THE EFFECT OF CORPORATE GOVERNANCE ON FINANCIAL MANAGEMENT EFFICIENCY OF CONSTITUTIONAL COMMISSIONS IN KENYA

BY

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DECLARATION

This research project is my original work and has not been presented for any academic award in any other institution of higher Learning.

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DEDICATION

This project is dedicated to my dear mum Ofunja Mary Ogessa, who laid the foundation of my academic world and the role she played to get me this far.
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<th>Full Form</th>
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<tr>
<td>AG</td>
<td>Auditor General</td>
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<td>CAJ</td>
<td>Constitutional Commission on Administrative Justice</td>
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<tr>
<td>CEO</td>
<td>Chief Executive Officer</td>
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<td>CG</td>
<td>Corporate Governance</td>
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<td>CGS</td>
<td>Corporate Governance Score</td>
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<td>CIC</td>
<td>Commission for Implementation of the Constitution</td>
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<td>CRA</td>
<td>Commission on Revenue Allocation</td>
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<td>EACC</td>
<td>Ethics and Anti-Corruption Commission</td>
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<td>FY</td>
<td>Financial Year</td>
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<td>GoK</td>
<td>Government of Kenya</td>
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<td>IEBC</td>
<td>Independent Electoral and Boundaries Commission</td>
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<td>IFC</td>
<td>International Finance Corporation</td>
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<td>MTEF</td>
<td>Medium Term Expenditure Framework</td>
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<td>NT</td>
<td>National Treasury</td>
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<td>NZSC</td>
<td>New Zealand’s Security Commission</td>
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<td>OCOB</td>
<td>Office of the Controller of Budget</td>
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<tr>
<td>OECD</td>
<td>Organization for Economic Co-operation and Development</td>
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<td>PEFA</td>
<td>Public Expenditure and Financial Accountability</td>
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<td>PSC</td>
<td>Public Service Commission</td>
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<td>SP</td>
<td>Strategic Plan</td>
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<td>SRC</td>
<td>Salaries and Remuneration Commission</td>
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<td>TOR</td>
<td>Terms of Reference</td>
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ABSTRACT

Corporate governance encompasses how an organization is managed; it’s corporate and other structures, its culture, its policies and strategies, and the ways in which it deals with its various stakeholders. The need for corporate governance arises because of the separation of management and ownership in the modern corporations. The motivation for this study was to examine whether the variables that researchers had found to be significant in explaining corporate governance practices in relation to financial management efficiency of companies in developed countries apply in a developing country like Kenya. The study’s objective was therefore to assess the effect corporate governance on financial management efficiency of constitutional commissions in Kenya. The study adopted a descriptive survey and relied on both primary and secondary data for 10 Constitutional Commissions for a period of three years from 2010/2011 to 2012/2013 financial years. Data on approved budget and expenditures for Constitutional Commission’s was compiled from data managed by the Office of the Controller of budgets. Data was the analysed using a regression model where financial management efficiency was the dependent variable and the independent variables being; Board Size, Board Roles and Board effectiveness. The Policy recommendations from this study would be to find out other factors affecting the financial management efficiency of constitutional commissions other than the Board size, Board roles and Board effectiveness that only explain on average 86% of the variations in financial management efficiency. It is also important that executive commissioners are reduced in the constitutional commissions as the basis for enhancing financial management efficiency. This can be best achieved through revising the terms of contract for incoming commissioners after completion of tenure for the commissioners in office.
CHAPTER ONE
INTRODUCTION

1.1 Background of the Study
Corporate governance encompasses how an organization is managed; it’s corporate and other structures, its culture, its policies and strategies, and the ways in which it deals with its various stakeholders (Barrett, 2002). The need for corporate governance arises because of the separation of management and ownership in the modern corporations. The positive theory of agency argues that the managers may behave opportunistically to maximize their own welfare (Merrett & Houghton, 1999). This agency problem can be mitigated through the protections derived from good corporate governance structures (Okeahalam & Akinboade, 2003).

The recent global financial crisis of 2007 to 2010 has seen the collapse of large companies in many countries including the UK and the USA. This crisis and the preceding Asian financial crisis of 1997 has revealed problems with corporate governance and the apparent inability of boards to monitor and control company performance, and the remuneration and performance of managers (OECD, 2009). However, these challenges are not new. For these reasons corporate governance structures and practices over the years has been subject to extensive scrutiny, controversy and debate (Gugler, 2001).

Modern public corporations are managed by managers and monitored by a board of directors. The separation of the decision making role (the CEO) from the control role (the board) and from risk-bearing (shareholders) is thought to be a reasonable way to structure company governance (Fama & Jensen, 1983), so long as decisions made are in the best interest of the residual claimants and efficiency is maximised. However, poor company financial performance, scandals and failures over the years has revealed that the board has not been effective in monitoring managerial behaviour. A study undertaken by the Asian Development Bank (2000) revealed that poor governance practices was one of the major contributing factors that led to the Asian financial crisis in 1997. The failure of high profile companies has also been linked to poor corporate governance practices.

The motivation for this study is therefore to examine whether the variables that researchers have found to be significant in explaining corporate governance practices in relation to financial management efficiency of companies in developed countries apply in a developing
country like Kenya. Corporate governance has become an important issue in many countries and the response has varied from a legislative response like the Sarbannes-Oxley Act in the USA to an adoption of best practice principles in countries like the UK and Australia. (Barako, Hancock and Izan, 2006).

Given the history of most developing countries, it is imperative that international principles of corporate governance introduced in developing countries like Kenya are promoted as beneficial to the citizens and are developed and ratified by the citizens. Gatamah (2002), goes on to say that good governance experiences challenges in terms of ownership issue, poor public governance and public hostility to donor driven initiative. Further, Kenya has tried to adopt international standards by establishing appropriate institutions, carry out institutional capacity building and National capacity building.

The Kenyan Constitution of 2010 contains provisions that raise the bar considerably with specific reference to integrity and transparency. Chapter Six of the constitution provides guiding principles on leadership and requires persons that hold public office be selected on the basis of personal integrity, competence and suitability, or through election in free and fair elections. It also requires public officers to be objective and impartial in decision making and ensure that their decisions are not influenced by nepotism, favouritism, corruption or other improper motives. Leaders are also required to offer selfless service based solely on the public interest, to demonstrate honesty in the execution of public duties, to submit the declaration of any personal interest that may conflict with public duties and to be accountable to the public for decisions and actions. (Kenya Governance report, 2011).

Improved governance practices provide structures through which objectives of the company are set, and the means of attaining those objectives, and ways of monitoring performance are also determined (OECD, 2004).

1.1.1 Corporate Governance
Corporate governance is a set of mechanisms through which outside investors protect themselves against exploitation by the Insiders” (La Porta, 1999). According to Shleifer and Vishny (1997) “corporate governance deals with the ways in which suppliers of finance to corporations assure themselves of getting a return on their investment.” Parkinson (1994) further says that” corporate governance as the process of supervision and control intended to ensure that company’s management acts in accordance with the interests of shareholders”. 

2
Tricker (1984) on the other hand says that “the governance role is not concerned with the running of the business of the company *per se*, but with giving overall direction to the enterprise, with overseeing and controlling the executive actions of management and with satisfying legitimate expectations of accountability and regulation by interests beyond the corporate boundaries”. His definition explains clearly the role of corporate governance in financial management efficiency of an organisation which also gives meaning to this study.

PFM Act 2012 (20A) defines corporate governance as the process and structure used to direct and manage business affairs of the public entities towards enhancing prosperity and corporate governance with the ultimate objective of realizing national long term value while taking into account the interest of all stakeholders.

1.1.2 Financial Management Efficiency

This refers to the efficient and effective management of money (funds) in such a manner as to accomplish the objectives of the organization. It is the specialized function directly associated with the top management. The significance of this function is not only seen in the 'Line' but also in the capacity of 'Staff' in overall administration of a company. It has been defined differently by different experts in the field. Muriithi (2008) says that it’s a subjective measure of how well a firm can use assets from its primary mode of business and generate revenues. This term is also used as a general measure of a firm’s overall financial health over a given period of time, and can be used to compare similar firms across the same industry or to compare industries or sectors in aggregation.

