Most of the respondents were very protective of their organizations, such that it was difficult to distinguish between the truthful answers given due to the known position from those attributable to loyalty to their employer.

Given the lack of knowledge on issues like the number of board committees, and contradictions in the answers given when a question is asked in different words, this is an indicator that information on the board activities does not cascade down through the ranks to the lowest cadres of employees. The respondents have recommended that there is need to improve the level of communication and therefore share the vision of good corporate governance to all staff in the organization.

## 5.2 Recommendations

The researcher is of the view that this study should be replicated on a bigger scale and form the basis of future work in developing principles of good corporate governance in SOEs. The principles should then be enforced through a suitable mechanism to ensure compliance. Disclosure of corporate governance issues should be enhanced to allow participation by all employees in complying.

## 5.3 Limitations of the Study

There were constraints experienced in the course of the study of which the most notable one was time. In addition to limited time and financial resources, the researcher was constrained by poor responses and deep seated fear from the prospective respondents. The research would have been more representative if at least 50 SOEs had participated, each contributing not less than 10 participants.

## 5.4 Suggestions for Further Research

The research should be replicated but made to cover more organizations and more respondents per organization with a view to developing a code of good corporate governance practices in SOEs.

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## Appendices

**APPENDIX I-QUESTIONAIRE**

## SECTION I

## QUESTIONS ON OPERATIONS AND ORGANIZATIONAL BEHAVIOR.

1. Name(optional)……………………………..
   Designation……………………………….
   Age ☐ 21-30
   ☐ 31-40
   ☐ 41-50
   ☐ 61 and above
2. What is the core business of your organization?……………………
   ……………………………………………………………………
3. Are there other non-core activities your organization is involved in?
   ☐ Yes
   ☐ No.
4. If your answer to (3) above is Yes, briefly describe the other non-core activities………………………………………………………………
   ……………………………………………………………………..
   ……………………………………………………………………..
   ……………………………………………………………………..
5. Would you consider your organization to be effectively carrying out it's core business
   ☐ Yes
   ☐ No
6. If no to (5) above, what would you consider are the constraints? …….
   ……………………………………………………………………
7. How many board members does your organization have?
   ……………………………………………………
8. Does your organization have Board Committees?
   ☐ Yes
   ☐ No
9. List the number of Board Committees in your organization.

………………………………………………………………
………………………………………………………………
……………………………………………………………
……………………………………………………………
……………………………………………………………

10. On a scale of 5-1 (range is from most significant to least significant), specify the significance of each of the factors listed below in influencing board performance.

Board member's educational qualifications ☐
Board member's professional qualifications ☐
Board member's experience at board level ☐
Proportion of outside directors ☐
Independence of the Board ☐
Size of the Board ☐

11. How are the board members, chairman of the board and the CEO of your organization appointed?

☐ Direct presidential appointment
☐ Through a recruitment process
☐ None of the above. Explain……………………………………
……………………………………………………………
……………………………………………………………

12. Would it make a difference if the process in (11) above were different? Explain……………………………………………………………
……………………………………………………………
……………………………………………………………

13. Is there a staff committee of the board in your organization?

☐ Yes
☐ No

14. Explain how the following are aqppointed.

CEO
……………………………………………………………
……………………………………………………………
……………………………………………………………

Board Members
……………………………………………………………

............................................................................................

............................................................................................

Chairman of the Board

............................................................................................

............................................................................................

............................................................................................

Senior Staff

............................................................................................

............................................................................................

............................................................................................

15. How are tenders awarded in your organization?
 - ☐ Secretly
 - ☐ Through a well understood evaluation criteria publicized in the press.
 - ☐ None of the above. Explain..........................................

 ............................................................................................

 ............................................................................................

16. Does your organization have a tender committee?
 - ☐ Yes
 - ☐ No

## SECTION II

## CORPORATE GOVERNANCE REFORMS

17. Which level of Corporate leaders in Kenya would you consider most knowledgeable about Corporate governance
 - ☐ Directors
 - ☐ CEO & Senior managers
 - ☐ Middle level managers
 - ☐ Other staff

18. Who are responsible for the accuracy and content of the financial statements and other reports?
 - ☐ Directors
 - ☐ CEO & Senior managers
 - ☐ The Certified Accountant employed by the company to oversee the financial management and reporting.
 - ☐ External Auditors

19. Are disclosures of corporate governance practices material information that can influence how you deal with companies?

☐ Yes
☐ No

20. Where would you like the disclosure of the information to be
☐ In the audited financial statements
☐ As a separate corporate manual

21. Is the CEO of a company also be the Board Chairman?
☐ Yes
☐ No

22. If NO in (21) above, explain
………………………………………………………………………
………………………………………………………………………
………………………………………………………………

## SECTION III

## IMPROVING CORPORATE GOVERNANCE

23. What do you think is the biggest constraint to better performance your organization?

☐ Political Governance
☐ Corporate Governance
☐ Global Economic Recession
☐ None of the above. Explain…………………………
………………………………………………………..
…………………………………………………………

The Sarbanes-Oxley Act (2002) took effect in 2002, when it was enacted in the US. It set out corporate governance standards to be followed by companies listed in the stock exchanges. Among them were the following.

