

**DETERMINANTS OF EFFECTIVENESS OF CORPORATE
GOVERNANCE IN STATE CORPORATIONS IN KENYA**

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**Determinants of Effectiveness of Corporate Governance in State
Corporations in Kenya**

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of Philosophy in Business Administration (Strategic Management) in
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DECLARATION

This thesis is my original work and has not been presented for a degree in any other University

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DEDICATION

To my dear family for their great love and encouragement, without whose inspiration and support I would not have been able to soldier during challenging times of my study. God bless you all.

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LIST OF ACRONYMS

BCCI	Bank of Credit and Commerce International
CBK	Central Bank of Kenya
CCG	Centre for Corporate Governance
CCK	Communication Commission of Kenya
CEO	Chief Executive Officer
CMA	Capital Markets Authority
FDI	Foreign Direct Investment
FY	Financial Year
GOK	Government of Kenya
ICPAK	Institute for Chartered Public Accountants of Kenya
ICPSK	Institute for Chartered Public Secretaries of Kenya
IMF	International Monetary Fund
IPO	Initial Public Offering
KCB	Kenya Commercial Bank
KCC	Kenya Co-operative Creameries
KMO	Kaiser-Meyer-Olkin
KRC	Kenya Railway Corporation
LG	Liquid Gas

NBK	National Bank of Kenya
NHC	National Housing Corporation
NHIF	National Hospital Insurance Fund
NSE	Nairobi Stock Exchange
OECD	Organization of Economic Cooperation & Development
OECF	Overseas Economic Co-operation Fund
SCA	State Corporation Act
SEC	Securities Exchange Commission
SOE	State Owned Enterprise
SC's	State Corporations
SPSS	Statistical Package for Social Science Programs
TARDA	Tana River & Athi Development Authority
UK	United Kingdom
UNCTAD	United Nations Conference on Trade and Development
URT	United Republic of Tanzania
USA	United States of America

DEFINITION OF KEY TERMS

- Anglo-US Model:** Anglo-US model is an outsider model of governance system in which ownership is dispersed and owners exercise indirect control on management by electing representatives to the board that monitors management (Gugler, Muller & Yurtoglu, 2004).
- Legal & Regulatory Framework:** The legal and regulatory framework is the basic mechanism outside the firm and refers to the laws and regulations that govern the establishment and cessation of firms and their operations in a country (Denise, 2001).
- Corporate Governance:** Corporate Governance in a broad term defines the methods, structure and processes of a Company in which the business and affairs are managed and directed. It also enhances the long term shareholder value by the process of accountability of managers and enhances the firm's performance. Kand *et al.* (2015).
- Board of Directors:** An important internal governance mechanism responsible for the strategic guidance and effective monitoring of management with accountability to shareholders (Tsui, 2010).
- State Corporation:** Refers to Nationalized Corporations publicly owned by the State or Government and is a legal entity created by a government to undertake its activities with a view to develop and grow its economy. The provisions of establishment of State Corporations in Kenya are set out under the State Corporations Act Cap 446 laws of Kenya (Republic of Kenya, (200)).

ABSTRACT

This study sought to establish the determinants of effectiveness of Corporate Governance at state corporations in Kenya. The Specific Objectives were; to determine the effectiveness of Board Characteristics on Corporate Governance at state corporations in Kenya, to explore the effectiveness of Executive and Director Compensation policies on Corporate Governance at state corporations in Kenya, to identify the effectiveness of the Board Audit Committee on Corporate Governance at state corporations in Kenya and to assess the effectiveness of the Legal and Regulatory Framework on Corporate Governance at State Corporations in Kenya. Based on the literature, four research hypotheses were formulated to investigate the relationships between four independent variables namely: board characteristics; executive & director compensation policies, audit committee characteristics, legal & regulatory framework and the dependent variable. This study was based on The Agency and Stewardship theories. Quantitative research design was adopted for the study. The target population of the study was the managers in all the 187 state-owned corporations in Kenya. The sampled companies for the study were 57 which were identified through systematic random sampling technique. The research instrument used was a 5-point-likert scale questionnaire ranging from 1-strongly disagrees to 5-strongly agree. Primary data was collected by use of questionnaires which were administered through drop and pick method. Reliability and convergent validity of the questionnaire was tested using the Cronbach's alpha and principal component analysis respectively. Descriptive statistics of means and standard deviation of Likert scores were calculated. Correlation analysis technique was undertaken to determine whether there was a significant relationship between study variables. However regression analysis was performed so as to test the hypothesis and subsequently model the relationship between the variables. The study found out that board characteristic, executive compensation, audit committee characteristics, directors' compensation policies and legal and regulatory framework were positively correlated with corporate governance in state corporations in Kenya. The regression analysis led the study to conclude that Board Characteristics, executive compensation, audit committee characteristics, directors' compensation policies and legal and regulatory framework were critical in determining effectiveness of Corporate Governance in State Corporations in Kenya. Consequently the study recommended that stakeholders of State Corporations should enhance Board Characteristics, compensation policies, audit committee characteristics and Legal & regulatory framework to sustain effective Corporate Governance in these institutions. The four independent variables; board characteristics', executive compensation, audit committee characteristics and legal & regulatory framework, were significant determinants of corporate governance. These factors collectively accounts for large variations (79.9%) in corporate governance in these state owned corporations. Recommendations; Top Management of State Corporations need to adopt and entrench policies that support positive practices of governance and to have legal framework that ensures efficiency and effectiveness in state corporations in Kenya so as to increase shareholder value. Finally it was recommended that further research be carried out that incorporates managers of private and not only state corporations.

CHAPTER ONE

INTRODUCTION

1.1 Background

Corporate Governance can be conceptualized as a set of processes, customs, policies, laws and institutions affecting the way a corporation is directed, administered or controlled, and its purpose is to influence directly or indirectly the behavior of the organization towards its stakeholders (Dignam & Lowry, 2006). “Corporate Governance comprises a country’s private and public institutions (both formal and informal) which together govern the relationship between the people who manage corporations (corporate insiders) and all others who invest resources in corporations in the country” Oman *et al*, (2003). Accordingly, Corporate Governance involves a set of relationships between a company’s management, its board, its shareholders, and other stakeholders. The definition of corporate differs depending on one’s view of the world. However, Ramon (2001), states that differences in culture, legal systems and historical developments from country to country make it difficult to identify one definition of corporate governance. Many existing studies in good corporate governance have focused on the independence of the board of directors (Zandstra, 2002), the role, independence and disclosure of audit committee Rezaee *et al*. (2003), the enforcement of compliance and role of internal auditors (Vinten, 2002).

It also provides the structure through which the objectives of the company are set, and the means of attaining those objectives and monitoring performance are determined (OECD, 2004). (Gompers *et al.*, 2003) assert that good Corporate Governance increases valuations and boosts the bottom line of corporations. Claessens *et al.* (2002) also maintain that better corporate frameworks benefit firms through greater access to financing, lower cost of capital, better performance and more favorable treatment of all stakeholders. Agrawal, (2012), investigated the relationship between Corporate Governance and performance showed mixed results without a clear cut relationship. Traditionally Corporate Governance addresses issues of decision making at the level of the Board of Directors and Top

Management to ensure that all decision are in line with the objectives of the company (Muelbert, 2009).

Recent times have seen the renewal in Corporate Governance interest amongst scholars, practitioners and media alike due to the high-profile collapse of several large corporations, whose governance systems failed to prevent corruption and adequately implement risk management procedures (Ermann & Lundman, 2002). The collapse of major corporations such as the Bank of Credit and Commerce International (BCCI), the Maxwell Empire, Ferranti, and Coloroll in the UK drew the world's attention to this phenomenon. Monem (2011) found that the increasing focus on corporate governance was as the result of the significance corporate collapse of major companies in the world due to the identified weaknesses of these companies corporate governance. These included the collapse of Enron and WorldCom in the USA, collapse of One Tel in Australia and Polly Peck and later Baring's Bank in the USA. According to Jongsureyapart and Wise (2011) the spectacular collapses of Enron, WorldCom, Tyco and Global Crossing in the US, HIH in Australia and Robert Maxwell MMC, BCCI and Polly Peck in the UK were obviously key motivators for the heightened interest in corporate governance

The Asian economic crisis also contributed to raising the profile of Corporate Governance as the crisis has been linked to poor Corporate Governance practices. The notion of shareholder value, promoted by the conservative governments in the UK and US in the early 1980s, also had a significant impact on Corporate Governance developments (Hoa, 2000). Related to these disclosures of alleged gross corporate malfeasance, there was also a more widespread erosion of standards throughout the global markets, with questionable and unethical practices being accepted. The net effect has been to undermine the faith shareholders and investors have in the integrity of the world's capital markets.

Researchers in Corporate Governance Donaldson *et.al.* (2001) reported that there is still lack of concurrence on the ideal Corporate Governance structure that could safeguard shareholders' assets while promoting wealth creation ventures. Corporate Governance plays a more important role on public companies which have essential

effects on social and economic life. The boards of directors of these public companies, which are in the highest level in organization also, have important sharing in effectiveness of Corporate Governance applications. In order to establish effective Corporate Governance structure in public companies; the functions of the board should be organized appropriately, some of the work of the board should be delegated to committees, attention should be paid in defining the board's and committee's sizes, the board members should have good personal attributes and adequate occupational qualifications, the independence of the board should be provided and the board should fulfill its leadership responsibilities. Bulent, (2006).The need of Corporate Governance appears from the conflicts of interest between corporate insiders and outsiders. These, in the presence of asymmetric information allow managers (the agents) to pursue their own objectives that may not be aligned with these of the owners (the principals). Hence managers may conduct actions according to their own self-interest that may not always be beneficial for shareholders (OECD, 2004). According to the OECD principles, good Corporate Governance must provide suitable incentives and rewards for the board and the management to pursue in the interests of the company and the shareholders, to facilitate effective monitoring, and to encourage firms to use resources more efficiently.

Kand *et al.* (2015) in their research stated that the role of corporate governance is manifested in creating value for the corporation and supporting transparency; protecting shareholders' rights and ensuring their equal treatment, acknowledging the interests of all entities that develop relationships with the company, assuming responsibility by the Board of Directors, integrity and ethical behaviour, transparency in implementing internal and external control systems to certify the validity of corporate financial reports.

Effective Corporate Governance systems, in an individual firm and across the economy as a whole, provide confidence levels that are necessary for the proper performance of the market. Therefore, the cost of capital is lower and firms are encouraged to use resources more efficiently (OECD, 2004). Waweru (2005) asserts that there exist marked economic, political and cultural differences between

developed and developing countries. Unlike developed countries, most developing countries suffer from lack of skilled/trained human resources, suggesting that companies in developing economies may experience difficulties attracting people with accounting/finance knowledge in their audit committees. Furthermore, cultural differences between developed countries of the North America (highly individualistic) and developing countries of Africa (highly collectivistic) may also lead to different Corporate Governance arrangements.

In recognition of weak Corporate Governance structures and low disclosure in Africa, there have been numerous initiatives to address Corporate Governance problems. At its inaugural summit in July 2002 in Durban, South Africa, the “African Union” adopted a declaration on democracy, political, economic and Corporate Governance. A peer review mechanism was established to guide future peer reviews based on agreed codes and standards of democracy, political, economic and Corporate Governance Mensah *et al.*, (2003). Since then, a large number of governance guidelines and codes of “best practice” have been adopted in African emerging economies, with local institutes and agencies attempting to promote Corporate Governance principles and accountability for local companies.

Firms take two basic approaches to reduce risk the first approach is to set risk control strategies, the second approach used prior to financial crisis is to shift the risk onto other firms or to generalize the risk to the system. Knott (2010). The corporate sector in Kenya at a seminar organized by the Private Sector Initiative for Corporate Governance formally adopted in 1999 a national code of best practice for Corporate Governance. In Ghana, The Ghana Institute of Directors (IoD-Ghana), in collaboration with the Commonwealth Association of Corporate Governance, conducted a survey on the state of Corporate Governance in Ghana over the period 1999-2000. Upon the results of the survey that revealed an increasing acceptance of good Corporate Governance practices by business in Ghana, the Manual on Corporate Governance in Ghana was launched in 2001 Mensah *et al.* (2003). The Code of Corporate Governance in Nigeria was adopted in 2003 based on the Report of the Committee on Corporate Governance of Public Companies in Nigeria (Nmeielle & Nwauche, 2004). Whilst The Egyptian Institute of Directors was

established in 2004 to create proper awareness among Egyptian corporations and to emphasize the roles and functions of the directors in overseeing corporate activities and attaining corporate goals.

In Kenya, the institutions that have been at the forefront in sensitizing the corporate sector in Kenya on Corporate Governance are: Capital Markets Authority (CMA), Nairobi Security Exchange (NSE), and Centre for Corporate Governance (CCG) and Central Bank of Kenya (CBK) which regulates the banking industry. CMA created a major impact in the development of Corporate Governance guidelines in Kenya when it issued the Capital Market Guidelines on Corporate Governance Practice by public listed companies in 2002. These guidelines were published under a gazette notice No. 369 of 25th January 2002 and not a legal notice and therefore do not have the force of law. However, certain guidelines have subsequently been incorporated into legal notice No.60 of 3rd May 2002 as part of the Capital Markets guidelines and are enforceable in law.

The stated objective of the CMA guidelines on Corporate Governance is to strengthen and promote the standards of self-regulation and bring the level of governance practices in line with international trends. It is however important to note that the emphasis in Kenya on good Corporate Governance and accountability to shareholders and stakeholders has been on public listed companies. Stakeholders are considered to be entities that are affected in various ways by the undertakings of an organization Uzel *et al.* (2015).The potential for listed companies being subjected to sanctions for non-compliance by either the CMA or NSE has played an important role encouraging compliance with the guidelines.

The Institute of Certified Public Accountants (Kenya) requires its members to report on the Corporate Governance practices of companies they audit. The Institute of Certified Public Secretaries (Kenya) also encourages its members to ensure compliance with the Corporate Governance guidelines. Both institutions train their members on Corporate Governance issues. The major components of almost all Corporate Governance approaches are transparency, accountability, fairness and responsibility. The principle of “disclosure and transparency” included in the OECD

Principles of Corporate Governance is basically based on the establishment of disclosure policies towards the shareholders of companies.