Financial management efficiency in constitutional commissions just like any other public entity shall adhere to the principles laid down in the Constitution of Kenya 2010. The following principles shall guide all aspects of public finance in the Republic (a) there shall be openness and accountability, including public participation in financial matters; (b) the public finance system shall promote an equitable society, (c) the burdens and benefits of the use of resources and public borrowing shall be shared equitably between present and future generations; (d) public money shall be used in a prudent and responsible way; and (e) financial management shall be responsible, and fiscal reporting shall be clear. (Constitution of Kenya, Article 201).
The main objective of the PFM Act 2012 is to ensure that national and county governments manage public finances in accordance with the principles spelt out in Article 201 of the constitution, and that public officer’s account to the public through parliament and county assemblies. Public Finance Management Act (2012). The Constitution of Kenya 2010, Chapter 12, put public financial management (PFM) at the centre of public financial management policy reforms. These reforms are aimed at ensuring efficiency in the use of public finances which contributes to enhanced financial management for public entities like the constitutional commissions. It is through the PFM that a financial management Framework is identified and shows critical dimensions of financial management in terms of Economy, to measures the relationship between quantity and quality of resources inputs and its related costs, Efficiency measured by the relationship between inputs and outputs, Effectiveness measured by the extent to which outputs accomplish set outcomes and finally Appropriateness measured by the extend of outcomes of a programme that are the priority of the Government.

The PFM systems will never in themselves provide results such as achieving the Millennium Development Goals or reach the vision 2030 for Kenya. The PFM systems are support processes to other main processes in Health, Education etc. The PFM systems performance is however an important prerequisite to achieve results for the main processes. Wasteful spending, allocative inefficiency, poor revenue, payroll or payment systems can harm all efforts to reach results for the public sector at large. PFM system assessment using the PEFA indicators becomes more useful when the instrument is used repeatedly, as progress and set-backs can be spotted and the general development assessed (PEFA report, 2009).

1.1.3 Effect of Corporate Governance on Financial Management Efficiency
At the culmination of every financial crisis academicians, regulators, governments tend to focus on the corporate governance more vigorously in order to enhance investors’ confidence that would attract investments. According to the OECD Principles of Corporate Governance (2004)” The corporate governance framework should promote transparent and efficient markets, be consistent with the rule of law and clearly state the division of responsibilities among different supervisory, regulatory and enforcement authorities. Bairathi (2009) said “Corporate governance is not just corporate management; it is something much broader to include a fair, efficient and transparent administration to meet.
1.1.4 Constitutional Commissions in Kenya

The Constitutional Commissions of the Kenya Government are created by Chapter 15 of the Constitution of Kenya or acts of Parliament (Appendix I). Article 249 of Constitution of Kenya (2010) states the objectives of constitutional commissions being to; protect the sovereignty of the people, secure the observance by all State organs of democratic values and principles and promote constitutionalism. The commissions are subject only to the Constitution and the law; and are independent and not subject to direction or control by any person or authority. The same article goes on to state that Parliament shall allocate adequate funds in separate votes to enable each commission perform its functions. (Article 249 of Constitution of Kenya 2010)

Chapter 15 contains the provisions that protect all of the commissions and the Controller of Budget and Auditor-General. It declares their independence, ensures that appointment of their members is open and accountable, protects their members from arbitrary removal, sets out their powers and, reinforcing the gender-sensitivity of the Proposed Constitution, it says that the chairperson and vice-chairperson of a commission can’t both be men or both be women – a woman must hold down one position and a man the other. Article 250 of the constitution of Kenya (2010) goes on to state that each commission shall consist of at least three, but not more than nine, members. The chairperson and each member of a commission shall be; Identified and recommended for appointment in a manner prescribed by national legislation, approved by the National Assembly and appointed by the President.

PFM Act 2012, refers to corporate governance as the process and structure used to direct and manage business affairs of the public entities towards enhancing prosperity and corporate governance with the ultimate objective of realizing national long term value while taking into account the interest of all stakeholders. (PFM Act, 2012)

1.2 Research Problem

La Porta et al. (1999) states that in the recent past, there has been increasing concerns about corporate governance in all public institutions. Cross country and institutional level evidence has shown that there is poor corporate performance of government owned institutions, especially in developing countries hence reforms are expected to improve their performance. International Finance Corporation (2004), says that improvement in corporate governance practices can improve the decision making process within and between a company’s
governing bodies, and should thus enhance the efficiency of the financial and business operations. Better corporate governance also leads to an improvement in the accountability system, minimizing the risk of fraud or self-dealing by company officers. An effective system of governance should help ensure compliance with applicable laws and regulations, and further, allow companies to avoid costly litigation”

In Kenya, Aduda, Wandabwa and Onsongo (2012) conducted a paper on the relationship between corporate governance practices and financial performance among broad casting stations in Kenya. The paper concluded that board size and composition, splitting of the roles of chairman and chief executive, optimal mix of inside and outside directions and number board of directors affected the financial performance of the companies.

Guzeh (2011) conducted a study on the relationship between Corporate Governance and Financial Performance of parastatals in Kenya. In general, the study found that there exists a positive relationship between corporate governance and return on asset. This implies that good corporate governance practices enhance financial performance of parastatals. Therefore, policy makers and management of parastatals should ensure that tenets of good corporate governance be applied to the latter to enhance performance.

Mwaura (2007) in his research highlighted that the initiatives adopted in order to make parastatals more efficient were inadequate and could not realize the intended objectives unless the chief executives of parastatals were hired on a competitive basis. Atieno (2009) stressed that most parastatals in Kenya are characterized by inefficiency, losses and the provision of poor products and services. These conditions were a consequence of poor governance, poor public sector financial management, bureaucratic wastage and pilferage in the management of parastatals, all of which subsequently led to heavy budgetary burden to the public. As a result, The IMF and World Bank in 1994 proposed the privatization of parastatals in Kenya.

Despite numerous studies conducted in corporate governance, corporate failures, bankruptcy and managerial inefficiency continue to pose serious challenge to investment. There still exists a gap that has necessitated this particular research. Most studies on corporate governance in Kenya have concentrated largely on Parastatals and ignoring to a large extent the governance practices and financial management efficiency of other public entities such as the Constitutional Commissions. This study will therefore seek to address this
knowledge gap. Therefore, the research will seek to answer the following question: how does corporate governance relate to financial management efficiency of Constitutional Commissions in Kenya? Which corporate governance attribute significantly has a positive impact on financial management efficiency?

1.3 Research Objective
To assess the effect of corporate governance on financial management efficiency of constitutional commissions in Kenya.

1.4 Value of the Study
This research study will be important in the following way:-

The results of this research may be useful for regulators in Kenya as they continue to deliberate the appropriate corporate governance requirements for constitutional commissions in terms of appropriate number of commissioners to consider and the skills and knowledge that each should possess. Lastly it would also consider whether to have executive, non-executive commissioners or a mix of the two.

This study will be useful in providing direction to the various commissioners on the key components that help enhance financial management efficiency. This would therefore be like an eye opener on the different areas of study or training for them, training that would enhance their capability in undertaking the various responsibilities at hand.

This study will be a contribution to the existing knowledge on corporate governance and financial management efficiency of the public sector entities especially constitutional commissions and also fill the gap on the relationship between these variables for future reference by other researchers.
CHAPTER TWO
LITERATURE REVIEW

2.1 Introduction
This chapter gives the theoretical conceptual framework on the relationship between good corporate governance and financial management efficiency, in which the study is grounded. It reviews empirical literature on past studies in this area and gives a critical evaluation of the literature and identifies the gaps to be filled.

2.2 Theoretical Review
The answer to 'good' governance lies in a theory about corporate behaviour and behind that a set of beliefs about human behaviour. Agency Theory is the prevailing theory and has a dominant philosophical base behind the relationships between the financial markets and quoted companies. Besides the Agency theory there is the Resource dependency, Stewardship and stakeholders theories on corporate governance.