- Independent directors must comprise the entire of the following committees,
  - Audit Committee
  - Nominating Committee
  - Compensation Committee
- Chief Executive Officers or Chief Finance Officers must give certifications that they are not aware of any Company violations of corporate governance standards. If such violations are later found, the CEO or CFO would be held liable.

- All companies must have a publicly available Code of Conduct applicable to all directors and employees..

24. On a scale of 5-1 (range is from most important to least important), specify the importance of each of the factors listed below in influencing good corporate governance practices within your organization.

Audit Committee ☐
Directors' Nomination Committee ☐
Directors' Compensation Committee ☐
CEO/CFO certification ☐
Availability of Code of Conduct ☐

25. Would you recommend that the directors of your organization spend more time in the running of the organization?

☐ Yes
☐ No

26. Do you think the directors in your organization would perform better if their pay were to be increased?

☐ Yes
☐ No

27. If yes to (29) above, explain.........................................................
..........................................................................................

28. Please suggest ways for improving Corporate Governance in your organization.

..........................................................................................
..........................................................................................
..........................................................................................

## APPENDIX I 1-List of 100 Major Parastatals

**THE FOLLOWING IS A LIST OF 100 MAJOR PARASTATALS**

| |
|---|
| **AGRICULTURAL SECTOR** |
| |
| Agricultural Development Corporation |
| Coffee Research Foundation |
| Kenya Farmers association |
| Kenya Poultry Limited |
| Kenya Seeds Company Limited |
| Kenya Tea Development Authority |
| |
| |
| **FINANCIAL SECTOR** |
| |
| A. F. Corporation |
| Housing Finance Company of Kenya |
| Industrial Development Bank |
| Kenya Commercial Bank |
| Kenya National Assuarance Company Limited |
| National Bank of Kenya |
| National Hospital Insurance Fund |
| Stanbic Bank (K) limited |
| |
| **INDUSTRIAL & ALLIED SECTOR** |
| |
| East African Oil Refineries(K) Ltd |
| East African Portland Cement Ltd |
| East African Sugar Industries |
| Kenya Co-operativs Creamaries Limited |
| Kenya Power & Lighting Company Limited |
| Kenya-Gen Company Limited |
| Miwani Co. (1989) Limited |
| Mount Kenya Textiles Limited |
| National Agricultural Chemicals and Fertilizers Limited |
| Nzoia Sugar Company Limited |
| Pan African Paper Mills Limited |
| South Nyanza Sugar Company |
| Uplands Bacon Factory L:imited |
| |
| |
| **SERVICES SECTOR** |
| |
| Betting Control & Licensing Board |
| Busia Sugar Company |
| Capital Markets Authority |

| |
|---|
| Catering & Tousirm Development Levy Trustees |
| Coffee Board of Kenya |
| Communications Commission of Kenya |
| Constitution of Kenya Review Commission |
| Electoral Commission of Kenya |
| Electricity Regulatory Board |
| Ewaso Nyiro South Development Authority |
| Executive Secretariat & Technical Unit |
| Higher Education Loans Board |
| Industrial Promotions Services |
| Ken-Ren Chemicals and Fertilizers Limited |
| Kenya Agricultural Research Institute |
| Kenya Airways Limited |
| Kenya Anti-Corruption Authority |
| Kenya Broadcasting Corporation |
| Kenya Chemicals and Food Co-operatives Limited |
| Kenya Fibre Co-operation |
| Kenya Flamingo Airways Limited |
| Kenya Industrial Estates Limited |
| Kenya Institute of Organic Farming |
| Kenya National Federation of Co-operatives |
| Kenya National Trading Corporation Ltd |
| Kenya Pipeline Company Limited |
| Kenya Plant Health Inspectorate Services |
| Kenya Planters Co-operative |
| Kenya Ports Authority |
| Kenya Posts and Telecommunications Corporation |
| Kenya Railways Corporation |
| Kenya Revenue Authority |
| Kenya Roads Board |
| Kenya Sugar Board |
| Lake Basin Develoment Authority |
| Local Authorities Provident Fund |
| National Aids Control Council |
| National Cereals & Produce Board |
| National Oil Corporation of Kenya |
| National Social Secutiry Fund |
| Non-governmental Organization Co-ordination Bureau |
| Pet Control Products Board |
| Pyrethrum Board of Kenya |
| Ritirement Benefits Authority |
| Tana River Development Authority |
| Tea Board of Kenya |
| Teachers Service Commission |
| Inspector of Statutory Boards |
| Kenya Institute of Administration |
| Government Training Institute |
| NYS Institute of Business Studies |
| Government Press |
| Government Chemists |
| Kerio Valley Development Authority |

| |
|---|
| Ewaso Nyiro North Development Authority |
| Coast Development Authority |
| Kenyatta National Hospital |
| Kenya Education Staff Institute |
| Kenya National Institute Commission for UNESCO |
| Kenya National Examinations Council |
| Kenya Industrial Training Centre |
| Kenya Medical Training Centre |
| Centre for Respiratory Diseases Research Institute |
| Kenya Trypanosomiasis Research Institute |
| Kenya National Archives & Documentation Services |
| National Industrial Vocational Training Centre |
| Kenya Textiles training Institute |
| Centre for Research & Training |
| Department of Remote Surveys & Remote Sensing |
| Kenya Wildlife Services |
| Kenya Institute of Business Training |
| Kenya Airports Authority |
| East African School of Aviation |