Good Corporate Governance today necessitates not only the disclosure of the operating results but also the transparency of the objectives and policies or ownership and management structure of the companies, as a more dynamic process. State corporations have legal capacity to contract debts and other liabilities to finance their requirements. As at the end of 2011/12 FY, Government of Kenya loans to state corporations (both on-lent funds and direct loans from exchequer resources) stood at Ksh.88 billion. These loans are yet to be paid to the lenders by the corporation, or indeed by Government of Kenya in cases where the corporation has defaulted and Government of Kenya guarantee called up.

For instance, out of the explicit contingent liabilities, the guaranteed debt in respect of KBC and TARDA has since crystallized and Government of Kenya guarantee called up. For KBC, Government of Kenya has so far repaid Ksh.9.29 billion leaving the outstanding amount of Ksh.5.997 billion. The loan was an Overseas Economic Cooperation Fund (OECF) [Japan] loan that was contracted in 1989 and guaranteed by Government of Kenya, in respect of the KBC Modernization Project. The OECF loan of Japanese Yen 15.441 billion (Ksh.8, 287, 588, 398 at the exchange rate at the time) had a moratorium period of 10 years (1989 – June 1999) and repayment period of 20 years (1999 – 2019).

Kenya Railway Corporation has not paid Government of Kenya any portion of this loan, but has continued to accumulate the liability (principal and interest amounts) in its books. As at 30th June 2012, the OECF loan reflected on KBC books as “Government of Kenya/OECF Loan” had accumulated to Ksh.28.925 billion, comprising a current (i.e. overdue) portion of Ksh.26.915 billion and a non-current portion of Ksh.2.010 billion. The total amount as at 30th June 2013 had risen to Ksh.32.345 billion. For TARDA, Government of Kenya as at 30th June 2013 had repaid Ksh.3.44 billion comprising Ksh.2.34 in principal repayment and Ksh.1.1 billion in interest. Consequently, the amount refundable by TARDA to Government of Kenya as at 30th June 2013 was Ksh.3.44 billion plus penalties amounting to

Ksh.7.7 billion. Hence TARDA owed Government of Kenya a total amount of Ksh.11.14 billion in respect of this explicitly guaranteed debt as at 30th June 2013. From time to time Treasury carries out loan restructuring of individual state corporations involving conversion of debt to equity (to the extent that the corporation's assets support) or debt write-off and subsequent discharge of corporations' obligation to repay or a combination of both.

The following are instances of Government of Kenya debt restructuring and/or debt write-offs involving commercial state corporations: Agricultural Finance Corporation (AFC) As at June 2002, the indebtedness of AFC to Government of Kenya was Ksh.8.5 billion comprising Ksh.2.1 billion in principal amount and Ksh.6.4 billion in interests. Cabinet approved a write-off of Ksh.8 billion out of the total amount of Ksh.8.5 billion, with the balance of Ksh.500 million remaining in the books as Government of Kenya loans. Kenya Railways Corporation (KRC) As at June 2010, loans on-lent by Government of Kenya to KRC, inclusive of interest and charges, amounted to Ksh.39.993 billion. KRC had defaulted on the repayment of Ksh.1.5 billion loan on-lent to it by Government of Kenya. Based on a revaluation, the value of KRC assets was Ksh.42.4 billion; hence the conversion to equity of Government of Kenya debt amounting to Ksh.39.993 billion was considered feasible and reasonable. The debt restructuring for the five public sector owned sugar companies including Nzoia, South Nyanza, Chemelil, Muhoroni and Miwani was approved by Government as part of the on-going privatization of the companies.

Out of the total ksh.41, 825,786,485 owed to Government of Kenya and Kenya Sugar Board by the five sugar companies, Kshs.33, 780,465,838, was approved for write-off in order to clear excess debt from the books of the companies that had excess debt (i.e. debt in excess of assets) namely, Nzoia Sugar Company, Muhoroni Sugar Company and Miwani Sugar Company. The Kshs.33.8 billion written off will be divided proportionately between Government of Kenya and Sugar Board, i.e. based on the respective amounts owed. Further, out of the remaining Kshs.8,045,320,647 after the debt write-off to clear the excess debt, an additional Kshs.5,952,000,000, equivalent to the asset value of plant and machinery, was approved for write-off to facilitate reconstruction of the sugar mills (new plant and equipment).

National Bank of Kenya (NBK) Government of Kenya made a decision to take over debts amounting to Ksh.20 billion owed NBK by state corporations. This decision was made in order to enable NBK meet key statutory/prudential ratios, and hence avert a potential crisis in the financial sector that could arise if NBK went down altogether. It should be noted, however, that this decision did not amount to a debt write-off and discharge in favour of state corporations; the state corporations' still need to pay Government of Kenya the balances. Outside of Government of Kenya on-lent and direct lending, state corporations undertake borrowings on the strength of their balance sheets. It is largely the commercial state corporations that borrow funds, mainly from the local market. The law requires that such borrowings be approved by Government of Kenya (parent Ministry with the concurrence of the Treasury). There are notable failures in the history of performance of state corporations in Kenya, including Kenya Railways Corporation, the Numerical Machining Complex, the Kenya Meat Commission and the Kenyatta International Convention Centre amongst others. However, there are also notable successes such as Safaricom. The literature notes that in developing countries, the state-owned enterprise (SOE) sector is an integral part of socio-economic activity.

SOEs are statutorily authorized corporate entities which earn their revenue from the sale of goods and services and in which the government holds a majority of shares (State Corporations Act, 1986). They are also referred to as State Corporations (SCs) or parastatals.

Most state corporations were established to fulfill the social objectives of the state rather than to maximize profits. However, rising stakeholder expectations have forced governments in many countries to reform the Corporate Governance systems of state corporations, with expectations of improving their operations to reduce deficits and to make them strategic tools in gaining national competitiveness (Dockery & Herbert, 2000). The implementation of Corporate Governance restructuring included external boards of directors, statements of corporate intent, and business plans (Bradbury, 2006). Unfortunately, state corporations are still deeply implicated in most fiscal problems of African governments because of their inefficiency, losses, budgetary burdens, and provision of poor products and services.

Occasionally, State Corporations achieve some non-commercial objectives, which are used to justify their poor economic performance (Mwaura, 2007). As early as 1970s, many governments in Africa had recognized the fact that SCs were performing poorly. Poor SC performance was associated with labour rigidities in the market, increased fiscal and foreign debt and inflation problems. State corporations also provided poor and unreliable services, failed to meet demand and were lagging behind in technology areas like telecommunications Shirley *et al.* (2001). It seems this situation has persisted in recent times given that Nyong'o (2005) identified mismanagement, bureaucracy, wastage, pilferage, incompetence and irresponsibility by directors and employees as the main problems that have made SCs to fail to achieve their objectives. He added that Kenya has experienced turbulent times with regard to its Corporate Governance practices in the last two-and-a-half decades, resulting in generally low corporate profits across the economy.

1.2 Statement of the Problem

The various global corporate governance failures in the last 10 years and the global financial crisis have put pressure on boards to live up to their responsibilities. Most countries in the world, including emerging markets, had to take stock of how they fared, Christopher (2012). Many Kenyan parastatals have had major performance challenges as witnessed by; Kenya Railways Corporation, Numerical Machining Complex (NMC), Kenya Farmers' Association, Kenya Planters Co-operative Union, Milling Corporation Industries Ltd., revamped New Kenya Co-operative Creameries Ltd., National Social Security Fund (NSSF), Uchumi Supermarkets and all the State owned Sugar factories that continue to post dismal performance; due to poor management, these include Ramisi Sugar, Chemelil, and Sony Sugar.

The Kenya Meat Commission has also failed to transform the livestock industry in Kenya. Wanjiru (2014) asserts that efforts to revive the debt-ridden Kenya Farmers' Association in the past had failed, leaving farmers disillusioned and putting in jeopardy a sector that formed the backbone of the Kenyan economy.

State Corporations were established to fulfill social objectives of the state and therefore the government supports its agencies through funding and training of Board

of Directors on good Corporate Governance so as to achieve this objective. However, the number of institutions that continue to collapse in quick succession is alarming. Thus making the SCs unable to achieve their target performance.

Mwaura (2007) argues that the poor and ineffective management of State Corporations can be attributed, partly, to the appointment criteria, which is based on political influence rather than relevant technical expertise. In the past, remuneration has been based on a classification system that classifies all SCs into six categories from A to F based on their importance but on the contrary, where a chief executive enjoys a particularly good relationship with the government, his SC is likely to be given a higher ranking, even when it

Previous research on corporate governance in an African context include perceptions of governance (Wanyama *et al.*, 2009), corporate governance practices of publicly quoted companies in Nigeria (Ogbechie & Koufopoulos, 2007), financial distress (Muranda, 2006), effects on capital markets (Kibuthu, 2005), overviews of corporate governance in Africa (Nganga *et al.*, 2003), and studies of governance in board characteristics and involvement in strategic decision making – the Nigerian perspectives (Ogbechie *et al.*, 2009).

Several studies conducted in Kenya on Corporate Governance assessed other contextual issues that impacted on Corporate Governance (Dimba & K'Obonyo (2009), Iravo, Namusonge and Karanja (2011), Uzel, Namusonge and Obwogi (2015), Simba *et. al.* (2015) Sasaka, Namusonge and Sakwa (2015). Ultimately, research on corporate governance as well as management practices that determine effectiveness of corporate governance has not been investigated together with the need to get a better understanding, properly document and operationalize board variables and their effectiveness especially in the Kenyan Context. It is against this backdrop that this research was undertaken to fill the knowledge gap.

1.3 Research Objectives

1.3.1 General Objective

The general objective of the study was to investigate the determinants of effectiveness of Corporate Governance in State Corporations in Kenya.

1.3.2. Specific Objectives

The specific objectives were:

- 1.To determine the influence of Board Characteristics on effectiveness of Corporate Governance at state corporations in Kenya.
- 2.To explore the influence of Executive and Director Compensation policies on effectiveness of Corporate Governance at State Corporations in Kenya
- 3.To identify the influence of the Board Audit Committee on effectiveness of Corporate Governance at state corporations in Kenya.
- 4.To assess the influence of the Legal and Regulatory Framework on effectiveness of Corporate Governance at State Corporations in Kenya.

1.4 Research Hypotheses

The study tested the following research hypotheses;

H₀₁ There is no significant relationship between Board characteristics and effectiveness of Corporate Governance at state-owned corporations in Kenya.

H₀₂ There is no significant relationship between Board compensation and effectiveness of Corporate Governance at state-owned corporations in Kenya.

H₀₃ There is no significant relationship between Audit Committee characteristics and effectiveness of Corporate Governance at state-owned corporations in Kenya.

H₀₄: There is no significant relationship between legal and regulatory framework and good Corporate Governance in State Corporations Kenya.

1.5 Significance of the Study

In general, research should reflect both the social and the scientific relevance. Scientific relevance concerns the relevance of the research to the body of knowledge being accumulated, while social relevance concerns the use to which the outcome of the research will be put. The study was undoubtedly relevant in both aspects. As was noted in the literature, structural characteristics of developing countries made the model of Corporate Governance different from that found in European or North American Contexts. Literature evidences the sorry state of governance at state corporations in the country. Many government agencies continue to operate under losses, brought about by mismanagement and corruption.

Reli Corporations Savings and Credit Society sought government intervention to recover 591 Million from Kenya Railways Corporation while Tana River and Athi River Development Authority that was in the verge of insolvency similarly sought government intervention to recover debts owed to it by Kenya Power and Lighting Company. This therefore eroded the credit worthiness in the eye of foreign lenders, Mwaura (2007). The findings of the study provided critical feedback on the state of Corporate Governance practices at state corporations. Hence, the study informed management on critical aspects of Corporate Governance that required improvement. The study also brought forth insights that will help SCs in their ability to allocate resources efficiently, attract and attain long-term sustainability. The study was beneficial to several parties that include;

1.5.1 Board and Management of State Corporations

Miring'u and Muoria (2011) stated that corporations can only be established and developed by responsible, creative, innovative boards and more appropriately elected and governed boards. The study therefore will help the Board of Directors and Management to identify drivers of effective Corporate Governance.

1.5.2 Policy Makers

The recommendations of the study will assist policy makers as a reference for future policies on effectiveness of corporate governance so as to increase shareholder value and attract investors. The study is of value to Policy makers in State Corporations. Policy can use the findings of the study to examine critical areas surrounding Corporate Governance and to formulate necessary policies as guiding frameworks for Corporate Governance in State Corporation's in Kenya. The Government through the findings of the study can further appreciate the importance of effective corporate in promotion of the country economy. The findings from the research broadened the knowledge in the area of Corporate Governance and leads policy makers to embrace and adopt the hypothesized drivers of effectiveness of corporate governance in state corporations in Kenya.

1.5.3 Academicians and research institutions

Empirical research on Corporate Governance in Kenya was still limited and therefore it was conceivable that the findings of the study would contribute and build on the existing body of academic knowledge in the area of strategic management and also add to academic literature on effective Corporate Governance and guide in the development of an acceptable Corporate Governance model particularly relevant in the context of a developing economy such as Kenya.

1.6 Scope of Study

A state corporation is defined as an entity in which the state has a majority or complete shareholding, MacCarthaigh, (2009). There were 187 State Parastatals as obtained from the Inspectorate of state corporations - office of the president as at 9th October, 2013, and the study was limited to only an investigation of the determinants of effectiveness of Corporate Governance in only 57 state corporations in Kenya. It was necessary because of limited time and resources available. The study focused on the conceptualized indicators of effective Corporate Governance which were board characteristics, executive and director's compensation, board audit committee characteristics and legal and regulatory framework. These four good corporate

governance practices could be the most significant determinants of effective corporate governance as also supported by Patrick (2012).

1.7 Limitations of the study

The researcher faced a challenge of the time taken to return the questionnaires by the respondents within the expected time. The researcher addressed the challenge by making visits and also by the use of telephone calls. Some managers did not appreciate the role of academic research and insisted on filling only one questionnaire citing that whatever was filled was what the others could have filled, while others had reservations about the questionnaire as they felt that the content was sensitive while others cited interference of their privacy. The researcher clarified those issues by taking time to explain to them and assuring them that the results would be used for academic purposes only. The research restricted itself to managers in state corporations leaving out other managers from private sector

CHAPTER TWO

LITERATURE REVIEW

2.1. Introduction

The chapter reviews existing literature on key theories underpinning Corporate Governance. Based on the reviewed literature, a conceptual model was developed and key variables in the model discussed at length. Specifically this chapter reviews relevant literature in the context of state corporations in Kenya. For the purposes of developing the research model and comparison of the findings of the study with previous findings, an empirical literature review of previous studies is included. The chapter concludes by summarizing the literature review with a brief discussion of identified research gaps.