2.2.1 Agency Theory
Jensen and Meckling (1976) defined Agency theory as “the relationship between the principals, such as shareholders and agents such as the company executives and managers”. In this theory, shareholders who are the owners or principals of the company, hire the agents to perform work. Principals delegate the running of business to the directors or managers, who are the shareholder’s agents. It reduces the corporation to two participants: managers and shareholders. An agent has decision-making authority that affects the well-being of the principal.

Agency Theory explains how to best organize relationships in which one party determines the work while another party does the work. In this relationship, the principal hires an agent to do the work, or to perform a task the principal is unable or unwilling to do. For example, in corporations, the principals are the shareholders of a company, delegating to the agent i.e. the management of the company, to perform tasks on their behalf. Agency theory assumes both the principal and the agent are motivated by self-interest. This assumption of self-interest dooms agency theory to inevitable inherent conflicts. Thus, if both parties are motivated by self-interest, agents are likely to pursue self-interested objectives that deviate and even conflict with the goals of the principal. Yet, agents are supposed to act in the sole interest of their principals. (Seven pillars institute, 2008).
The relevance of this theory to my study is that, Constitutional commissions are entrusted with public funds to carry out their mandate. The Commissions as agents of the government are expected to prudently utilise the funding and ensure transparency and accountability are enhanced for all their transactions. Fiduciary responsibilities formalize an agency relationship and provide greater security for principals. In the case of a financial planner who holds power of attorney for an individual client, for example, that planner has the right to conduct financial transactions on behalf of the individual without his consent or awareness. In this example, the financial planner is legally required to make decisions solely in the best interest of his client, rather than doing things with his clients' money simply for his own personal gain. (Ingram, 2000)

2.2.2 Stewardship Theory
Danaldson and Davis (1991) defined stewardship theory as one whereby when managers, left on their own, will indeed act as responsible stewards of the assets they control. Borrowed from psychology and sociology “A steward protects and maximises shareholders wealth through firm performance, because by so doing, the steward’s utility functions are maximised”.

Unlike agency theory, stewardship theory stresses on the role of top management being as stewards, integrating their goals as part of the organization. The stewardship perspective suggests that stewards are satisfied and motivated when organizational success is attained. Stewardship theory recognizes the importance of structures that empower the steward and offers maximum autonomy built on trust which minimizes monitoring costs. In order to protect their reputations as decision makers in organizations, executives and directors are inclined to operate the firm to maximize financial performance as well as shareholders’ wealth. (Barney and William, 2008).

In this perspective, stewards are like Commissioners for Constitutional Commissions and managers who work to ensure that they meet their targets from the limited resources entrusted to them.

2.2.3 Resource Dependency Theory
Pfeffer (1973) defines Resource Dependency Theory as one that concentrates on the role of board directors in providing access to resources needed by the firm. It focuses on the role that directors play in providing or securing essential resources to an organization through their linkages to the external environment. Resource dependency theorists provide focus on the
appointment of representatives of independent organizations as a means for gaining access in resources critical to firm success. E.g. outside directors who are partners to a law firm provide legal advice, either in board meetings or in private communication with the firm executives that may otherwise be more costly for the firm to secure. This theory is relevant to my study in the sense that Commissioners appointed are presumed to have different expertise in different fields which is very important in their decision making for the Commissions they represent.

2.3 Determinants of Financial Management Efficiency

There are certain factors which impact on financial management efficiency. This factors include; Corporate governance, Credibility of the budget, Comprehensiveness and transparency of the budget, predictability and control in budget execution, Accounting recording and reporting and External and internal scrutiny and audit.

2.3.1 Corporate Governance

Corporate Governance encompasses various components that impact on financial management efficiency such as; Board Size, Board Roles and Board Effectiveness and which will be the main focus of this study.

Panasian et al. (2003) defines Board size as the total number of directors on a board. It has also been regarded as an important determination of effective corporate governance (Bonn et al. 2004). The optimal board size according to Goshi et al. (2002) includes both the executive directors and non-executive directors. Organisational behaviour research suggests that as group sizes grow larger, total productivity exhibits diminishing returns (Hackman, 1990; Steiner, 1972). Based on this view, a number of researchers have looked at whether or not board size has an effect on company financial management efficiency. Holthausen and Larcker (1993) failed to find consistent evidence of a negative relationship between company financial management efficiency and board size. However, Yermack (1996) found an inverse relationship between company financial management efficiency (measured by Tobin’s Q) and board size.

There has been considerable debate on whether large boards perform better than smaller boards. Daily (1995) argue that greater number of directors might increase available expertise and resource pool while Bonn et al. (2004) contends expanding the size of the Board provides an increased pool of expertise, information and advice quality not obtained from other
corporate staff. In contrast, the difficulty inherent in coordinating the contributions of many members can be complex, hindering them to use their knowledge and skills effectively (Forbes & Daniel 1999, Epstein et al. 2004).

From agency perspective, increase in board increases the Board’s monitoring capacity but costs that accrue from large boards may facilitate CEO dominance over board members. For instance large boards have difficulty in building the interpersonal relationships that further cohesiveness, or maintain high board effort norms owing to social loafing that exists in large boards (Forbes & Daniel, 1999). Studies such as Bonn et al. (2004) have also supported previous authors and concluded that when the board size is very large, the disadvantages such as lack of cohesiveness, coordination difficulties and fractionalization are most severe and they became less dominant as board size decreases. In contrast very small boards cannot enjoy the advantages of the pool of expertise, information and advice of a larger board and these benefits emerge when the board becomes larger. To date there are still wide views on an optimal board size. According to Leblanc & Gillies (2003), an 8-11 person’s board may be considered optimal. In a recent study by Epstein et al. (2004), a board of 9-13 members is typically right for most companies but too small for large ones. Goshi et al. (2002) considered an average of 16 directors (3 within and 13 outside directors) to be appropriate for larger companies.

The current study is focused on the ideal Board size in terms of the number of Commissioners and their ratio of executive and non-executive which is appropriate for Constitutional Commissions. Board effectiveness occurs via the execution of roles set (Hung, 1998). What is clear is that the roles of the board have evolved over time. Defining a clear role set is difficult as different disciplines concentrate on different areas of interest. The focus of this study in terms of the Roles of the Board would be; controlling and monitoring of management, Access to resources and strategizing.

Controlling and monitoring management is the first role of the board, a role made necessary by the separation of ownership from control (Berle and Means, 1932). Not-for-profit organizations often find themselves short on adequate resources to implement the ideal internal control environment, especially with regard to segregation of duties. Adequate segregation of duties exists in larger for-profit entities, but is difficult to achieve in some smaller not-for-profit organizations. Even for those not-for-profit organizations that have
adequate resources and staff to allow for proper segregation of duties, monitoring controls can serve as compensating controls. Continuous monitoring enables management and board members to continually review an organization's operations and financial activity (Marcus, 2012).

Monitoring controls are actions performed at the management level designed to provide assurance that information on the operations is appropriate, appears reasonable, and is consistently prepared. (Marcus, 2012). Monitoring controls can be done by comparing monthly or quarterly financial activity to budgeted activity and investigating any unexpected variances. Management and the board have certain expectations of revenues and expenses, in addition to how they should fall out in comparison to the budget. Monitoring this financial activity on a more frequent basis will help identify potential financial problems (Marcus, 2012).

All companies whatever their size or nature of business, need access to outside resources if their businesses are to succeed. These resources vary enormously from company to company, but fall into main categories, as information and physical resources. Developing business networks and working to promote the reputation of the firm are two other important ways that a board can add value to the company. By acting in an open, professional and ethical manner in their dealings with people outside the organization, board members also raise the profile of the firm and enhance its reputation (Garvin and Geoffrey, 2004).