2.2 Theoretical Framework

This chapter contains review of theories relevant and which inform the theoretical background of the research subject matter. The theories reviewed were; the resource dependency theory, stewardship theory, virtue ethics theory and agency theory. The Stewardship theory and agency theories guided in the development of the conceptual framework.

2.2.1 Resource Dependency Theory

Resource dependence theory highlights how the external resources of a parastatal affect the behavior of the parastatals. Pfeffer and Salancik (2003). A fundamental assumption of this theory is that dependence on essential and critical resources influences the actions of parastatals and that organizational decisions and action can be elaborated depending on the particular dependency situation. The theory stresses the importance of looking at the environment in which a parastatal operates when trying to explain behavior and impact (Pfeiffer & Salancik, 2003). The survival of most parastatals depends on their ability to attract the resources needed to support their operations.

This theory explains further the usefulness of the environmental linkages of a parastatal and the outside resources which when used effectively could enhance Performance.(Hull & Rothenberg, 2008).According to Ongore and Kobonyo (2011), more emphasis was put on the skills and other knowledge resources that directors could bring to the parastatals to enhance performance. The skills include strategic planning, leadership, control and monitoring by the Board. Board members could further train and mentor executives in a way that improves organizational behavior.

Del Baldo (2012) observes that directors brought resources such as information, skills, suppliers, buyers, public policy decision makers, social groups and legitimacy that could reduce uncertainty and hence enhance performance. Resource-dependence theories recommend interventions by the board while advocating for strong financial, human, and intangible supports to the executives. This theory, therefore, supported the appointment of directors to parastatal boards because of their opportunities to gather information and network in various ways. The theory is also relevant to the study as it explains how resources at the board of director's disposal can be utilized to enhance effectiveness of corporate governance.

2.2.2 Stewardship Theory

Stewardship theories argue that the managers or executives of a company are stewards of the owners, and both groups share common goals. The board should play a supportive role by empowering executives and, in turn, increase the potential for higher performance Shen, (2003). Stewardship theories argue for relationships between board and executives that involve training, mentoring, and shared decision making (Shen, 2003; Sundaramurthy & Lewis, 2003). This theory can also be applied in the liberalist sense for its promise to better service the interests of shareholder. The theoretical underpinning is normative based on the belief that the directors to whom authority is delegated will exercise stewardship. The executive and directors should be provided with extrinsic motivational factors such as elaborate compensation policies and incentive plans.

2.2.3 Virtue Ethics Theory

Virtue ethics theory focuses on moral excellence, non-biasness, goodness, chastity, good character and competency which are characteristics a board audit committee should possess in ensuring effective corporate governance. Virtue is a state to act in a given situation Annas (2003). Aristotle calls it as disposition with choice or decision. Virtue involves an Intellectual aspect. The concept of intellectual suggests “to do virtuous act with the right reason”. Aristotle mentions that knowledge on ethics is just like becoming a builder Annas (2003). Through the process of educating and exposure to good virtues, the board audit committee becomes competent in contributing to the running of the organization in an effective way. Virtue ethics is eminent to bring about the intangibles into an organization. Virtue ethics highlights the virtuous character towards developing a morally positive behavior (Crane & Matten, 2007). This theory is relevant to the study as it explains how moral excellence, non-biasness, goodness, chastity, good character and competency can be applied in to enhance effectiveness of corporate governance

2.2.4 Agency theory

Agency theory, by Michael and William (1976), has been fruitfully applied in examining the nature of the relationship in a firm that exists between the principal and the agent Denise (2001). Agency theorist argues that in order to protect the principals interest, the board of director must assume an effective oversight function and this should determine the size of the board Brennan (2010). The principal-agent relationship provides benefits since it allows specialization between shareholders, as risk bearer, and management in the management of the firm. The theory is based on assumptions of goal incongruence between the principal and the agent. It focuses on the relationships that are masked by the basic structure of the principal and the agents who are engaged in a cooperative effort, but have differing goals and differing attitudes toward risk. When an agent pursues risky projects, although they may lead to an increased value of the asset, such a move threatens the job security of the agent.

He is therefore not interested in such projects because they are seen as risk since the agent's preferences or goals differ from the principal's, the agent has an incentive to deviate from the principal's interests. It is usually assumed that the interest of the principal is to maximize wealth Denise (2001). The agent, on the other hand, is interested in a variety of issues such as career goals, large salary, corporate jets, plush offices, and expense account meals. Given this conflict of interests, the agent, if left alone, will pursue his own interests to the detriment of the principal's. Therefore, the monitoring solutions by shareholders, especially major ones, constitute an important mechanism for encouraging managers not to deviate from shareholder interests.

Where ownership is fragmented, the board of directors is viewed as an alternative mechanism Denise (2001); Berglof and Claesens (2004). This indicates that monitoring by shareholders depends on the ownership structure; incentives can also be applied to reduce agency costs, they are used to align the interests of shareholders with those of management. The agency theory relates to situations in which one individual (called the agent) is engaged by another individual (called the principal) to act on his/her behalf based upon a designated fee schedule. Mohammed (2013). Since both individuals are assumed to be utility maximizers, and motivated by pecuniary and non-pecuniary items, incentive problems may arise, particularly under the condition of uncertainty and informational asymmetry.

The Agency theory is based on assumptions of goal incongruence between the principal and the agent. The relationships that are masked by the basic structure of the principal and the agents, who are engaged in a cooperative effort, but have differing goals and differing attitudes toward risk. The research sought to determine the relationship between Agency dimensions (Board Characteristic, Director Compensation, Audit Committee Characteristics, Legal and Regulatory Framework) and Corporate Governance.

This study adopted the resource dependency theory, stewardship theory, virtue ethics theory and agency theory. The resource dependency theory is based on recommending interventions by the board while advocating for strong financial,

human, and intangible supports to the executives. This research sought to determine the relationship between Board characteristics dimensions (strategic planning, leadership and control & monitoring). The stewardship theory is based on the belief that the directors to whom authority is delegated will exercise stewardship and this research sought to determine the relationship between Board Dimensions (Board Characteristic, Director Compensation, Audit Committee Characteristics, Legal and Regulatory Framework) and Corporate Governance. The research sought to determine the relationship between Agency dimensions (Board Characteristic, Director Compensation, Audit Committee Characteristics, Legal and Regulatory Framework) and Corporate Governance.

2.3. Conceptual Framework

A conceptual framework refers to a graphical representation of the theorized interrelationships of the variables. According to Imenda (2014) a conceptual framework is an end result of bringing together a number of related concepts to explain a given event and also give a wider understanding of the research problem.

A concept is an abstract or general idea inferred or derived from specific instances Zikmund (2010). A conceptual framework is a set of broad ideas and principles taken from relevant fields of enquiry and used to structure a subsequent presentation. Kothari, (2014) defines a conceptual framework as a hypothesized model identifying the model under study and the relationship between the dependent and independent variables. He defines an independent variable also known as the explanatory variable as the presumed cause of the changes of the dependent variable, while a dependent variable refers to the variable which the researcher wishes to explain. The goal of a conceptual framework is to categorize and describe concepts relevant to the study and map relationships among them. Such a framework would help researchers define the concept, map the research terrain or conceptual scope, systematize relations among concepts, and identify gaps in literature (Zikmund, 2010).

Figure 2.1 shows the diagrammatical representation of the relationship among variables under study drawn from the literature review. It depicts effects of board characteristics, executive and director compensation, audit committee characteristics and legal and regulatory framework as independent variables and corporate governance as the dependent variable.

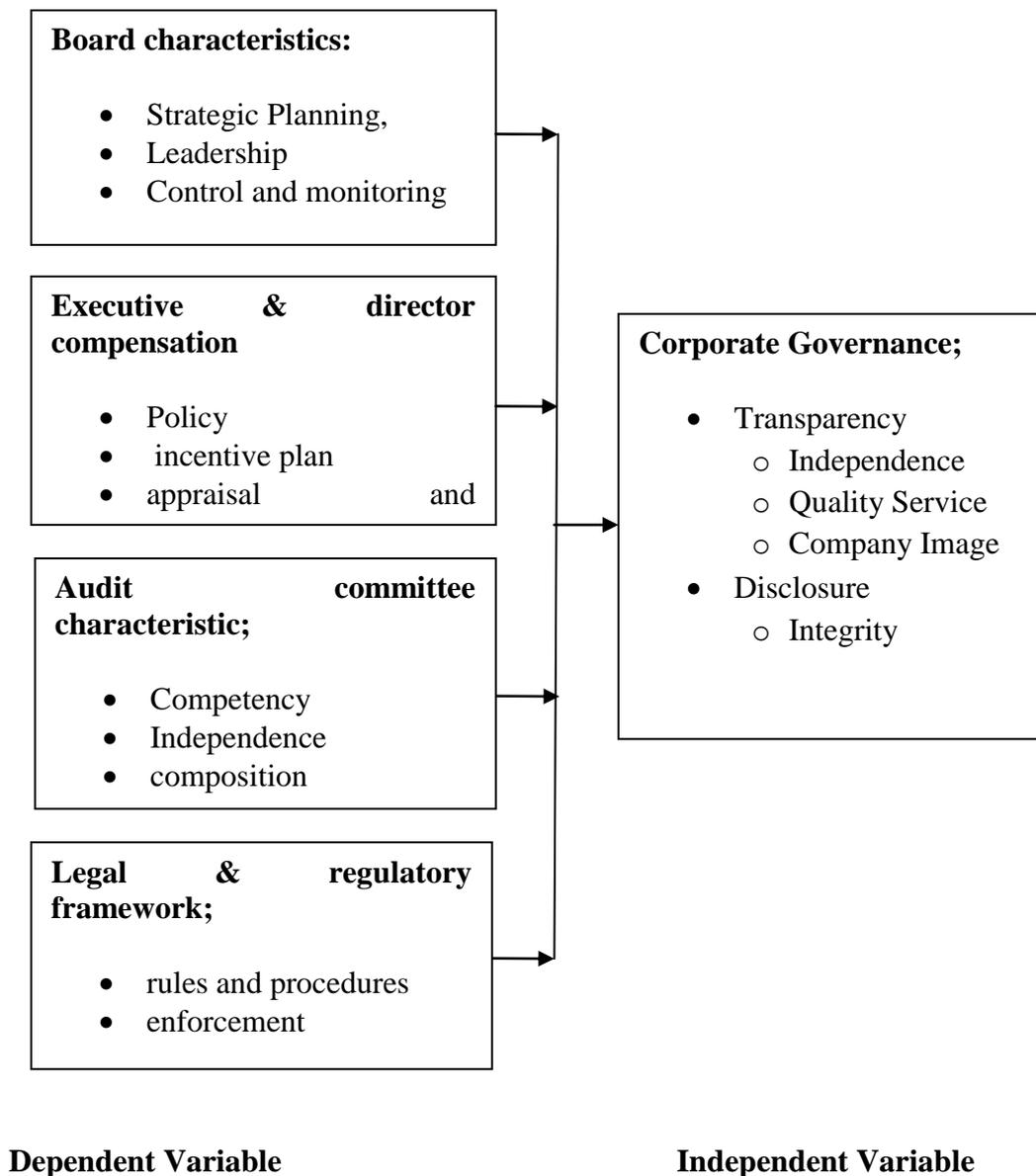


Figure 2.1: Conceptual framework

2.4 Review of Literature on Variables

2.4.1 Board Characteristics

The board of directors is the link between the people who provide capital (shareholders) and the people who use that capital to create value, Miring'u and Muoria (2011). According to Nicholson and Kiel (2004) the board of directors is the organ of a company vested with the complex task and power over overseeing a company's strategy and leadership, monitoring its financial results and ensuring compliance with regulations. Bhagat and Bolton (2008), indicated that board of directors plays an important role in corporate governance practices because it is responsible for planning and monitoring a company's objectives thus, an effective board director with an appropriate composition of directors is important in order to help the board accomplish its aim and ensure the success of the company Al-Matari *et al.* (2010).

The board of directors is undoubtedly one of the main mechanisms for controlling a company. It has all the powers necessary for managing, directing and supervising the management of the business and affairs of the company. According to Ayuso and Argandona (2007), three dimensions of board structure and composition are particularly important in reflecting the degree to which concern about stakeholders has been integrated into corporate decision making: the presence of stakeholders as directors, their appointment in monitoring or oversight board committees and existence of a committee composed mainly of stakeholders. As suggested in the agency theory, the monitoring function of independent audit committees is an essential mechanism of corporate governance that is aimed at reducing information asymmetry between shareholders and managers and thus mitigating agency problems (Hutchinson & Zain, 2009).

How boards interpret their roles and how they operate is key to their effectiveness Carter and Lorsch (2004). Their primary role is to monitor and influence the performance of management on behalf of shareholders in an informed way. A company information disclosure that consists of corporate performance disclosure and financial accounting disclosure is the principal means through which companies

become transparent to all stakeholders (Gill, Vijay & Jha, 2009). Companies should improve the way in which they are governed by taking care of the interest of various stakeholder groups and by emphasizing on qualified and independent directors, business ethics, transparency and fairness in corporate disclosures, whistle blower protection mechanism and accountability.

Chiang and Chia (2005) also found that corporate transparency has a significant positive relationship with firm performance, concluding that transparency is one of the most essential indicators for evaluating corporate performance. (Shanikat & Abbadi, 2011) argued that disclosure and transparency should show that the existence of policies and instructions are in line with the laws and a regulation relating to the company and the nature of the business. Aggarwal (2013). One of the fundamental duties of aboard as outside experts is to advise and monitor the top management team Linck *et al.* (2008). However, outside directors are less effective in their monitoring and advising roles when firm-specific information is high Coles *et al.* (2008). Firms with high research and development expenditures, substantial growth opportunities, and high volatility are harder to monitor unless outside board members are privy to the firm's investment opportunity set

Efficient corporations can only be established and developed by responsible, creative, innovative boards and more appropriately elected and governed boards (Miring'u & Muoria, 2011). Eccles *et al.* (2012) recommended that for sustainability to be embedded in the organizational culture, the governance structure needs to be tailored accordingly. They emphasized on the significance of two key elements of Corporate Governance, i.e. Board of Directors (BOD) and Executive Compensation, to ensure sustainable growth of the organization. Sheikh *et al.* (2013) found that internal governance mechanisms have material effects on firm performance., outside directors and managerial ownership are negatively related to the return on assets, According to Mallin (2010), the essential features of corporate governance are that: it assists in ensuring that an adequate and appropriate system of controls operates within a company and that assets may therefore be safeguarded; it avoids any single individual having too much influence; and it tries to encourage both transparency and accountability in the relationship between company management, the board of

directors and other stakeholders, which investors are increasingly looking for in both corporate management and performance

The following topics were considered in this category including: independence of board members; board size; board activity; chairman/CEO separation; board committees; inside ownership; and outside ownership. The following board characteristics and how they will be measured are discussed; Board Meetings: Neither the Companies Act (1978) nor the CMA guidelines on Corporate Governance prescribe the frequency of the board meetings. In this study the main variable of interest was the number of meetings held by the board of directors as recorded in the firms' minute books. Board Size: Board operation that could impact board effectiveness is the conduct of board meetings such as time management, the quality of presentations and the frequency of the board meeting Levrau and Van den Berghe (2007). Small board size of 8-9 was favoured to promote critical, genuine and intellectual deliberation and involvement among members, which presumably might lead to effective corporate decision-making, monitoring and improved performance Lawal (2012).

Agency theory asks for the independence of the board from the management and hence, the board should have the optimal number of directors to monitor the management effectively and independently. Proponents of Agency theory argue that a substantial increase of the board size could result in a slowdown in decision making and an increase in costs, (O'Regan & Oster, 2005). The directors' independence assures their objectivity when monitoring the management team, thus reducing the managers' opportunistic behavior and increasing the organizations' efficiency O'Regan and Oster (2005). According to Florackis and Ozkan (2004), boards with more than about seven to eight members are unlikely to be effective. They further elaborate that large board's result in less effective coordination, communication, and decision making, and are more likely to be controlled by the CEO. However, Brown and Caylor (2004) suggest that a board size of between six and 15 members is ideal to enhance firm performance. Dalton and Dalton (2005) argue that the advantage of larger boards is the spread of expert advice and opinions around the table compared to a small board.

Larger boards are expected to increase board diversity in relation to experience, skills, gender and nationality. This view is however contradicted by Ebaid (2009) who noted that: larger boards may be more effective in monitoring senior management due to an increased ability to distribute the oversight load over a greater number of observers. Ogbechie and Koufopoulos (2007) found an average board size of 7.8 directors in Nigeria in 2006 as against 10.6 directors in 2010. Similar research studies carried out on boards in Africa indicates that in general African publicly listed firms have between 8 and 19 directors. Okeahalam (2003) reports average board sizes of 7 for Ghanaian, 8 for Ivoirian, 9 for Zimbabwean, 8 for Zambian, 10 for Mauritian, 12 for Namibian firms respectively. Spencer Stuart (2010) reveals that the size of boards in South-Africa averages 12.4 while Abdelsalam *et al* (2008) informs that the average size for Egyptian boards is 19. The Companies Act (1978) is silent on the board size (it sets a minimum of 2 directors) of public listed companies in Kenya.

The CMA guidelines on Corporate Governance practices (2002) however provide that: “The size of the board should not be too large to undermine an interactive discussion during boarding meetings or too small such that the inclusion of a wider expertise and skills to improve the effectiveness of the board is compromised.” Ultimately, the size of the board is however a product of the company’s relationships with the environment. If the organization has requirements for co-opting important external elements of its environments, the greater this need for co-optation, the more members the organization will probably have to place on its board. Inside Ownership: Inside ownership refers to the proportion of equity held by insiders. Lishenga (2007) hypothesizes that if board activity is a good proxy for active monitoring by the board of directors, then board activity should be a substitute for high levels of inside ownership in disciplining managers.

More specifically, as inside ownership rises insiders have incentives to protect shareholder’s interest and need less supervision by the board since board activity is from the efficient contracting view, “a costly monitoring alternative” The CMA Corporate Governance guidelines (2002) propose that a balanced board constitutes an effective board. It therefore requires that the board of directors of every company

should reflect a balance between independent, non-executive directors and executive directors. The independent and non-executive directors should form at least one-third of the membership of the board to ensure that no individual or small group of individuals can dominate board decision-making processes (CMA guidelines on Corporate Governance, 2002). Thus if higher board activity facilitates better board monitoring, outside directors are more likely to demand more board meetings to enhance their ability to monitor management. In addition, in boards with more outside directors, more time is likely to be spent in briefing board members than would be required in boards with higher inside directors. Thus, there should be a positive relationship between the representation of outside directors on the board and the level of board activity (Lishenga, 2007). Board Committees: The CMA proposes that the board should establish relevant committees and delegate specific mandate to them (CMA guidelines on Corporate Governance (2002). It specifically recommends the establishment of audit and nominating committees.

Committees should mainly comprise independent non-executive directors due to the potential for conflict of interest. Split Chairman/CEO roles: The agency theory argues for a clear separation of the responsibilities of the CEO and the chairman of the board and seems to prefer to have the separate leadership structure. If the CEO and the chairman of the board is the same person, there would be no other individual to monitor CEO's actions and then CEO will be very powerful and may maximize his or her own interests at the expense of the shareholders. Therefore, a combined leadership structure promotes CEO entrenchment by reducing board monitoring effectiveness (Florackis, 2004; Nor Hashimah, Norman, Jaffar and Mohamat, 2007).

Although U.K. Code regards separation of the role of CEO and chairman as a sign of good governance; previous empirical analyses do not support it. Coles *et al.* (2008), Weir and Laing (2000) did not find any significant relationship between CEO duality and performance. Sinam (2008) found out that there a significant correlation between CEO/Chairman duality and disclosure. Brickley *et al.* (1990) found no significant announcement return for change in board leadership in either direction. However, when conditioning on firm size, they find that small firms experience negative abnormal returns when changing from dual to separate leadership, while

large firms experience positive abnormal returns. (Pozen, 2006) lacked empirical evidence explicitly linking the costs or the benefits of dual leadership to firm performance

Christopher (2012) in his findings, Board Size, CEO/Duality and board independence were found not to have any significant impact on board processes or on board effectiveness, a contrast to other research findings that link board performance to structural aspects of a board. It is however important to note that, The State Corporations Act (1986) prescribes for separating the roles of the Chairman and the CEO. Board composition: Board composition is very important to effectively monitor the managers and reduce the agency cost (Choe & Lee, 2003), Although the executive directors have specialized skills, expertise and valuable knowledge of the firms' operating policies and day-to-day activities, there is a need for independent persons to contribute the fresh ideas, objectivity and expertise gained from their own fields Nor Hashimah *et al.* (2007). Agency theory recommends the involvement of independent non-executive directors to promote the independence of the board from management.

The reason for this issue is that if the majority of the board members are executives of the company, the board will be more likely to be manipulated by managers and the decision made by the board might be biased and it might favor the interest of the management, not the shareholders. Thus, there should be a higher proportion of independent nonexecutive directors (Florackis & Ozkan, 2004; Nor Hashimah *et al.*, 2007). Higher proportion of non-executive directors in the board helps to reduce the agency cost. Kee *et al.* (2003) and Hutchinson and Gul (2003) support this view by showing that that higher levels of non-executive directors on the board weaken the negative relationship between the firm's investment opportunities and firm's performance. However, de Jong *et al.* (2002), Coles *et al.*, (2001), and Weir *et al.* (2002) dispute it by stating that there is no significant relationship between non-executive directors' representation and performance.

In contrast, in the U.K., Weir and Laing (2000) find a negative relationship between non-executive director representation and performance. (Tornyeva & Wereko, 2012) argued that it would be ideal to have a board size of 7–9 to ensure efficient operations and improved performance. The Cadbury Report (1992) indicates that the presence of non-executives should be effective in enhancing board independence and firm performance. The Code of Best Practice recommended that the board of directors include non-executive directors of sufficient number and calibre in order to give non-executive directors an important influence on the board's decisions. Researchers based on resource dependency perspective suggest that because of their education and broad knowledge, experience, reputation and networks with other institutions, outside directors may play information and service role as well as resource role, and also assist in making important strategic decisions Zahra (2003).

Best practice recommendations on corporate governance require boards to be composed of a majority of non-executive directors (ASX Corporate Governance Council, 2003). Empirical studies on boards of directors have to a large extent been driven by the question of how much the board can influence firm performance. Various researchers have examined the direct impact of different board attributes on firm performance. Using financial performance as a proxy, they have explored boards' effectiveness in protecting shareholders' interests, but have mostly shown inconclusive results (Coles *et al.*, 2001).

Further research has investigated the influence of board attributes on the performance of board roles, suggesting an indirect causal relationship between boards of directors and company performance (Deutch, 2005). The point of interest however on the studies, is the focus on a limited number of characteristics related to board composition, such as outsiders' representation, board size and CEO duality. Although U.K. Code regards separation of the role of CEO and chairman as a sign of good governance, previous empirical analyses do not support it. Coles *et al.* (2001), Weir *et al.* (2002), and Weir and Laing (2000) did not find any significant relationship between CEO duality and performance. Other studies have tried to examine the impact of board committees (Kesner, 1988), director characteristics (Van der Walt & Ingley, 2003) and board processes (Cornforth 2001).

Insight into how boards of directors operate effectively in creating shareholder wealth is still of interest for further exploration. Nicholson and Kiel (2004) developed a framework for diagnosing board effectiveness but has not been tested empirically. Levrau and Van den Berghe (2007) have also developed a process-oriented model for determining board effectiveness. This model strongly relies on the input-process-output approach used in research frameworks for studying organizational teams. Ongore and K' Obonyo (2011) in their study found out that the Board has no value in the Kenyan context.

This was indeed an indictment on the board of directors as an organ of Corporate Governance. The greatest shortcoming of the board in Kenya emanates from lack of adherence to international best practice in board member selection criteria which gives room for unqualified people to join these board Levrau and Van de Berghe (2007) posits that board effectiveness is determined by the extent directors carryout their control and strategic role, they argue that the impact of Board of Directors on company performance occurs directly through the effectiveness of boards performing these two key roles. Several studies indicated that the firm size may eventually affect the firm performance. Mashayekhi and Bazaz (2008) stated that there were solid and important relationships between firm size and corporate operation. Sheikh *et al.* (2013) found that firm size shows a positive linkage with various performance indicators. The primary ground is because large firms are more potent to enjoy benefits such as economies of scale which may amend the corporate performance significantly.

According to research conducted by Rashid, De Zoysa, Lodh and Rudkin (2010), the authors found that firm size is classified as one of the major variable as large firms could be influenced by having more capacity in order to generate internal funds.

2.4.2 Executive and Director Compensation

In this second study variable, the following six sub-variables were discussed: i. performance-based compensation; ii independence and integrity of compensation setting process; iii shareholder approval of compensation policy; iv appointment and independence of the remuneration committee. vi. Directors' Incentive Plans:

Director's incentive plans have become an increasingly popular measure for inducing outside directors to improve their monitoring performance. Compensation is important to help attract skilled people to the board who will be resourceful to ensure that board members take their responsibilities seriously. It should be high enough to bring desired results without attracting members who wish to make compensation the object of their board service.

Compensation can be benchmarked against fees paid by similar organizations in the same country (Jacobs, Mbeba, & Harrington, 2007). Concerning performance-based compensation; Donker (2008) noted that fixed and variable compensation policies and practices that reward management with little regard for shareholder interest indicate weak, ineffective boards. When long-term compensation is tied to shareholder returns then it is considered good governance. Recently in the US, many CEOs' salaries exceeded the one million dollars barrier and their compensation plans include bonus and variable pays in form of stocks and stock options irrespective of the company's performance. Such conditions are a recipe for bad governance. The authors argued that a compensation plan should be related to the corporate performance and performance of peer companies. The relation between CEO remuneration and company performance is the subject of an extensive body of literature.

In their meta-analysis of empirical literature regarding CEO pay for performance Tosi *et al.* (2000) reports that only five per cent of the variance in executive remuneration is associated with company performance. Vinten (2002) argued that: Boards should set as their objective the reduction of directors' contract periods to one year or less, there is an advantage in dealing with a director's early departure by agreeing in advance on the payment to which he or she would be entitled in such circumstances. Pertaining to independence of Committee; Board should establish a remuneration committee made up of independent non-executive directors, decisions on the remuneration packages of executive directors should be delegated to the remuneration committee.

Greater outside directors on boards were associated with improved firm performance. Powerful CEOs (duality role, CEO being the promoter, and CEO being the only board manager) did not have a detrimental effect on performance. Large board size has a positive impact on performance (Jackling & Johl, 2009) thus supporting the view that greater exposure to the external environment improves access to various resources and thus positively impacts on performance (contrary to findings of Ghosh, 2006) Multiple directorships by independent directors to correlate positively with firm value, but multiple directorships by inside directors are, however, negatively related to firm performance. (Sarkar & Sarkar, 2009) are some of the far reaching conclusions reached by researchers. Christopher *et al.* (2012) investigated the relationship between corporate governance and CEO pay levels, and the extent to which the higher pay found in firms using compensation consultants is related to governance differences.

The broad framework and cost of executive remuneration should be a matter for the board on the advice of the remuneration committee. Capezio *et al.* (2011) found that independent remuneration committees are likely to award higher cash remuneration to the CEO and that insider-dominated remuneration committees are likely to award lower levels of cash remuneration to the CEO. Anderson (2003) find that remuneration committee independence is not associated with improved alignment between CEO remuneration and company performance. Contrary to expectations, they find no evidence that when the CEO is appointed to the committee lower pay for performance incentives are awarded to the CEO. Overall they suggest that the mandating of remuneration committee independence may not lead to more effective remuneration contracts. Canyon (2012) shows that firms with remuneration committees pay directors less remuneration. Wambui (2014) found that director compensation influenced financial performance as there was significant relationship between director compensation and net profit.

Shareholder approval; shareholder approval should be sought for new long-term incentive plans. In a study of 722 Australian companies between 1990 and 1999, Merhebi *et al.* (2006) found that CEO cash remuneration is related to company size and company performance. Clarkson *et al.* (2006) examined a sample of 48

companies between 1999 and 2004, and report evidence of an increased alignment between remuneration and company performance over the sample period. O'Neill G (2007) examine executive remuneration for performance linkage of CEO bonus payments in Australia's largest companies and found no relationship between total cash remuneration and accounting measures of performance. Heaney *et al.* (2010) analyse 1,144 listed Australian companies in 2006 and did not find any evidence to support an association between CEO remuneration and subsequent company performance.