Mace (1971) says that early researchers, taking a managerial hegemony perspective, argued that boards made little contribution to strategy. While others around the same time took the opposite perspective. For example, Boulton (1978) argued that the strategic role of boards was evolving in importance, while Andrews (1998) recommended that directors should work with management in devising strategic plans because of their experience and the fact that an in depth understanding of a firm’s strategy facilitated the monitoring function. More recent research has confirmed that directors considered assisting management with making strategic decisions one of their key roles (Conger, Lawler and Finegold, 2001).

The board’s objective in strategy formulation is to ensure that the strategy of the company will lead to the long-term creation of shareholder wealth or other stated major goals of the organization. However, the level of board involvement will vary from company to company.
For example, the board may see its role as developing the strategic questions for management to answer, when another approach sees the board setting broad objectives for management to implement, (Gavin and Geoffrey, 2004).

According to Triscott, (2004), is doing the right things to achieve the results. In terms of measurement, Novick (1997) suggests that the current approaches measure elements associated with effectiveness rather than effectiveness itself. Board effectiveness can be conceptualized as a function of overall contribution of the board to the organization performance, standard of support provided by the organization, individual contribution of directors to organization performance, board dynamics, Board performance evaluation and review (Vance, 1964). In this study Board effectiveness focuses on the Skills and knowledge of the Board, Committees, Risk management by the Board and the composition of the Board.

Presence and use of skills and knowledge has been identified as another important dimension of board’s effectiveness. Board members must have the right mix of skills and knowledge. For instance, they should possess both functional knowledge in traditional areas of business such as accounting, finance, legal or marketing as well as industry specific knowledge that will enable members to truly understand specific company issues and challenges. In addition, board members must have enough general knowledge to provide good input on all topics of discussion, ask questions of all special interest until they are comfortable enough to cast votes (Espstein et al. 2002). Thus, for boards to work effectively, Nicholson & Geoffrey (2004) emphasize that board members must possess necessary knowledge and skills, given the unique nature of their tasks. Similarly, for a board to effectively perform the supervisory role, it should be composed in a manner that enhances the presence of skills and knowledge.

While the whole board remains accountable for the performance and affairs of the company, it delegates certain functions to subcommittees and management to assist in discharging its duties. Appropriate structures for those delegations are in place, accompanied by monitoring and reporting systems. Each subcommittee acts within agreed, written terms of reference. The chair of each subcommittee reports at each scheduled board meeting. The chair of each subcommittee is a non-executive director and is required to attend annual general meetings to answer questions (McMullen, 1996).

The New Zealand Securities Commission (2004) recommends that companies should have
audit committees to oversee the audit of financial statements and a remuneration committee for setting remuneration for executive officers and directors. The appointment of such committees is expected to have a positive effect on company financial performance. Empirical research focusing on the presence of an audit committee has associated these with companies with fewer financial reporting problems (McMullen, 1996). John and Senbet (1998) report that the presence of monitoring committees (audit and nominations) is positively related to factors associated with the benefits of monitoring. Klein (2002b) shows that independent audit committees reduce the likelihood of earnings management, thus improving transparency. However, Baxter (2006) finds no significant relationship between audit committees and financial reporting quality.

On the other hand, Main and Johnston (1998) and Weir and Laing (2000) reported that the existence of a remuneration committee had a positive effect on financial management efficiency. Klein (1998) found evidence of a positive relationship between the presence of a remuneration committee and company financial management efficiency but noticed this relationship was not highly significant.

Despite the NZSC recommendations and guidelines to incorporate board committees, very few studies, to date, focus on the relationship between board committees and company financial management efficiency. Dalton et al. (1998) provide a similar view, that relatively little research has been undertaken in the relationship between board sub committees and financial management efficiency. Reddy et al. (2008) found that a remuneration committee had a positive effect on company financial management efficiency measured by Tobin’s Q, market-to-book and return on assets. Committees can be used to gather, review and summarize information and report back to the full board for decision or can be delegated specific decision making powers (Gavin and Geoffrey, 2004).

The board is ultimately responsible for the organisation's risk management strategy. While some of the work can be delegated, the buck stops with the board. Risk management includes the identification of all significant risks faced by the company and ensuring that appropriate policies are in place to moderate the impact of these risks (Klein, 2004). This study will focus on the sub committees like Finance, Audit and Procurement committee and the roles
delegated to them by the full commission. This study will seek to find out the appropriate
policies put in place to moderate the impact of risks in constitutional commissions.
The effectiveness of the board in monitoring managers is associated with board composition,
in other words, board independence. In this regard, board composition becomes significant
as the primary responsibility in keeping the board independent (Fama & Jensen, 1983).
Outside, unrelated (independent) directors are viewed as professional referees who can
objectively assess managerial performance, determine their remuneration, and replace them
if necessary (Boeker, 1992).

The empirical research on board composition and company financial management
efficiency found mixed results. Some authors (Ezzamel & Watson, 1993; Hossain et al.
2001; Vance, 1964) found a positive relationship between board composition and company
financial management efficiency. Hermalin and Weisbach (1991) found a very weak
relationship. Lawrence and Stapledon (1999) found inconsistent evidence of a direct
relationship between board composition and company financial management efficiency in
Australia. These studies support the view that there is evidence of a (weak) positive
relationship between board composition and company financial management efficiency.

In contrast, Agrawal and Knoeber (1996) found a negative relationship between board
composition and company financial management efficiency measured by Tobin’s Q.
Klein (1998) found a significant negative relationship between a change in market value of
equity and the proportion of independent directors, but an insignificant relationship for
return on assets and raw stock-market returns. Other studies (Byrd & Hickman, 1992; Chin,
Vos & Casey, 2003; Daily & Dalton, 1992; Mace, 1986) found no relationship between
board composition and company financial management efficiency.

In summary, the effectiveness of the board in monitoring the actions of managers has been a
positive function of the proportion of outside, unrelated directors Agrawal & Knoeber,
(1996). Therefore, an increase in non-executive directors may increase board vigilance.

2.3.2 Credibility of the Budget
Improved allocative efficiency related to millennium development goals and Vision 2030 for
Kenya will depend on more efficient MTEF implementation and analysis. This needs to include
mechanisms for budget analysis of transfers and extra budgetary funds, different cost categories
such as personnel costs and measures for redeployment and re-skilling of the public service towards prioritized areas. (PEFA report, 2009)

2.3.3 Comprehensiveness and Transparency of the Budget
Accurate, current, and complete disclosure of the financial results of financially assisted activities must be made in accordance with the financial reporting requirements of the grant or sub grant. Financial reporting requirements stem from a variety of sources, and financial reports serve many purposes. For example, they serve as tools for use by managers to control their organizations and to monitor the extent to which management's objectives are being achieved. They also provide information to external parties on an organization's financial operations and compliance with a variety of requirements. Each agency may require its own system of financial reports designed to assist the agency and its governing board in controlling and monitoring its operations to insure that the objectives established for the agency by top management are being accomplished. (Brigham, Houston, 2008)

2.3.4 Predictability and Control in Budget Execution
This refers to an effective approach to budgetary control by comparing aggregate expenditure out turn to original approved budget where variances may be spotted for investigation. It investigates the needs of such systems and discusses the various subjects to assure effectiveness through highlights on: cash control systems; control through periodic financial reporting; and central budgetary control (PEFA report, 2009)

2.3.5 Accounting, Recording and Reporting
Grantees and sub-grantees must maintain records which adequately identify the source and application of funds provided for financially assisted activities. These records must contain information pertaining to grant or sub grant awards and authorizations, obligations, unobligated balances, assets, liabilities, outlays or expenditures, and income. Accounting records must be supported by such source documentation as cancelled checks, paid bills, payrolls, time and attendance records, contract and subcontract award documents. (Brigham, Houston, 2008)

2.3.6 External and Internal Scrutiny and Audit
Effective control and accountability must be maintained for all grant and subgrant cash, real and personal property, and other assets. Grantees and subgrantees must adequately safeguard all such property and must assure that it is used solely for authorized purposes. Management is responsible for establishing and maintaining an effective system of internal control. An entity's internal control structure consists of the policies and procedures established to
provide reasonable assurance that specific entity objectives will be achieved. An internal control structure is comprised of three elements (Brigham, Houston, 2008)

2.4 Empirical Review

Corporate failures prompted interest in the link between corporate governance and firm management efficiency. The relation between corporate governance and firm performance has been the subject for many extensive studies in the last decade.

2.4.1 International Evidence

When ownership concentration is low then the change of capital structure is depend upon the strict managerial approach. Friend and Lang (1998) found that ownership concentration play an important role in the financial efficiency of a firm. The strong control of owners can control and direct the managers in achieving the organization goals

Burki and Ahmad (2007) explored the changes of corporate governance in Pakistan’s banking sector and its impact on their efficiencies. They introduced dummy variables as a proxy of corporate governance changes in the banking sector of Pakistan. The result suggested that there was an impact of corporate governance changes on the banking efficiencies.

Robina (2009) analysed the relationship between Corporate Governance and Financial Performance in four Public Universities in Uganda. Her study was prompted by Institutional turbulences as a result of adhoc policy and decision making processes and financial inefficiencies of Public Universities. A cross sectional and correlational study was conducted in four public Universities in Uganda. She used the Statistical Package for Social Scientists (SPSS), Spearman Correlation Coefficient and Multiple Regression Analysis to determine the magnitude of the relationship and prediction of financial performance respectively were applied. Her findings revealed that corporate governance variables namely; board size, had a negative effect on financial performance while policy and decision making had a significant positive relationship with financial performance. Corporate Governance had a significant positive relationship with board roles.

Aydemir (2012) carried out a study to examine the relationship between SAHA’s corporate governance rating score and firm financial management efficiency in Turkey for the period between 2008 and 2010. The purpose of his study was to analyze whether there
was any relationship between Saha’s corporate governance score which based on the principles of Capital Market Board of Turkey and firm performance for 16 companies listed in corporate governance index Istanbul Stock Exchange (ISE) by using Saha’s Corporate Governance. His study also aimed at determining the relationship by attempting to answer the question of whether better governed firms as measured by high corporate governance score had higher efficiency in Turkey. His results indicated that better governed firms measured by high corporate governance score had better performance in Turkey. The result of regressing return on asset, return on equity against Saha’s corporate governance rating score indicated that there was a significant relationship between corporate governance and firm’s financial management efficiency. However, the result of regressing return on sales indicates that there was no statistically significant relation between Saha’s corporate governance score and return on sales.

2.4.2 Local Evidence
Locally, Mwaura (2007) in his research highlighted that the initiatives adopted in order to make parastatals more efficient were inadequate and could not realize the intended objectives unless the chief executives of parastatals were hired on a competitive basis. Given more autonomy, the government was committed not only to designing performance contracts that set realistic standards, but also enforcing them strictly. It also contends that there was a need to streamline the multiple regulations that govern parastatals and reforms. The corporate regulatory framework of the private sector was to raise standards of corporate governance and as a result, ensure that the privatized services were managed prudently.

Guzeh (2011) conducted a study on the relationship between Corporate Governance and Financial Performance of parastatals in Kenya. In general, the study found that there exists a positive relationship between corporate governance and return on asset. This implies that good corporate governance practices enhance financial performance of parastatals. Therefore, policy makers and management of parastatals should ensure that tenets of good corporate governance be applied to the latter to enhance performance.

Aduda, Wandabwa and Onsongo (2012) conducted a paper on the relationship between corporate governance practices and financial performance among broad casting stations in Kenya. From the findings the paper concluded that there was Limited partnership agreements at the top level that prohibited headquarters from cross-subsidizing one division with the cash
from another, High-equity ownership on the part of managers and board members; board members who in their funds directly represented a large fraction of the equity owners of each subsidiary company. The paper concluded that board size and composition, splitting of the roles of chairman and chief executive, optimal mix of inside and outside directors and number board of directors affected the financial performance of the companies.

None of these studies have focused on the relationship between corporate governance and financial management efficiency of Constitutional Commissions in Kenya. This paper therefore aims to explore this relationship, the main objective to establish the relationship between corporate governance and financial management efficiency of Constitutional Commissions in Kenya.

2.5 Summary of the Literature Review
Unlike the Agency theory where the agent is expected to maximise on the returns payable to the shareholder, this study focuses on prudent financial management of commissioners as agents as expected of them by the National government. This paper will explore some important connections between financial management efficiencies and corporate governance practice of Constitutional Commissions in Kenya. Studies conducted on the subject of corporate governance and financial management efficiency have not specifically examined the relationship between corporate governance and financial management efficiency of constitutional commissions, a gap which this paper seeks to address.

The role of corporate governance is becoming very critical nowadays while determining the efficiency of a corporate. The results of this study also will be an evident of this comment and find a significant impact of corporate governance practice in the public sector on their efficiencies.
CHAPTER THREE
RESEARCH METHODOLOGY

3.1 Introduction
This chapter outlines the general methodology which was used to conduct the study. It specified the research design, target population, sampling design, data collection methods and instruments and data analysis and interpretation.

3.2 Research Design
According to Kothari (2004) research design is defined as a framework that shows how problems under investigation will be resolved. The study was a descriptive survey of all the 10 constitutional commissions in Kenya. A descriptive survey is a design involved in establishing the behaviour of one variable as far as another is concerned. This will allow the researcher to use quantitative data in trying to establish the effect of corporate governance on financial management efficiency of constitutional commissions in Kenya.

3.3 Population
According to Polit and Hungler (1999) the population of any research is the total number of all subjects or elements conforming to specific characteristics of the study. The study considered the 10 constitutional commissions as created by the Constitution, 2010 in Kenya (Appendix I). The focus of the study was a census.

3.4 Data Collection
Hungler (1999) data collection is the gathering of information necessary for research. The study made use of primary data on corporate governance, board roles and board effectiveness. Secondary data provided information on credibility of the budget. Data was also collected by use of Questionnaires structured to obtain primary data. Data for each Commission was collected from their individual offices within Nairobi County and the target respondents were staff in senior management and officers in the Finance department.

3.4.1. Validity and Reliability Tests
Content validity index (CVI) was used to measure the relevancy of the questions used to measure the study variables of corporate governance, board roles, and board effectiveness. A four point scale of relevant (100%), quite relevant (75%), somewhat relevant (50%) and not relevant (25%) was used to collect the responses from two experts in the area of study. The reliability tests were performed using cronbach alpha coefficient to determine the internal consistency of the likert scales which was used to measure the study variables.
3.5 Data Analysis
Primary and secondary data was collected, sorted and collated. The data was coded, edited and analysed using the SPSS. Absorption rate was achieved by carrying out a variance analysis between the expenditure and approved budget. Multiple regression was finally used to predict financial management efficiency.

3.5.1. Measurement of Study Variables
The independent variable which is corporate governance was measured in terms of board structure / size and decision making. Board roles were measured in terms of monitoring and control, access to resources, strategy. Board effectiveness was measured in terms of committees, risk management, delegation, skills and knowledge.

Financial management efficiency as the dependent variable was measured using credibility of the budget which is one of the indicators used by the PEFA framework on measuring financial management efficiency. This was done for a period of 3 years i.e. Financial years 2010/11, 2011/2012 and 2012/13.

3.5.2. Analytical Model
Y was modelled as a linear function of observable variables which was measured by the Absorption rate. Absorption rate = (Expenditure/Approved Annual Budget)*100. Both the expenditure and Approved Budget varied over time depending on budget ceilings for the financial years.

\[ Y = \alpha + \beta_1 x_1 + \beta_2 x_2 + \beta_3 x_3 + \epsilon \]

Where:
\( Y \): Financial management efficiency, measured by aggregate expenditure out turn compared to original approved budget.
\( \alpha \): A constant.
\( \beta_1, \beta_2, \beta_3 \): Coefficient estimates which measure the impact of each variable on the absorption rate ‘\( Y \’ \’
\( x_1 \): Total mean score of variables within Board size, measured by the number and nature of Commissioners (Executive or Non-executive)
\( x_2 \): Total mean score of variables within Board roles, measured in terms of board’s monitoring & control, Access to resources and Strategizing.
\( x_3 \): Total mean score of factors within Board effectiveness, measured in terms of board’s skills and knowledge, committees, Risk management and board composition.
\( \varepsilon \) : Error Term.