2.4.3 Audit Committee Characteristics

Given its diverse responsibilities, the board of directors delegates some of its oversight responsibilities to an audit committee and other committees of the board. The Audit Committee is responsible for recommending the selection of an external auditor, ensuring the soundness and quality of internal accounting and control practices, and monitoring the external auditor's independence from senior management, Anderson *et al.* (2004). According to Yakhou (2005), important questions to ask include: Who appoints it, its mandate, and its authority. Are the members of the Audit Committee independent, competent and do they discuss financial issues on a regular basis with the external auditor? DeZoort *et al.* (2001) found that, in the case of auditor-management disputes, the independent members of an audit committee and the level of members' auditing knowledge were positively associated with support for the auditor. Beattie *et al.* (2000) found that the existence of an Audit Committees was not associated with the extent of changes to financial statements. Audit Committees were however found to reduce the confrontational intensity of interactions between auditors and management by increasing the level of discussion and reducing the level of negotiation.

Competence of audit committee members: Audit committees' members are in charge of overseeing internal control and financial reporting, and should therefore be required to possess a certain level of financial competency (Bedard *et al.*, 2004). Turtle (2004) noted that organizations with audit committees who failed had audit committees that lacked independence through their composition of members.

Reputation of auditors: The selection of an auditor with a global reputation may convey better disclosure practices. For instance, Previous studies have revealed that having independent members in the firm leads to an increase in audit committee effectiveness and overall corporate governance success (Klein, 2002; Carcello & Neal, 2000).

Audit committee independence increases with board size and board independence, and decreases for firms with growth opportunities and consecutive losses (Klein, 2002); audit committee meetings are positively related to the proportion of accounting experts, as well as firm size, outsider block-holdings, litigation risk, and board meetings Raghunandan (2007). Cohen and Hanno (2000) emphasize the significance of audit committee independence to appraise management actions regarding risk assessment. In addition, independent directors do not have personal or economic interests in the company in their role of overseeing and monitoring the company's executive management as professional referees (Munro & Buckby, 2008). The board and the audit committee also monitor the integrity of the financial statements of the company relating to the company's financial performance, thereby reviewing significant financial reporting to monitor the effectiveness of the internal control and risk management systems Weil and Manges (2014).

Research examining consequences finds that, audit committee independence is negatively related to the likelihood of receiving a going-concern report or earnings management Carcello (2000); Klein (2006); audit committee diligence is negatively related to the occurrence of restatement Abbott *et al.*(2004); audit committee financial expertise is negatively related to earnings management, Internal control weaknesses, or accounting conservatism Carcello *et al.* (2006); (Zhang *et al.*, 2007); Hoitash *et al.*(2009).Audit committee meetings: To carry out its function of control the audit committee must maintain a certain level of activity through increased frequency of meetings (Bedard *et al.*, 2004).

The independence of audit committee members is viewed as a vital element in ensuring that the audit committee fulfills its main responsibility of making judgments in the best interests of a company's shareholders and managing the financial

statement process (Munro & Buckby, 2008). Thus, the audit committee has an essential function in mitigating agency problems and addressing deficiencies in the company, such as a lack of independent external auditors and inefficient internal control systems, which can lead to agency problems (Islam *et al.*, 2010). Greater independent director experience and greater audit knowledge as associated with higher Audit Committee support for an auditor who advocated a 'substance over form' approach in a dispute with client management (DeZoort & Salterio, 2000).

2.4.4 Legal and Regulatory Framework

The legal and regulatory framework is the basic mechanism outside the firm and refers to the laws and regulations that govern the establishment and cessation of firms and their operations in a country (Denise, 2001). The legal and regulatory framework also includes laws against corruption, laws pertaining to the protection of minority shareholders and stock exchange rules, Laws and regulations are determined at the societal level Dyck (2001) and represent what is generally socially acceptable. The function of laws and regulations with respect to Corporate Governance is to provide a framework within which various organizational constituencies can relate to one another. They describe the relationship that must exist between management and the various stakeholders Scott *et al.* (2007).

In Anglo-Saxon countries, the legal and regulatory framework defines the relationship between shareholders and directors. The legal and regulatory framework also influences the effectiveness of other mechanisms and in particular the way they evolve. For example, the ownership structure is largely influenced by the effectiveness of the legal and regulatory framework. Berlof (2004) posit that the ownership structure is a response to the effectiveness of the legal and regulatory framework. Roe (2003) point out that depending on the applicable laws and regulations, as well as their enforcement, Corporate Governance may be enhanced through the protection of capital providers (shareholders and creditors). The quality of a country's legal system not only influences its financial sector development but also has a separate, additional effect on economic growth Beck *et al.* (2000),

The OECD principles of effective Corporate Governance have emphasized the need to develop a Corporate Governance legal and regulatory framework and include issues that should be addressed including the rights of shareholders, and the equitable treatment of shareholders and other stakeholders. These principles also encourage countries to enforce the relevant laws and regulations (OECD; 2004). Although the influence of laws and regulations is recognized their effectiveness in encouraging managers to make decisions that maximize shareholder wealth is contestable. Jensen (2004) points out that the legal and regulatory framework is far more blunt an instrument to handle problems of wasteful managerial behavior effectively as courts do not as a matter of practice question the judgment of management. Jensen also points out that the legal and regulatory framework is intertwined with the political system and thus, depending on the relative influence or power of various constituencies, the law may serve to exacerbate the agency problems between managers and shareholders.

Klapper (2004) argues that better firm level governance mechanism can improve the investor's protection to a certain degree but firms alone cannot fully compensate the absence of strong legal system. The legal and regulatory framework for Corporate Governance in Tanzania is generally regarded as weak because of the poor enforcement of laws and regulations (URT, 1996). In addition, some laws are outdated. However, this is not a problem unique to Tanzania. Poor laws and regulations, and the poor enforcement of existing laws and regulations, are generic problems in developing countries Berlof (2004). Claessens and Laeven (2003) found that in weaker legal environments firms not only obtain less financing but also invest less than the optimal in intangible assets.

The connection of laws and regulations to the political system makes them unreliable in terms of disciplining managers in these economies Berlof (2004). This is also related to the problem of "vested interests". In Tanzania, the problem of corruption undermines the rule of law and makes the use of the law a costly option (Melyoki, 2005). The problem of corruption experienced in Tanzania is common to a large number of countries in Africa Okeahalam (2003). Gathinji (2002) observes that, in

Kenya, corruption is a serious problem that makes practicing effective Corporate Governance difficult.

In Kenya, government agencies operate under the Companies Act, and their operations are also governed by the relevant legislations and regulations including; the Public Finance Act, the Public Procurement Regulations Act, State Corporations Act, Exchequer and Audit Act and Labour Acts among others. From a regulatory framework, commercially oriented SCs are governed by the Companies Act 1978 c.486 (Companies Act, 1978). However, in the case of utilities and commercial regulatory bodies, they are incorporated under specific enabling regulations. Being a former British colony; Kenya adopted the Act almost entirely from the England's Companies Act of 1948 after the attainment of independence in 1963. The Act has only been subjected to minor amendments. The Companies Act is therefore an Act of Parliament which should amend and consolidate laws governing the incorporation, regulation and winding up companies and other associations. The effectiveness of a country's corporate governance mechanism depends largely on the country's regulatory frameworks and public governance systems (Dabor & Adeyemi, 2009; Roe, 2003; Ahmed, 2007; Olusa, 2007).

In terms of disclosure requirements, the Act addresses annual returns, accounts and audits, general meetings, disclosure to be made in prospectus, registers and inspections Atieno (2009). Roe (2003) posits that depending on the applicable laws and regulations, as well as their enforcement, Corporate Governance may be enhanced through the protection of capital providers.

2.4.5 Measurement of Effectiveness of Corporate Governance

This section comprises discussions on the dependent variable, specifically, indicators of effective Corporate Governance. It is therefore important to note rating criteria used in the literature as proxies for effective Corporate Governance.

According to Law (2007), rating agencies evaluate firms with more independent (no affiliated) board members higher than firms with less independent board members. He argues that independent board members may be more critical towards ethical and

fraud issues, as well as restructuring activities than dependent members. However, it is questionable whether more independent board members would improve firm performance Bhagat (2002). For example: former non-executive directors have the knowledge and expertise in the company and business environment that enable them to advise incumbent management Law, (2007). Disclosure of Corporate Governance guidelines and codes of conducts and ethics means a higher ranking.

However, a firm that discloses information about Corporate Governance or codes of conduct and ethics (stated preferences) will not necessary act in favor of these guidelines (revealed preferences). Further, the number of meetings and attendance is counted. A high attendance means that the firm is better governed. However, not the number of meetings and attendance is important, but the content of discussion and items on the agenda are indicators of good Corporate Governance. Donker *et al.* (2007). Another popular measure in the literature denoting effective Corporate Governance is board effectiveness. Hemraj (2003) also elaborates that directors are responsible to (a) safeguard the assets of the company, (b) prevent and detect fraud and other irregularities, and (c) maintain adequate accounting records. Tricker *et al.* (2001) also mention that the directors should play their roles for the betterment of the company, and by executing their performance role while focusing on strategic and policy issues for the future and setting the corporate direction as well as contributing to the performance of the business.

The board should ensure that the company is conforming to policies, procedures, and plans laid down by the board and is properly accountable for its activities. Law's (2007) study focused on fraud, he noted that a number of recent corporate scandals are tainted by fraud. New regulations, as well as recommendations of Corporate Governance codes intend to reduce fraud and lawsuits in the future, therefore, good-governed firms are less liable to fraud and lawsuits. Yet another string of literature used voluntary information disclosure to denote good Corporate Governance Barako, (2005). This research will measure Corporate Governance determinants of effectiveness based on voluntary information disclosure at state corporations in Kenya, specifically, disclosure of Corporate Governance guidelines and code of conducts and ethics.

2.5 Empirical Review

Cyrus *et al.* (2015) in their study on “The Effect of Corporate Governance Practices on Earnings Management of Companies Listed at The Nairobi Securities Exchange” stated that there was need for effective corporate governance practices at senior managerial level of companies in Kenya to contribute to improvement on actual firm liquidity and avert possible collapse of public organizations in Kenya. According to Ogoye (2002), the increasing number of corporate failures and financial scandals had been caused by incompetence, fraud and abuse of office by the agents running the corporations in Kenya. The study conclude that that a unit increase in ownership concentration will cause a decrease in earnings management, a unit increase in board size will lead to a decrease in earnings management, a unit increase in board independence will lead to a decrease in earnings management, a unit increase in board activity will lead to an increase in earnings management and a unit increase in CEO duality will further lead to an increase in earnings management.

Kaboyo (2013) and Irungu (2010) in their research on “the effect of corporate governance on earnings management of listed companies at the Nairobi Securities Exchange” looked at the factors motivating earnings management and the relationship between macro-economic variables and earnings management for listed firms at the NSE. Unlike most corporate governance studies, this study focused on the control aspect of corporate governance rather than the performance enhancing aspect. The study focused on a period when managers in Kenya had an incentive to manage earnings due to the effect of macroeconomic factors in the country e.g. general election in 2013, interest rate escalation in 2011/2012 and foreign exchange depreciation in 2011. Sicily and Gladys (2013) in their study on the Influence of Corporate Governance on the performance of public organization in Kenya posits that the relevance of corporate governance cannot be over-emphasized since it constitutes the organizational climate for the internal activities of a company.

The study also found a positive relationship between return on equity (ROE) and board size and board compositions that were also consistent with the Kihara (2006) who argued that unlike inside directors, outside directors were better and able to

challenge the CEO hence a minimum of three outside directors was required on the board. Patrick. (2012) in his study on “The relationship between Corporate Governance and Financial Performance of Parastatals in Kenya” concluded that good corporate governance practices were positively correlated to the financial performance of parastatals in Kenya. The study also found that audit committee, a major component of the board in exercising control through monitoring of financial and operational activities through internal and external audit mechanisms as well as monitoring compliance to ensure efficiency and effectiveness of operations, showed that there exist a positive but weak relationship to financial performance.

2.6 Critique of Existing Literature

Corporate Governance is indeed a well-studied space in the literature. Numerous studies have been carried out locally, regionally and globally on various aspects of Corporate Governance. This section gives a brief summary of the results of these studies. Board characteristics: Several studies (e.g. Anderson *et al.*, 2004; Klein, 2002) provide evidence regarding the importance of the role of the board of directors in monitoring financial reporting, and therefore mitigating the manipulation of accounting information. Other researches reveal that the effectiveness of the board of directors’ oversight role can be influenced by attributes such as board size, board independence (percentage of outside directors on the board), board members’ expertise, and meeting frequency.

Kiel and Nicholson (2003) investigated the relationships between board structure and corporate performance and found a positive relationship between board size and firm performance for large firms. Xie *et al.* (2003) suggested that larger boards related to a lower level of discretionary accruals. Outside directors are appointed merely to meet the requirements of the regulations and for the prestige of their value and, consequently, independent directors do not play their role as effectively as their counterparts in developed countries Tenev *et al.* (2002).

Therefore, independent (outside) directors are more willing to provide effective oversight. Dechow *et al.* (1996) found that firms whose CEO also chaired the board of directors were more likely to be subject to accounting enforcement actions by the

SEC for GAAP violation. Beasley (1996) suggested that the proportion of independent directors on the board was negatively related to the likelihood of financial reporting fraud. Klein (2002) founds that board independence and board size are negatively associated with abnormal accruals. Xie *et al.* (2003) suggested that greater independent outside representation on the board, background in corporation, finance, or law, and meetings frequency were related to a lower level of discretionary accruals. Anderson *et al.* (2004) found that board independence and board size were associated with increased accounting report integrity, and therefore a lower cost of debt financing. Ebrahim (2007) suggested that earnings management was negatively associated with the independence of the board of directors and its audit committee characteristics.

Executive and director compensation: Another area of research has examined sub-committees of the board as mechanisms for improving board effectiveness, for example remuneration committees and nomination committees Reaaee *et al.* (2013). Some studies have suggested, for example, that the existence of remuneration committees affects the level and structure of top management pay Canyon (2012), Audit Committee characteristics: Prior research reveals that effectiveness of the audit committee' oversight role could be influenced by characteristics such as audit committee members' independence, financial literacy and expertise, and activity (number of committee meetings per year). Abbott *et al.* (2000) found that firms that had audit committees characteristics composed entirely of independent directors, meeting at least twice annually were less likely to be sanctioned by the SEC for fraudulent or misleading financial reporting.