The variables \( x_1, x_2, x_3 \) are explanatory variables which influence financial management efficiency \( Y \), and the coefficient estimates \( \beta_1, \beta_2, \beta_3 \), measure the impact of each variable on the absorption rate \( Y \).

The Statistical Package for Social Sciences (SPSS) version 20 was used to analyse the data. While the use of descriptive statistics determined frequencies and percentages. The results were presented in pros, tubular and graphical form.
CHAPTER FOUR
DATA ANALYSIS, RESULTS AND DISCUSSION

4.1 Introduction
This section presents the data analysis and findings of the study. Primary and secondary data was collected and analysed respectively which also helped answer my research questions intended to achieve my objective. The findings are presented in tables showing frequencies and regression analysis. They are guided by the following objectives: To assess the effect of corporate governance on financial management efficiency of constitutional commissions in Kenya.

A total of 20 questionnaires were distributed to respondents selected in a structured manner from senior management and Finance department. 16 of the response were completed, 1 response was incomplete and 3 questionnaires were not returned. The table below summarises the response.

Table 4.1: Analysis of Questionnaires

<table>
<thead>
<tr>
<th>Response Type</th>
<th>Number of Respondents</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Completed Questionnaires</td>
<td>16</td>
<td>80</td>
</tr>
<tr>
<td>Incomplete Questionnaires</td>
<td>1</td>
<td>5</td>
</tr>
<tr>
<td>Unreturned Questionnaires</td>
<td>3</td>
<td>15</td>
</tr>
<tr>
<td>Total Questionnaires</td>
<td>20</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: Research Findings

4.2 Descriptive Statistics
This refers to the discipline of quantitatively describing the main features of a collection of information or the quantitative description itself. In the study, those features referred to the Board Size, Board Roles and Board Effectiveness.

4.2.1 Board Size and Structure
To determine the board size, composition and independence in Constitutional Commissions, the researcher used frequency tables. The results are shown in Table 4.2.1 below.
Table 4.2.1: Board Size and Structure

<table>
<thead>
<tr>
<th>Board structure</th>
<th>Frequency</th>
<th>Percent</th>
<th>Valid Percent</th>
<th>Cumulative Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Executive</td>
<td>43</td>
<td>82%</td>
<td>82%</td>
<td>82%</td>
</tr>
<tr>
<td>Non-Executive</td>
<td>12</td>
<td>18%</td>
<td>18%</td>
<td>100%</td>
</tr>
<tr>
<td>Total</td>
<td>68</td>
<td>100%</td>
<td>100%</td>
<td></td>
</tr>
<tr>
<td>Board Size</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1 - 3</td>
<td>2</td>
<td>25%</td>
<td>25%</td>
<td>25%</td>
</tr>
<tr>
<td>4 - 9</td>
<td>4</td>
<td>50%</td>
<td>50%</td>
<td>75%</td>
</tr>
<tr>
<td>10 and above</td>
<td>2</td>
<td>25%</td>
<td>25%</td>
<td>100%</td>
</tr>
<tr>
<td>Total</td>
<td>8</td>
<td>100%</td>
<td>100%</td>
<td></td>
</tr>
<tr>
<td>No. of managers on the B.O.D</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>0-1</td>
<td>1</td>
<td>100%</td>
<td>100%</td>
<td>100%</td>
</tr>
<tr>
<td>Above 1</td>
<td>0</td>
<td>0%</td>
<td>0%</td>
<td>100%</td>
</tr>
<tr>
<td>Total</td>
<td>1</td>
<td>100%</td>
<td>100%</td>
<td></td>
</tr>
</tbody>
</table>

Source: Research Findings

Revelations of table 4.2.1 indicate that the majority of the Constitutional Commissions had a Commission made up of members between 4 - 9 (50%), followed by those who were between 1 - 3 (25%) and 10 and above (25%). The Commissions with the large numbers claim that it is because of their wide mandates hence the need for a larger Board.

Table 4.2.1 further reveals that majority of the Constitutional Commissions (82%) had a higher number of Executive Commissioners. This therefore means that most of the Commissions have a lesser degree of independence based on the notion that the board independence increases as the proportion of outside directors’ increases (Fama & Jensen, 1983). It also shows that the Commission Secretary was the only member of the management that sat on the Board at any one time.

4.2.2. Board Roles

Strategizing, access to resources and monitoring and control were the variables the researcher assessed in determining the Board roles. The researcher used frequency table to determine the extent to which the Commissioners carried out their duties. The results are shown in table 4.2.2 below.
Table 4.2.2: Board Roles

<table>
<thead>
<tr>
<th></th>
<th>No of times</th>
<th>Frequency</th>
<th>Percent</th>
<th>Valid Percent</th>
<th>Cumulative Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Commission has reviewed its financial performance</td>
<td>1-10</td>
<td>2</td>
<td>25%</td>
<td>25%</td>
<td>25%</td>
</tr>
<tr>
<td></td>
<td>10 - 12</td>
<td>6</td>
<td>75%</td>
<td>75%</td>
<td>100%</td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td>8</td>
<td>100%</td>
<td>100%</td>
<td></td>
</tr>
<tr>
<td>Commission has a policy on resource mobilisation</td>
<td>Yes</td>
<td>4</td>
<td>50%</td>
<td>50%</td>
<td>50%</td>
</tr>
<tr>
<td></td>
<td>No</td>
<td>4</td>
<td>50%</td>
<td>50%</td>
<td>100%</td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td>8</td>
<td>100%</td>
<td>100%</td>
<td></td>
</tr>
<tr>
<td>Commission has a strategic plan</td>
<td>Yes</td>
<td>8</td>
<td>100%</td>
<td>100%</td>
<td>100%</td>
</tr>
<tr>
<td></td>
<td>No</td>
<td>0</td>
<td>0%</td>
<td>0%</td>
<td>100%</td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td>8</td>
<td>100%</td>
<td>100%</td>
<td></td>
</tr>
</tbody>
</table>

Source: Research Findings

Revelations of Table 4.2.2 indicate that the majority of the Constitutional Commissions (75%) reviewed their financial performance up to 12 times for the past 3 years or period of study. (25%) reviewed up to 10 times within the period of study. The PFM Act 83(1) requires that an Accounting officer for national government entity prepares a report for each quarter of the financial year in respect to the entity. From the results it’s clear that quite a number of the Commissions complied with this requirement which also plays a major role in ensuring proper financial management of resources.

A policy on resource mobilisation helps to give direction on how to raise additional resources besides the GoK Exchequer. Sufficient funding also helps an entity to fully execute its mandate and in an efficient manner since they can acquire the necessary equipment’s to ensure proper controls. From the results in Table 4.2.2 (50%) of the Constitutional Commissions had developed a policy on resource mobilisation while the other (50%) had not. All the Constitutional Commissions (100%) had developed a strategic plan which helps in planning an entity’s activities for a certain period of time. Financial resources are also well utilised if there is a clear plan of activities as may be stated in the strategic plan.

4.2.3. Board Effectiveness

Board performance is critical to the success of any entity. In this study the researcher assessed the different aspects touching on Board’s effectiveness. Table 4.2.3 below summarises the respondents views with respect to the said aspects ranging from whether the Commissioners posses knowledge specific to the sector, delegation of functions to sub
committees, reporting structure, TORs for sub committees, Audit Committee and policy on risk management.

Table 4.2.3: Board Effectiveness

<table>
<thead>
<tr>
<th></th>
<th>No of times</th>
<th>Frequency</th>
<th>Percent</th>
<th>Valid Percent</th>
<th>Cumulative Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Commissioners possess knowledge specific to the Sector</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Yes</td>
<td>8</td>
<td>100%</td>
<td>100%</td>
<td>100%</td>
<td></td>
</tr>
<tr>
<td>No</td>
<td>0</td>
<td>0%</td>
<td>0%</td>
<td>100%</td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>8</td>
<td>100%</td>
<td>100%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>The Commission delegates certain functions to sub committees</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>25%</td>
<td>0</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
<td></td>
</tr>
<tr>
<td>50%</td>
<td>1</td>
<td>12.5%</td>
<td>12.5%</td>
<td>12.5%</td>
<td></td>
</tr>
<tr>
<td>75%</td>
<td>6</td>
<td>75%</td>
<td>75%</td>
<td>87.5%</td>
<td></td>
</tr>
<tr>
<td>100%</td>
<td>1</td>
<td>12.5%</td>
<td>12.5%</td>
<td>100%</td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>8</td>
<td>100%</td>
<td>100%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>The reporting structure of the Commission is rated at</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>25%</td>
<td>1</td>
<td>12.5%</td>
<td>12.5%</td>
<td>12.5%</td>
<td></td>
</tr>
<tr>
<td>50%</td>
<td>1</td>
<td>12.5%</td>
<td>12.5%</td>
<td>25%</td>
<td></td>
</tr>
<tr>
<td>75%</td>
<td>4</td>
<td>50%</td>
<td>50%</td>
<td>75%</td>
<td></td>
</tr>
<tr>
<td>100%</td>
<td>2</td>
<td>25%</td>
<td>25%</td>
<td>100%</td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>8</td>
<td>100%</td>
<td>100%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>The sub committees have TORs</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Yes</td>
<td>6</td>
<td>75%</td>
<td>75%</td>
<td>75%</td>
<td></td>
</tr>
<tr>
<td>No</td>
<td>2</td>
<td>25%</td>
<td>25%</td>
<td>100%</td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>8</td>
<td>100%</td>
<td>100%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Commission has Audit Committee in place to oversee operations</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Yes</td>
<td>8</td>
<td>100%</td>
<td>100%</td>
<td>100%</td>
<td></td>
</tr>
<tr>
<td>No</td>
<td>0</td>
<td>0%</td>
<td>0%</td>
<td>100%</td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>8</td>
<td>100%</td>
<td>100%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Commission has a policy on risk management</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Yes</td>
<td>6</td>
<td>75%</td>
<td>75%</td>
<td>75%</td>
<td></td>
</tr>
<tr>
<td>No</td>
<td>2</td>
<td>25%</td>
<td>25%</td>
<td>100%</td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>8</td>
<td>100%</td>
<td>100%</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: Research Findings

Analysis of the results above indicate that (100%) of the Commissioners of the Constitution Commissions possessed relevant knowledge in their specific sectors. This therefore means, they have the capability of handling issues with a lot of expertise in their specific sector. Further (75%) of the Commissions, delegate at least 75% of their duties to sub committees. This is very important since the full commission is relieved of the burden of handling all Commission’s issues which could negatively affect its effectiveness because of the input required. (12.5%) delegate 50% while the last (12.5%) delegate 100%.
Revelation of Table 4.2.3 also indicate that the sub (75%) of the Commissions have TORs for their sub committees which give guidance on the operations of Sub committees. The results also indicate the presence of audit committee in all Commissions (100%) which is charged with overall overseeing of operations of the Commissions. This is critical in ensuring that funds are utilised in a legal and proper manner hence a positive impact on financial management.

Last but not least, (75%) of the Commissions indicated that they had a policy on risk management which dealt with hedging, transferring and risk avoidance and or minimisation in the Constitutional Commissions.

4.3 Regression Analysis

To establish the extent to which Board size, Board roles and effectiveness predicted financial management efficiency of Constitutional Commissions, a prediction model was developed using multiple regression analysis as shown in the table 4.3 below.

Table 4.3: Regression Results

<table>
<thead>
<tr>
<th>Source</th>
<th>SS</th>
<th>df</th>
<th>MS</th>
<th>Number of obs = 8</th>
</tr>
</thead>
<tbody>
<tr>
<td>Model</td>
<td>61.4106534</td>
<td>3</td>
<td>20.4702178</td>
<td>F(3, 4) = 15.35</td>
</tr>
<tr>
<td>Residual</td>
<td>5.3349655</td>
<td>4</td>
<td>1.33362414</td>
<td>Prob &gt; F = 0.0117</td>
</tr>
<tr>
<td>Total</td>
<td>66.74515</td>
<td>7</td>
<td>9.53502143</td>
<td>R-squared = 0.9201</td>
</tr>
</tbody>
</table>

| Absorption Rate       | Coef. | Std. Err. | t    | P>|t| | 95% Conf. Interval |
|-----------------------|-------|-----------|------|------|-------------------|
| BoardSize             | -0.9410799 | 0.3874326 | -2.43| 0.072 | -2.016765 | 0.1346055 |
| BoardRoles            | 7.214238   | 2.414558  | 2.99 | 0.040 | 1.5103511 | 13.91813 |
| BoardEffectiveness    | 2.308621   | 4.498255  | 0.13 | 0.007 | 1.059705 | 3.557536 |
| _cons                 | 45.0095    | 11.72921  | 3.84 | 0.019 | 12.444   | 77.575   |

\[ Y = 45 - 0.94X_1 + 7.21X_2 + 2.31X_3 \]

Source: Research Findings
4.4 **Interpretation of the Findings**

Results from table 4.3, show that a combination of Board size, Board Roles and Board effectiveness explained on average up to 86% variations in the financial management efficiency of Constitutional Commissions, hence other factors affecting the financial management efficiency of Constitutional Commissions could be explained by the difference. A probability of 0.04 and 0.007 for Board roles and Board effectiveness respectively are both statistically significant, hence making Board Roles and Board effectiveness significant predictors of financial management efficiency of Constitutional Commissions. This means that a unit increase in Board roles leads to 7.214 positive changes in financial management efficiency while a unit increase in board effectiveness leads to 2.308 positive change of the same. The probability of rejecting Board size is 0.072 which is more than 0.05 that had been set by the researcher hence making the variable statistically insignificant. This therefore means that a unit increase in Board size has a negative impact on financial management efficiency since the increase leads to 0.941 negative changes in financial management efficiency of Constitutional Commissions.

These findings of this study compare with previous studies like that of as Robina (2009), where board size had a negative effect on financial management efficiency while policy and decision making had significant positive relationship with financial management efficiency. Guzeh (2011) indicated that there existed a positive relationship between corporate governance and return on assets. This implied that good corporate governance practices enhance financial management efficiency. Aduda, Wandabwa and Onsongo (2012) also concluded that the board size and composition, optimal mix of inside and outside directors affected financial performance of companies.
CHAPTER FIVE
SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction
This chapter presents the summary of findings with regard to the objectives of the study. It covers conclusions and recommendations.

The research objective of the study was to study the effect of corporate governance on financial management efficiency of constitutional commissions in Kenya. Based on the data analysed, the following is the summary of the findings on the study.

5.2 Summary
The objective of the study was to assess the effect of corporate governance on financial management efficiency of constitutional commissions in Kenya. A descriptive survey of 10 Constitutional Commissions was carried out, where primary data on Corporate governance was collected. The data was the analysed by use of frequency tables and regression analysis.

From the findings of the study the board size referred to the total number of Commissioners on the board of each Constitutional Commission which was inclusive executive and non-executive commissioners. This classification is similar to the categorization of board directors used by Hermalin and Weisbach (1991) and Bhagat and Black (2002).

The findings on board size show that in general the constitutional commission have moderate boards. The majority of these commissions had between 9 and 13 commissioners. Findings also show that a high proportion of executive commissioners has a significant negative relationship on financial management efficiency of the constitutional commissions. These findings are supported by Wier and Laing (2000), who concluded that for a firm to be effective in its monitoring, it should, among other things, have boards with significant outside directors who may make different and perhaps better decisions than boards dominated by insiders. The argument for the need of independent non-executive directors on the board substantiated from the agency theory which states that due to the separation between ownership and control, managers tend to pursue their own goals at the expense of the shareholders (Jensen & Meckling, 1976). Hence, by having independent non-executive directors on the board, these directors would help to monitor and control the opportunistic behaviour of management, and assist in evaluating the management more objectively.
Board roles referred to the Commissioners responsibilities in terms of monitoring and control, developing of policy on access of resources and strategizing on the direction their commissions ought to take to meet their mandates.