Carcello, (2000) found that the greater the percentage of independent directors on the audit committee in firms experiencing financial distress, the lower the probability the auditor would issue a going-concern report. Klein (2002) suggested a negative relationship between audit committee independence and abnormal accruals. Abbott *et al.* (2000) found that the audit committee's independence, the presence of at least one member with financial expertise, and meeting at least four times per year exhibited a significant and negative association with the occurrence of restatement.

Legal and Regulatory Framework: La Porta *et al.* (2002) found that national differences in ownership structure, capital markets development, financing and dividend policies are related to the degree to which investors are legally protected from expropriation by insiders. They find that in countries where the protection of minority shareholders is effective that the ownership of corporations tends to be widely spread. The importance of the legal and regulatory framework for encouraging managers to pursue shareholder interests is increasingly being recognized.

In terms of encouraging managers to pursue shareholder interests, Dyck *et al.*, (2001) posits that in situations where effective legal protections are lacking, investors are likely to be extremely reluctant to give up resources in exchange for a promise because if such a promise is violated there is no clear penalty they can impose. In extreme situations the lack of investor protection can lead to no investment at all in corporations. Dyck (2001) points out that the prospect of linking violations of promises to future penalties can lead those in control of investor resources (managers) to honour their promises, i.e. maximize shareholder wealth. For this reason, laws and regulations that are enforced by the state constitute an important source of penalties when contracts are violated. In view of the developed theories and past studies on Corporate Governance, there is need to consider factors behind its effectiveness.

It is from this basis that variables in this study namely; board characteristics, executive and director compensation; the audit committee characteristics; the legal and regulatory framework were picked as key determinants of effectiveness of Corporate Governance in State Corporations in Kenya.

2.7 Research Gaps

The Corporate Governance practices used in developed countries are not directly applicable in developing economies because of political, economic, technological and cultural differences Mensah (2002) Indeed there has been very little research done in the area of Corporate Governance in developing economies especially those in Africa Okeahalam (2004). This therefore, calls developing of models of Corporate

Governance that consider the conditions in each developing country. Hynes (2010) notes that the Kenya government is trying to improve ethics and governance in public and private enterprises in an effort to attract foreign direct investment (FDI), an indication that there is need for more research on Corporate Governance in the country. Therefore this study was necessary to bridge the gap.

Given that nowadays a number of State institutions continue to collapse at an alarming rate and the number of pending court cases on abuse of office by CEO are equally alarming and this therefore is the gap that the study seeks to bridge.

2.8 Summary

The literature revealed that seven theoretical perspectives for explaining the phenomenon of Corporate Governance currently exist: dependency theory, stewardship theory virtue ethics theory and the agency theory. These theoretical perspectives were applied in the research: Within these theories, a number of mechanisms of Corporate Governance that form the elements of the general model were discussed. These included board characteristics, executive and director compensation, board audit committee characteristics, and legal & regulatory framework. These mechanisms were confronted with the Kenyan context to determine those that were likely to lead to an answer to the research questions.

Empirical Literature was reviewed included Board Characteristics, Director and Executive Compensation, Audit Committee and Legal and Regulatory Framework. Most of the findings indicated that the Corporate Governance Determinants had a positive relationship with performance indicators. The results of this study will assist the management of state corporations to enhance these determinants to achieve effective corporate governance. The conceptual framework was developed to link the independent variables with the dependent variable. The chapter also summarized the main theories that were related to determinants of effectiveness of corporate governance. The next chapter describes the research methodology that was used to conduct the study.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1. Introduction

The purpose of the study was to explore the determinants of effectiveness of Corporate Governance at State Corporations in Kenya. This chapter therefore describes the research methodology that was used to attain the research purpose. The principal variables were board characteristics, executive & director compensation, audit committee characteristics, legal & regulatory framework and corporate governance. Apart from this brief introduction, the chapter comprises the research design, target population, sample frame, sampling design, size and selection procedures, research instruments and data collection procedures, data analysis and presentation, and reliability and validity issues. The chapter ended with the measurements of the key study variables.

3.2 Research Design

According to Kothari (2014), research design is the conceptual structure within which research is conducted; it constitutes the blueprint for the collection, measurement and analysis of data. Cooper and Schindler (2008) described research design as the arrangement of all conditions that affect a research ranging from data collection to data analysis. The study adopted survey research design using quantitative approach. Quantitative approach puts emphasis on measurement and data is analyzed in a numerical form to provide brief description. Quantitative approach is a design that sets out to quantify data in order to use statistics to analyze a data set (Zikmund & Babin, 2007). Mugenda and Mugenda (2008) note that quantitative approach is also called scientific method and has been regarded as the traditional mode of inquiry in evaluation and research. It is further argued that this mode of inquiry has various logical and distinct steps starting from determining and highlighting research problem to constructing appropriate inferences and conclusions to the target population. Hence, quantitative approach stresses on procedure, methodology and statistical measures to test hypothesis and make predictions.

Although quantitative methods are not able to provide an in depth analysis because of lack of qualitative data but they are used to determine reliability and validity of data and to test hypothesis (Han *et al.*, 2008). A cross-sectional survey design was the specific design that was used in the research. This design has been used by several authors in their research in Kenya (Uzel *et al.*, 2011; Fwaya *et al.*, 2012; Wadongo *et al.*, 2010; Odhuon *et al.*, 2010; Kingi, 2013, Sasaka *et al.*, 2016). The advantage of this design over others is that data can be collected less expensively and within a short time. This is important because the characteristics of variables do not change much in the short period of data collection (Hair *et al.*, 2010).

3.3 Target Population

According to Sekaran (2010), a target population was classified as all the members of a given group to which the investigation was related, whereas the accessible population was looked at in terms of those elements in the target population within the reach of the study. According to Kothari (2012), a population is a group of events, people or items of interest with a common observable attributes. Mugenda (2008) highlights the target population as a number of individuals about which a researcher is interested in describing or making a statistical inference. The target population for this study was management employees in the 187 State Corporations as shown in table 3.1.

Table 3.1: State Corporations

Classification	Number
Commercial State Corporations	34
Non- Commercial State Corporations	21
Executive Agencies	62
Independent Regulatory Agencies	25
Research Institutions, Public Universities, Tertiary Education and Training Institutions	45
Total	187

In each parastatal there were nine managers who were targeted as the respondents giving a total of 1671. (187x9).

3.4 Sample Size and Sampling Technique

Kothari (2014) suggests that the sample size should neither be too large nor too small. Sampling is particularly useful as it overcomes the impossibility of asking all members of a population their opinion. For the purposes of producing results that can be generalized to the population, systematic random sampling method was applied. Table 3.2 shows the distribution of the 57(30%) respondents selected of the total number of Corporations (187). In systematic random sampling the sample is chosen by selecting a random starting point and then picking each “*i*th” element in succession from the sampling frame. The sampling interval “*i*” is determined by dividing the population size “*N*” by the sample size “*n*” and rounding to the nearest integer.

Table 3.2: Sample Size

Classification	Number	Sample Proportion
Commercial State Corporations	34	10
Non- Commercial State Corporations	21	6
Executive Agencies	62	19
Independent Regulatory Agencies	25	8
Research Institutions, Public Universities, Tertiary Education and Training Institutions	45	14
Total	187	57

In this study the sample size formula number (2) by Cronchan for continuous data was deemed appropriate. The formula was appropriate because the five point scale used is a continuous scale. The alpha level was set a priori at .05. The margin of error was set at 3% which is commonly used in educational and social research for continuous data Krejcie (1970). The scale standard deviation was estimated at 1.25.

$$n_0 = \frac{(t_{\alpha})^2 s^2}{d^2} \dots \dots \dots \text{equation (1)}$$

Where t = value for selected alpha level of .025 in each tail = 1.96 (the alpha level of .05 indicates the level of risk the researcher is willing to take that true margin of error may exceed the acceptable margin of error.) s = estimate of standard deviation in the population = 1.25. (Estimate of variance deviation for 5 point scale calculated by using 5 [inclusive range of scale] divided by 4 [number of standard deviations that include (approximately 95%) of the possible values in the range]). And where d = acceptable margin of error = (number of points on primary scale * acceptable margin of error; points on primary scale = 5; Acceptable margin of error = .03 [error researcher is willing to except]). Using equation 1, n₀=267. That is;

$$n_0 = \frac{(1.96)^2 1.25^2}{(5 \times .03)^2} = 267 \dots \dots \dots \text{Equation(2)}$$

And since this estimated sample size exceeds 5% of the population (1671*.05=84), Cochran's (1977) correction formula in equation (3) should be used to calculate the final sample size n. These calculations are as follows:

$$n = \frac{n_0}{1 + \frac{n_0}{N}} \dots \dots \dots (3)$$

Where N = 1,671 managers from 187 corporations. Where n₀ =267 obtained in equation 2. Using equation3, the adjusted sample size was= 229.5 managers and therefore 230 managers were obtained from the 57 companies.

3.5 Data Collection Tools

a). Literature Study

Text books, research reports, journals and government gazettes were used to review important Corporate Governance literature. The university libraries were resourceful as various academic online library databases; this was used to source information. An analysis of relevant documents such as code of conduct and ethics, policy documents

were also reviewed to provide insights of current state corporation policy guidelines and practices.

b). Questionnaires

A questionnaire was the main tool of collecting the cross-sectional data from the employee of state-owned corporations. The questionnaire is relatively economical, and has the same questions for all subjects and can ensure anonymity (McMillan & Schumacher, 2001). Ghauri and Gronhaug (2005) narrate that questionnaire method was an inexpensive method for data collection. The disadvantage of the questionnaire is that once the questionnaire has been distributed, it is not possible to modify the items, even though they may be unclear to some respondents and it cannot enquire or examine deeply into respondents' opinions or feelings. This research ensured the content validity of the questionnaire before use so as to mitigate the effect of the disadvantages. A pilot study was carried out to refine the final research questionnaire.

The insight gained from the literature study regarding Corporate Governance was used to develop a questionnaire that was divided into three parts. Part one of this instrument is designed to obtain participants' demographic data -gender, age, managerial experience, and educational background. Part two of the questionnaire comprised of items related to Corporate Governance practices (independent variables). This scale measured participants' responses toward four identified dimensions of Corporate Governance, namely: board characteristics, director & executive compensation, audit committee characteristics, and legal & regulatory framework. A 5-point Likert scale (1 = strongly disagree, 2 = disagree, 3 = neutral, 4 = agree, 5 = strongly agree) was used to establish current practices. Part three regards voluntary disclosure of Corporate Governance guidelines, codes of ethics, and codes of conduct (dependent variable).

3.6 Data Collection Procedures

The data collection procedure involved getting authority letter from the State Corporations that had been identified for the study. The researcher wrote to the

CEO of each state corporation to request for their participation. The letter entailed the purpose of the study, potential benefits of the results, and a sample of the questionnaire. Managers were envisaged to have better knowledge about the organizations based on their educational level, and years of experience in the organizations. Questionnaires were dropped and were to be collected in two weeks. Those that had not been filled the researcher had to make follow up through phone calls and collection was made at an agreed upon time.

3.7 Pilot Study

Pilot study has been described by various authors as an exercise that ensures that errors are restricted at a very little cost. A pilot study was conducted in order to establish the validity and reliability of the questionnaire. The subjects participating in the pilot study were not included in the final study to avoid survey fatigue and response bias. Connelly (2008) exerts that a pilot study sample should be 10% of the sample projected for the larger parent study. 23 questionnaires were piloted by issuing to the management staff. This was done for the purposes of using feedback obtained from this group to amend the questionnaire where appropriate. The pilot result was analyzed and appropriate amendments made before the distribution of the questionnaire.

3.8 Reliability of the instrument

Reliability refers to the extent to which the index is without bias and ensures a consistent measurement across time and across the various items in the instrument (Sekaran & Bougie, 2010). That is, reliability is an indicator of a measure's internal consistency; a measure is reliable when the different items in the instrument show a similarly consistent result (Zikmund, 2010). Kumar (2011) points out that in social science; the research instrument is affected by factors such as the wording of questions, physical aspects, the respondent's mood, and the interviewer's mood, the nature of the interaction and the regression effect of an instrument.

Reliability analysis was used to assess internal consistency among the items of the variables of study. The reliability of the study measures were assessed by computing

Cronbach's Alpha coefficient for all items in the questionnaire and the overall assessment was given. Cronbach's alpha is a measure of internal consistency, that is, how closely related a set of items are as a group. It is therefore considered to be a measure of scale reliability. Sekaran and Bougie (2010) highlighted that Cronbach's alpha coefficient ranges between 0 and 1 with higher alpha coefficient values of 0.7 and above being adequately reliable. The alpha coefficient ranges from 0 to 1, and it is common practice to take 0.60 as the minimum acceptable alpha value. Smith M. (2011) argue that a reliability coefficient in the order of 0.60 is acceptable, while De Vaus (2002) and Bryman and Bell (2011) suggest a minimum alpha value of 0.70 and 0.80, respectively, for reliability purposes.

The alpha value is calculated based on the average correlation of items within a test if the items are standardised.

$$\alpha = \frac{N \cdot \bar{c}}{\bar{v} + (N-1) \cdot \bar{c}} \dots \dots \dots \text{equation (3)}$$

Where N is equal to the number of items, \bar{c} is the average inter-item covariance among the items and \bar{v} equals the average variance.

3.9 Validity of the instrument

Factor analysis is a statistical technique used to verify the factor structure of a set of observed variables and their relationship (Field, 2009). It is used to analyze the reliability and convergent validity of the research instrument by identifying and eliminating any items that do not strengthen the factors they represent. Factor analysis assesses convergent validity through factor loadings values. Factor loadings are numerical values which range from zero-(very poor) to one-(excellent). Factors which load from 0.5 or less are considered unsatisfactory and discarded from the analysis Kaiser (1974). The researcher determined validity by posing a series of standardized questions. The results of the pilot test established that the questionnaire was easy to answer and the questions were easily understood the respondents.