The findings on the Board roles show that all the commissioners had developed strategic plans for their commission and majority had policies on resource mobilisation. It was also clear that majority reviewed their financial and activity performance on a quarterly basis as required by law.

Board effectiveness referred to the skills and knowledge of the commissioners that is sector specific, extend of delegation by the full commission to sub committees and the development of a risk management policy to guard the commission against any losses.

Findings of the study revealed that most of the commissioners had relevant knowledge in their area of operation. Further the full commissions delegated substantial duties to the sub committees which were guided by their TORs. Audit committee being and important unit was seen to be present in all commissions. Finally majority of the commissions had developed a policy on risk management for their operations.

5.3 Conclusion
It is worthwhile concluding that there is a significant negative relationship between Board size and financial management efficiency of constitutional commissions. The findings suggest that financial management efficiency of constitutional commissions is not dependent on having large board sizes. In view of the findings, it’s necessary to reduce executive commissioners in the constitutional commissions to achieve better financial management efficiency.

It is also important to note that both the Board Roles and the Board Effectiveness have a positive relationship on financial management efficiency, hence the need to enhance on the items that constitute the two variables.

5.4 Policy Recommendations
There is need to find out other factors affecting the financial management efficiency of constitutional commissions given that the Board size, Board roles and Board
effectiveness explain on average 86% of the variations in their performance.
It is important that executive commissioners are reduced in the constitutional commissions as the basis for enhancing financial management efficiency. This can be best achieved through revising the contract terms for incoming commissioners after completion of term for the commissioners in office.

5.5 Limitations of the Study
This study acknowledges that few studies have been done on the effect of corporate governance on financial management efficiency of constitutional commissions in Kenya. The study was not without limitations as explained below. This study relied on primary data from the constitutional commissions and secondary data from the website of the office of controller of budgets.

Time constraint was a major limitation in this study and especially in balancing school work and office duties. Due to this limitation, the researcher took a very long time in compiling this report to what it is today.

Lastly this study relied on feedback on primary data from different respondents in the different constitutional commissions which was not always presented on time for the researcher’s compilation.

5.6 Suggestions for Further Research
This research targeted the constitutional commission’s governance system and how it affected financial management efficiency. There is need to carry out extensive study on the public views regarding performance of the commissions in terms of service delivery to the public. Secondly, a study on drivers of appropriate corporate governance in Kenyan public entities would be ideal and last but not least a study on the influence of corporate governance on the economic growth of Kenya will be proper.
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APPENDICES

APPENDIX I: List of Constitutional Commissions in Kenya

1. Commission on Administrative Justice
2. Independent Electoral and Boundaries Commission
3. Ethics and Anti-Corruption Commission
4. Commission on Revenue Allocation
5. Public Service Commission
6. Salaries and Remuneration Commission
7. Teachers Service Commission
8. Commission for Implementation of the Constitution
9. Parliamentary Service Commission
10. Judicial Service Commission

Source: Constitution of Kenya, 2010
APPENDIX II: Research Instrument

Introduction Letter

Dear Respondent,

I am an MSC (Finance) student at the University of Nairobi, school of business. I am currently undertaking my research project titled “Effect of corporate governance on financial management efficiency of Constitutional Commissions in Kenya” hence the reason for this letter. Attached is a Questionnaire for gathering data which will be useful in the mentioned subject.

You have been selected as one of the respondents in this study and I therefore request that you kindly facilitate the collection of the required data by answering the questions herein. Please note that the information sought is purely for academic purpose and will be treated with utmost confidentiality.

I look forward to your cooperation in this.

Yours faithfully,

Maureen Kavin Junge
Reg No. D63/78651/2012
APPENDIX III: Questionnaire

Part I: General Information
1. Questionnaire Number……………………..Date……………………
2. Commission………………………………………………………………
3. Position in the Commission…………………………………………………

Part II: Primary Qualitative data
(A) For the following questions, please provide the answer in the space provided otherwise, tick as appropriate.

4. What are the tenures of the Commissioners? Renewable…….. Non Renewable…….

The table below shows the alternative responses and the number assigned in each response. Please evaluate the Statements by a tick or filling in the box with the actual answer or the number that best suits your answer.

<table>
<thead>
<tr>
<th></th>
<th>Yes</th>
<th>No.</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2</td>
<td>1</td>
</tr>
</tbody>
</table>

(B) Components of Corporate Governance.

<table>
<thead>
<tr>
<th>Question</th>
<th>Answer</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>A Board size</strong></td>
<td></td>
</tr>
<tr>
<td>1. How many Commissioners do you have in your Commission?</td>
<td></td>
</tr>
<tr>
<td>2. How many Commissioners are Executive?</td>
<td></td>
</tr>
<tr>
<td>3. How many Commissioners are Non-Executive?</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th><strong>B Board roles</strong></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>I. Monitoring and Control</strong></td>
<td></td>
</tr>
<tr>
<td>1. How many times has the Commission reviewed its financial performance reports for the last 3 years</td>
<td></td>
</tr>
<tr>
<td>2. How many times has the Commission reviewed its activities performance report for the last 3 years</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th><strong>II. Access to resources</strong></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Has the Commission developed a policy on resource mobilisation?</td>
<td>Yes</td>
</tr>
<tr>
<td></td>
<td>No</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th><strong>III. Strategizing</strong></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Has the Commission developed a strategic plan?</td>
<td>Yes</td>
</tr>
<tr>
<td></td>
<td>No</td>
</tr>
<tr>
<td>2. How many times has the Commission reviewed implementation of the strategic plan by management for the last 3 years?</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th><strong>C Board effectiveness</strong></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>I. Skills and knowledge</strong></td>
<td></td>
</tr>
</tbody>
</table>

38
1. How many Commissioners have a secondary education as the minimum level of education?

2. How many Commissioners possess functional knowledge in areas of (business such as accounting, finance and sector specific knowledge)?

II. Committees

1. To what extent does the Commission delegate certain functions to subcommittees?
   - a. 100%
   - b. 75%
   - c. 50%
   - d. 25%

2. How appropriate is the reporting structure of the Commission?
   - a. 100%
   - b. 75%
   - c. 50%
   - d. 25%

3. Are there TORs for sub Committees? Yes No

4. Does the Chair of each subcommittee report at scheduled Commission meetings?

5. Does the Commission have an audit committee in place that oversees the audit of financial operations? Yes No

III. Risk management

1. Does the Commission have a policy on Risk Management? Yes No

2. How many times for the last 3 years has the Commission reviewed the strategies in place on moderation of the impact of risk?

IV. Board composition

1. How many non–executive Commissioners are there in your Commission?

2. How many executive Commissioners are there in your Commission?

3. What is the ratio of non – executive Commissioners to Executive Commissioners?

(C) Financial Management

I. Accounting Recording and Reporting

1. How regular does your Commission carry out its reconciliation of accounts?
   - a. Monthly
   - b. Quarterly
   - c. Semi Annually
   - d. Annually

2. How many times for the last 3 years has your Commission reported on its expenditure returns?

3. How long does your Commission take to prepare its Financial
Statements after closure of the Financial year?
   a. One to two months
   b. Three to four months
   c. Five to six months
   d. Seven to twelve months

<table>
<thead>
<tr>
<th>II. Budgeting</th>
<th></th>
<th>Yes</th>
<th>No</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Does your Commission participate in the Annual budget process?</td>
<td></td>
<td>Yes</td>
<td>No</td>
</tr>
<tr>
<td>2. Does your Commission have a planning Committee in place which handles budgeting issues?</td>
<td></td>
<td>Yes</td>
<td>No</td>
</tr>
</tbody>
</table>

THANK YOU