3.10 Data Analysis and Presentation

A research study produces a mass of raw data, therefore collected data has to be accurately scored and systematically organized to facilitate data analysis (Collins, 2010). In this study, data was collected from managers of State-Corporations through a self-administered questionnaire. The Data analysis entails bringing order, structure and meaning to the mass of time consuming, creative and fascinating process Marshall (1999). The analysis was in two stages; first, descriptive statistics of each construct was used to inspect the characteristics of the study population. Descriptive statistics is a mathematical technique for organizing, summarizing and displaying a set of numerical data (Gall, Borg & Gall, 1996). Central tendency and variability measures were used to describe the values in distributions. In this case: frequencies, percent, mean, and standard deviation measures were applied. Secondly inferential statistics was used to test the null hypothesis. A Statistical Package for Social Science program- SPSS version 24 was used for the entire analysis. Correlation and regression analysis were the main inferential statistics techniques employed in this study to test the hypotheses.

Scrutiny of the assumptions of multiple regressions like linearity, constant variance and normality was performed and appropriate measures undertaken if any of the assumptions was violated. The Multiple regression analysis was used to model the relationship between the four independent variables and the dependent variable. This was appropriate in the study because the researcher had one single dependent variable, that is; Corporate Governance which was presumed to be a function of the four independent variables. Therefore, the estimated linear regression model for this study was:

$$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \varepsilon$$

Where:

Y= Corporate Governance (dependent variable).

β_0 = Constant or intercept which is the value of dependent variable when all the independent variables are zero.

$\beta_1-\beta_4$ = Regression coefficient for each independent variable.

X_1 = Board Characteristics

X_2 = Executive and Board Characteristics

X_3 = Board Audit Committee characteristics

X_4 = Legal & Regulatory Framework

ε = Stochastic/disturbance term or error term.

3.11 Measurement of Variables

The relationship between variables is of great interest to researchers. Variables can be independent and dependent. In the research process the independent are used to predict the relationship with the dependent variable. The key variables examined in this study are independent variables (Board Characteristics, Executive & Director Compensation, Audit Committee Characteristics and Legal & Regulatory Framework) and the dependent variable was Corporate Governance. The researcher us a five point likert scale (1- Strongly Disagree, 2-Disagree, 3-Neutral, 4-Agree, 5-Strongly Agree).

Corporate Governance: this is the dependent variable and was measured using 5 items. The researcher used a five point likert scale (1- Strongly Disagree, 2-Disagree, 3-Neutral, 4-Agree, 5-Strongly Agree).

Board Characteristics: This is the independent variable and was measured using 9 items. The researcher used a five point likert scale (1- Strongly Disagree, 2-Disagree, 3-Neutral, 4-Agree, 5-Strongly Agree).

Executive and Director Compensation: this is the independent variable and was measured using 11 items, focusing on performance-based compensation,

independence and integrity of compensation setting process; shareholder approval of compensation policy, appointment and independence of the remuneration committee, and Directors' Incentive Plans, The researcher used a five point likert scale (1- Strongly Disagree, 2-Disagree, 3-Neutral, 4-Agree , 5-Strongly Agree).

Audit Committee Characteristics: this variable was measured using 7 items. The researcher used a five point likert scale (1- Strongly Disagree, 2-Disagree, 3-Neutral, 4-Agree, 5-Strongly Agree).

Legal and Regulatory Framework: This was measured using 7 items. The researcher used a five point likert scale (1- Strongly Disagree, 2-Disagree, 3-Neutral, 4-Agree, 5-Strongly Agree).

All the measurable indicators of independent variables were gauged on a 5-point Likert scale which ranged from 1- Strongly Disagree, 2-Disagree, 3-Neutral, 4-Agree, 5-Strongly Agree so as to obtain a quantitative data. Factor analysis was performed on data obtained on these indicators to test their discriminant validity and therefore to confirm the dimensions of the concept that have been operationally defined as well as indicate which of the items are most appropriate for each dimension. The sub contrasts that had a inter item correlation of less than 0.2, as a rule of thumb, were eliminated and they were not to be used for further analysis. The items were tested for their reliability through the use of Cronbach's alpha which is a reliability coefficient that indicates how well the items in a set are positively correlated to one another. The Cronbach's alpha of the four independent variables were all way above 0.70, Cronbach's alpha coefficient ranges between 0 and 1 with higher alpha coefficient values of 0.7 and above being adequately reliable. Sekaran and Bougie (2010).

CHAPTER FOUR

RESEARCH FINDINGS AND DISCUSSION

4.1 Introduction

The purpose of this chapter is to present and analyse the empirical results of the study. The chapter contains several sections including this introduction. Demographic profile of the respondents is included so as to shed light on the respondents' education level and the duration they have been in their respective organizations. Reliability and validity of data is presented using Cronbach's alpha coefficient and factor analysis so as to determine the suitability of the study variables. Descriptive statistics is presented to enhance understanding of the study variable and also in preparation for use in inferential statistics. Correlation analysis result is presented to explore relationship among study variables. Regression analysis result presented purposely to fit the regression model and for hypothesis testing.

4.2 Demographic Results

The highest level of education attained by the respondents and the period the respondent has worked were the aspects of profile variables investigated in this study. The highest education level attained by the respondents was categorized into tertiary, undergraduate and Masters; the result in table 4.1a revealed that a majority (52.7%) had attained masters level and, 40.9% undergraduate and only 6.2% tertiary. Over 93% (40.9+52.7) had attained university education and therefore had the necessary knowledge. The level of education was also considered important as it enabled managers to have a greater understanding of Corporate Governance.

Table 4.1: Highest Education Level attained

Highest education attained	frequency	percentage
Tertiary	10	6.29
Undergraduate	67	40.94
Post-Graduate	86	52.75
Total	163	100

Concerning the period worked in the organization by the respondents; table 4.2 result revealed that 41% had worked for between 6 to 10 years, 39% for over 10 years and only 20% had worked for less than 5 years in their respective organizations. over61% had worked for over 6 years, which is an adequate duration. The number of years that managers had worked in the organization was considered important, which means that the respondents had adequate working experience with the corporation and therefore possess the necessary knowledge, information and the institutional memory which was considered useful for this study.

Table 4.2: Years of Service of Respondent

Year's	frequency	percentage
0 – 5 Years	33	20
6-10 Years	67	41
Over 10 Years	63	39
Total	163	100

4.3 Response rate

In this study, the sample size was 230 managers in state owned corporations as estimated by Cronchan (1977). Consequently 230 questionnaires were distributed to collect the required data. After collection of the questionnaire and further scrutiny, 163 were found usable for analysis of the determinants of effectiveness of Corporate Governance in state corporations in Kenya. This translated to 70.9 % successful response rate. This rate is considered high and was made possible by the researcher making consistent follow up. The reliability and construct validity of the data collection questionnaire is discussed in the next sections under reliability and factor analysis.

4.4 Reliability results

A pilot study was first carried out to determine the reliability of the questionnaire. Six managers from State Corporations were selected for the pilot study and thereafter excluded from participating in the main survey. Cronbach's test of reliability was performed on the pilot questionnaire purposely to determine reliability of the test instrument. The items with an overall Cronbach's alpha score greater than 0.7 were retained in the questionnaire for distribution. On running the reliability procedure some items in the main study had to be removed as they had quite unusually low inter-item correlation. Consequently the number of remaining items in each variable and their corresponding reliability score are as shown in table 4.3. For each variable, the number of items retained for further analysis is shown in the third column. Further factor analysis was performed to determine the factors which had significant contribution in variance of the particular study variable. Factor analysis result is presented in the section that follows next.

Table 4.3: reliability of variables based on Cronbach Alpha level

Variable	Cronbach's Alpha	No of Items	Decision
Board Characteristics	.763	9	Accepted
Executive & Director Compensation policies	.829	11	Accepted
Audit Committee Characteristics	.911	7	Accepted
Legal & Regulatory Framework	.738	7	Accepted
Corporate Governance	.756	5	Accepted

Alpha level >.7000 threshold is acceptable (Nunnery)

4.5 Factor analysis results

Factor analysis attempts to identify underlying variables, or factors, that explain the pattern of correlations within a set of observed variables. Factor analysis was used in data reduction to identify a small number of factors that explain most of the variance observed in a much larger number of manifest variables. Hair *et al.*, (2010) highlighted that factor analysis was necessary in research to test construct validity and highlight variability among observed variables and also check for any correlated variables in order to reduce redundancy in data. the complexities of reality created to test or generate hypotheses about how various constructs are related A theoretically informed simplification of the complexities of reality created to test or generate hypotheses about how various constructs are related CFA/SEM models assume linear (i.e., correlations and regressions) relationships (paths) exist among. In this research the aim was to measure the relationship between the four independent variables and Corporate Governance in state corporations in Kenya. This was achieved by measuring several constructs in each of the four which was measured using multiple items. These multiple items were combined to a smaller number of factor scores using principal component analysis procedure. The goal was to reduce the set of variables down to a smaller number of factors and to create composite scores for these factors for use in subsequent analysis. Sample size is an important factor to

consider when performing factor analysis. In this study the sample size was 230. There is universal agreement that factor analysis is inappropriate when sample size is below 50. Table 4.3 shows the test for sample adequacy in order to conduct factor analysis.

The Kaiser-Meyer-Olkin (KMO) measures the sampling adequacy which should be greater than 0.5 for a satisfactory factor analysis to proceed. If any pair of variables had a value less than .5, one of them was dropped from the analysis. Values between 0 .5 and 0.7 are mediocre, values between 0 .7 and 0.8 are good, values between 0.8 and 0.9 are great and values above 0.9 are superb (Hutcheson & Sofroniou, 2009).

4.5.1 Board characteristics

In board characteristics, the KMO value was 0.722 as shown in table 4.4, which falls into the range of being good, Hutcheson, (2009).and therefore the sample size was adequate for factor analysis. Bartlett’s measure tests the null hypothesis that the original correlation matrix is an identity matrix.

A significant test means that the matrix is not an identity matrix; therefore, there are some relationships between the variables we hope to include in the analysis. For these data, Bartlett’s test is highly significant ($p < .001$).

Table4.4: Test for sample adequacy using KMO and Bartlett's Test

Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		.722
Bartlett's Test of Sphericity	Approx. Chi-Square	1763.859
	Df	325
	Sig.	.000

Using principal component analysis; with 26 items, nine factors were retained whose eigenvectors were .7 or more for further analysis. These factors accounted for 65.874% of total variance in board characteristics as shown in Table 4.5. Other factors were not significant hence dropped from further analysis.

Table 4.5 shows the initial eigenvalues, sum of square loadings before and after rotation. Variance explained and variances of each component were also shown. From the result; Component 1 had highest initial total variance of 19.84%, followed by component 2 with 9.508% and the least was component 9 with 4.018% and all these components collectively they accounted for 65.874% of total variance in Board Characteristics in State Corporations in Kenya.

Table 4.5: Total Variance Explained for Board Characteristics

Items	Initial Eigenvalues		Extraction Sums of Squared Loadings		Sums of Rotation Squared Loadings		Sums of Squared Loadings	
	Total %	of Cumulative Variance %	Total %	of Cumulative Variance %	Total %	of Cumulative Variance %	Total %	of Cumulative Variance %
1	5.196	19.984	5.196	19.984	4.189	16.113	4.189	16.113
2	2.472	9.508	2.472	29.493	2.214	8.515	2.214	24.628
3	1.844	7.093	1.844	36.585	1.884	7.246	1.884	31.873
4	1.700	6.538	1.700	43.124	1.865	7.174	1.865	39.047
5	1.392	5.352	1.392	48.476	1.769	6.803	1.769	45.850
6	1.190	4.575	1.190	53.051	1.439	5.533	1.439	51.383
7	1.157	4.451	1.157	57.502	1.388	5.337	1.388	56.720
8	1.132	4.353	1.132	61.855	1.269	4.882	1.269	61.602
9	1.045	4.018	1.045	65.874	1.111	4.271	1.111	65.874

Extraction Method: Principal Component Analysis.

In evaluating what variables to retain that represent board characteristics, the factor loadings were taken into account and the minimum factor loadings were 0.7 which were considered to be moderately high. The factors affecting one variable were all loaded up together and given a name so that the factors were reduced to a minimum of three components using principal component analysis. The rotated result of the principal component analysis shown in table 4.6 revealed that the factors were extracted into 3 components. Component 1 comprised of approve strategy, integrity of financial reporting, affiliation between directors, CEO not a chairman at the same time and chairman is non-executive director. Component 2 comprised of three items namely; supervision process of disclosure, process of selection of directors and explicit criteria of selecting directors and component 3 comprised of one component only; monitoring governance practices. Component 1 factors were named as integrity component 2 named selection criteria and component 3 named monitoring. Therefore

all the factors in the board characteristics converged to the three components (factors) and collectively accounted for 65.7% of total variance in board characteristics. Out of the 26 questionnaire items only 9 were retained for further analysis as shown in rotated component matrix table 4.6.

Table 4.6: Board Characteristics Rotated Component Matrix

	Component		
	1	2	3
Discuss and approve strategy	.521		
Integrity of financial reporting	.722		
Board monitors effectiveness of governance practices			.851
supervise the process of disclosure		.667	
Affiliation exists between directors	.710		
CEO is not a chairman at the same time	.478		
chairman is a non-executive director	.614		
clear process of selection of directors		.710	
explicit criteria of selecting directors		.698	

Extraction Method: Principal Component Analysis. Rotation Method: Varimax with Kaiser Normalization. a. Rotation converged in 6 iterations.

4.5.2 Executive and Director Compensation Policies

Kaiser-Meyer-Olkin measure of sample adequacy statistic was 0.747 which is classified as good and therefore the variables were subjected to factor analysis as sample size was adequate. Bartlett's Test of Sphericity, (Chi-Square=531.787, $p < .001$) implied that the factors of executive compensation are related and therefore

can converge to fewer components for further analysis. These components' total variation and individual variations are presented in table 4.7.

Table 4.7: KMO and Bartlett's Test

Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		.747
Bartlett's Test of Sphericity	Approx. Chi-Square	531.787
	df	66
	Sig.	.000

Five components were extracted as shown in table 4.8 result. The first component explained 18.4%, component two explained 15.9% and third 12.5% as shown in table 4.8. The five components collectively explained 67.4% of the total variance in executive directors' compensation in state corporations in Kenya.

Table 4.8: Total Variance Explained

Items	Initial Eigenvalues			Extraction Sums of Squared Loadings			Rotation Sums of Squared Loadings		
	Total	%	Cumulative %	Total	%	Cumulative %	Total	%	Cumulative %
1	2.21	18.435	18.35	2.21	18.435	18.435	1.839	15.322	15.322
2	1.90	15.893	34.328	1.90	15.893	34.328	1.82	15.263	30.585
3	1.50	12.545	46.872	1.50	12.545	46.872	1.706	14.219	44.804
4	1.46	12.190	59.063	1.46	12.190	59.063	1.499	12.493	57.297
5	1.00	8.334	67.397	1.00	8.334	67.397	1.212	10.100	67.397

Extraction Method: Principal Component Analysis.

The rotated component table shows how each factor loads to the five components. Component 1 had one factor loading to it; aware of payment due to earlier departure.

Component 2 had two factors; effective remuneration committee and incentive plan. This component was renamed as remuneration incentives. Component 3 had two factors; non-employees do not participate in pension plan and incentive plans used to monitor directors performance.

This third component was named participation & monitoring. Component 4 had one factor known as annual appraisals. Therefore this factor is known as appraisal. And finally component 5 had also one factor; clear remuneration package. Four items which loaded weakly to any of the components were dropped from further analysis. These five components collectively explained 67.397% of the total variations in Executive Director Compensation policies in state corporations in Kenya as shown in table 4.9.

Table 4.9: Rotated Component Matrix

Statement	Component				
	1	2	3	4	5
Effective remuneration committee	1	2	3	4	5
Elaborate policy on executive remuneration		.897			
Aware of payment in case of early departure	.821				
Clear remuneration package					.892
Only independent directors in remuneration committee					
Non-employees do not participate in pension plan			.873		
Incentive plans are to monitor directors performance			.837		
Directors receive their fees in bonuses no loans for outside directors					
There are incentives plans for outside directors		.909			
Directors are subjected to annual appraisal					.822
Long term compensation is tied to shareholder returns					

Extraction Method: Principle component analysis. Rotation method: Varimax with Kaiser Normalization: rotation converged in 6 iterations

4.5.3 Audit committee characteristics

The first step was testing on sample adequacy to assess the suitability of factor analysis. The result in table 4.10 shows that for this data the value is .737, which falls into the range of being good (Hutcheson & Sofroniou, 2009), therefore the sample size was adequate for factor analysis. Bartlett's measure tests the null hypothesis that the original correlation matrix is an identity matrix. A significant test means that the matrix is not an identity matrix; therefore, there are some relationships between the variables we hope to include in the analysis. For these data, Bartlett's test is highly significant (chi-square=530.297, $p < 0.001$). Accordingly factors of audit committee characteristics are related and therefore converge to fewer factors for further analysis. These components total variation and individual variations are presented in table 4.10.

Table 4.10: KMO and Bartlett's Test; Audit Committee Characteristics

Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		.737
Bartlett's Test of Sphericity	Approx. Chi-Square	530.297
	Df	21
	Sig.	.000

Table 4.11 shows the initial eigenvalues, sum of square loadings before and after rotation. Variance explained and variance of each component. From the result; Component 1 had highest initial total variance of 42.278%, followed by component 2, with 19.136% and the third component had a total variance of 12.652% and these components collectively they accounted for 74.065% of total variance in audit committee characteristics.

Table 4.11: Total Variance Explained of audit committee characteristics

Items	Initial Eigenvalues			Extraction Sums of Squared Loadings			Rotation Sums of Squared Loadings		
	Total	% Variance	Cum %	Total	% Variance	cum %	Total	% Variance	Cum %
1	2.959	42.278	42.278	2.959	42.278	42.278	2.556	36.515	36.515
2	1.340	19.136	61.414	1.340	19.136	61.414	1.331	19.008	55.523
3	.886	12.652	74.065	.886	12.652	74.065	1.298	18.543	74.065

Extraction Method: Principal Component Analysis

The rotated component matrix in Table 4.12 shows that the first component comprised of three factors namely; financial competency, independence and process to asses' performance, this component was renamed competency. Component 2 had one factor; working relation with management and hence renamed working relation and component 3 had also one factor; composition of committee, renamed composition. The other two factors had low loadings hence discarded from further analysis.

Table 4.12: Rotated Component Matrix

Statement	Component		
	1	2	3
Committee has financial competency	.919		
Independence is real and also as perceived	.885		
There is a process to asses performance	.884		
Effective working relationship with management carefully recruited and retired		.815	
Committee comprise only non- executive directors there is an effective audit committee			.881

Extraction Method: Principal Component Analysis. Rotation Method: Varimax with Kaiser Normalization. Rotation converged in 5 iterations.

4.5.4 Legal and Regulatory Framework

Legal and regulatory framework had seven factors which the researcher envisaged had a role in Corporate Governance in state corporations in Kenya. The factor analysis was performed to determine if these factors converge to smaller number of factors which determines the Corporate Governance in state corporations in Kenya. The result in table 4.13 shows that for this data the value is .718, which falls into the range of being good (Hutcheson & Sofroniou, 2009), therefore the sample size was adequate for factor analysis. Bartlett's measure tests the null hypothesis that the original correlation matrix is an identity matrix. A significant test means that the matrix is not an identity matrix; therefore, there are some relationships between the variables we hope to include in the analysis. For these data, Bartlett's test is highly significant (chi-square=325.318, $p < .001$). Accordingly factors of legal & regulatory framework are related and therefore converge to three components for further analysis. These three components' total variation and individual variations are presented in table.4.13.

Table 4.13: KMO and Bartlett's Test: Legal and Regulatory Framework

Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		.718
Bartlett's Test of Sphericity	Approx. Chi-Square	325.813
	Df	21
	Sig.	.000

Table 4.14 shows the initial eigenvalues, sum of square loadings before and after rotation the variance explained and variance of each component. From the result; Component 1 had highest initial total variance of 38.448%, followed by component 2, with 18.077% and component 3 had a total variance of 14.341% and these components collectively they accounted for 70.866% of total variance in Legal & Regulatory Framework in state corporations in Kenya

Table 4.14: Initial Eigenvalues

Items	Initial Eigenvalues			Extraction Sums of Squared Loadings			Rotation Sums of Squared Loadings		
	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %
1	2.691	38.448	38.448	2.691	38.448	38.448	2.151	30.731	30.731
2	1.265	18.077	56.525	1.265	18.077	56.525	1.409	20.135	50.866
3	1.004	14.341	70.866	1.004	14.341	70.866	1.400	20.000	70.866

From Table 4.15 Component 1 comprised of three factors (investigates non-compliance, investigate stakeholder and complaints action taken against improper reporting) and this component was renamed investigation. Component 2 had two factors (rules & procedures and laws of appointment of auditors) and this component was renamed appointment regulations. And finally component 3 also had 2 factors (commercial law and government agencies) and was renamed as ‘government policy’ to be used in further analysis.

Table 4.15: Extraction Method: Principal Component Analysis

Items	Component		
	1	2	3
Rules and procedure are in place	-.019	.793	.184
Commercial laws and regulation in place	-.059	.325	.734
Laws and rules of appointing auditors are in place	-.195	.769	.034
Gvt agencies for enforcement of laws in place	-.158	-.026	.817
Inspectors investigate non-compliance	.876	.025	-.146
Inspectors investigate stakeholder complains	.823	-.266	.097
Action taken against improper financial report	.799	-.108	-.358

Extraction Method: Principal Component Analysis. Rotation Method: Varimax with Kaiser Normalization. a. Rotation converged in 5 Iterations

4.5.5 Corporate Governance

Corporate Governance was the dependent variable in this study it was measured using five factors. The factor analysis was performed to determine if these factors converge to smaller number of factors which determines the Corporate Governance in state corporations in Kenya. The result in table 4.16 shows that for this data the value is 0.701, which falls into the range of being good (Hutcheson & Sofroniou, 2009), therefore the sample size was adequate for factor analysis. Bartlett's measure tests the null hypothesis that the original correlation matrix is an identity matrix. For these data, Bartlett's test is highly significant (chi-square=325.318, $p < .001$). Accordingly factors of Corporate Governance were related and therefore converged to two components that were used for further analysis.

Table 4.16: KMO and Bartlet's Test

Kaiser – Meyer – Olkin Measure of Sampling Adequacy		.701
Bartlet's Test of Sphericity	Approximate Chi-Square	376.378
	df	10
	Sig.	.000

Table 4.17 shows the initial eigenvalues, sum of square loadings before and after rotation, the variance explained and variance of each component. From the result; Component 1 had highest initial variance of 49.133%, and component2 had a total variance of 25.563% and these components collectively they accounted for 74.696% of total variance in Corporate Governance.

Table 4.17: Total Variance Explained by Corporate Governance Variables

Items	Initial Eigenvalues			Extraction Sums of Squared Loadings			Rotation Sums of Squared Loadings		
	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %
1	2.457	49.133	49.133	2.457	49.133	49.133	2.456	49.124	49.124
2	1.278	25.563	74.696	1.278	25.563	74.696	1.279	25.572	74.696

Extraction Method: Principal Component Analysis

From the rotated component matrix in table 4.17 the five factors were factored into two major components which accounted for the 74.696% of the total variance in Corporate Governance. The first component comprised of three factors namely access to information (.907), disclosure of ownership (.865) and publishing guidelines (.798). These factors in component one were renamed as transparency. The other two factors strongly loaded to component two, the factors were; disclosure of independent auditors and guidelines on code of ethics each with factor loading of .782 and .798 respectively, as shown in table 4.18. The factors in component two were renamed as disclosure.

Table 4.18: Rotated Component Matrix of Corporate Governance in State Corporation in Kenya

Statement	Component	
	1	2
Board Disclosure; Independent auditors	-.166	.782
There is equal access to information	.907	-.131
Board Disclosure, ownership	.865	.117
Guidelines published in proxy report	.912	-.004
Board guidelines on code of ethics published in proxy report	.161	.798

Extracted Method: principle component Analysis; Rotation Method Variamax with Kaiser Normalization; Rotation converged in 3 iterations

4.6 Descriptive results of the study variables

Factor analysis identified nine factors which explain the variations in board characteristic. These board characteristics factors converged to three components namely board integrity, board selection and monitoring. The mean, standard deviations and skewness of the responses are given under the descriptive statistics result in table 4.19. These mean values and the associated standard deviation are based on the Likert scale scores of 5= strongly agree to 1=strongly disagree. The skewness of the distribution measures the symmetry of the distribution. In a symmetric distribution the mean mode and median are all equal. The more the mean moves away from the mode, the larger the asymmetry or skewness. Simpson, (2008).Coefficient of skewness measures the level of normality. The closer the skewness coefficient is closer to zero, the closer the distribution is near normal.

4.6.1 Board Characteristics

Based on the findings on the first variable; integrity; there were some level of board integrity among the state corporations in Kenya (mean=3.69, SD=.824). This meant that in these corporations, the boards were concerned with integrity in financial reporting, the executive director was not the chairman of the board at the same time, and chairman of the board was an independent non –executive director. The distribution of data on integrity was slightly negatively skewed, (-.385, SE=.173).

On monitoring aspect, boards in state corporations were found to have some noticeable level of monitoring of governance practices (mean=3.64, SD=1.25). However, the standard deviation in this distribution was noticeably high. This indicated the extent of the variations in the responses to the same research question (item) – less concurrence among the respondents. The distribution of the data on monitoring was also slightly negatively skewed therefore the data deviates slightly from normal. Table 4.18 result shows that the selection process of the boards in Kenya was averagely fair according to the respondents (mean=3.46, SD=.911). The data was marginally negatively skewed (-.911, SE=.173).among these three components of board characteristics, Selection process was least rated since it had the lowest mean and integrity was highest ranked. Overall, board characteristics were

found to be appropriate to support Corporate Governance in state corporations in Kenya.

Table 4.19: Descriptive statistics of Board characteristics of state corporations in Kenya

Board characteristics	Mean	Std.Deviation	Skewness	
	Statistic	Statistic	Statistic	Std. Error
Integrity	3.6934	.82425	-.385	.173
Selection	3.4619	.91122	-.321	.173
Monitoring	3.6429	1.24653	-.659	.174

4.6.2 Executive and director compensation

Executive and Director Compensation policies was the second variable the research envisaged to determine Corporate Governance in state corporations in Kenya. Cronbach's alpha test of reliability identified eleven factors that correlated adequately. Factor analysis identified five components to which these variables can be grouped into. The five components were; Awareness of retirement benefits, remuneration incentives, monitoring & participation in pension plans, annual appraisal and clear package policy. The result in table 4.20 indicated that there was high level of participation & monitoring (mean=4.22, SD=.970).

Therefore the non- employee did not participate in pension plan and incentives were used to monitor the directors' performance in most state corporations in Kenya. Blasi and Kruse (2013) in their findings indicated a worsened performance when executive incentives were increased. The response data had marginal negative skew (-.955, SE=.174) therefore the distribution was near normal. Directors in most state corporations were subjected to appraisals (mean=3.60, SD=1.45) and the distribution was positively skewed (8.817, SE=.174). Therefore the data distribution did not conform to normal distribution. Remuneration incentives component was least rated (3.27, SD=1.21) and this component was also found to be marginally negatively skewed (.224, SE=.174) hence the distribution was near normal.

Table 4.20: Executive and directors' compensation in state corporations in Kenya

Statement		Mean Statistic	Std. D Statistic	Skewness Statistic	Std. Error
Participation & Monitoring		4.2194	.97024	-.955	.174
Appraisal		3.6020	1.45468	8.817	.174
Payment In Case of Earlier Departure		3.4031	1.09815	-.267	.174
Remuneration Package,		3.3163	1.20764	-.224	.174
Remuneration Incentives		3.2730	1.21454	-.151	.174

4.6.3 Audit committee characteristics

Audit committee was the third variable the research envisaged could be one of the determinants of corporate performance in state corporations in Kenya. Initially it had seven factors and which converged into three main components on factorization to reduce the data for easier analysis and interpretation. The three components were named as team competency, working relation and team composition. Descriptive result in Table 4.21 showed that the audit committee composition was in line with Corporate Governance (4.17, SD=1.10), and committee members were competent in there audit practices (3.98, SD= .748) however the working relationship with the senior management was not explicitly conducive (mean=3.20, SD=1.47) in supporting Corporate Governance in state corporations in Kenya.

Table4.21: Descriptive Statistics Audit Committee characteristics of state Corporations in Kenya

Audit Committee characteristics	Mean Statistic	Std. D Statistic	Skewness Statistic	Std. Error
Composition	4.1744	1.10312	-1.166	.174
Competency	3.9830	.74783	-.918	.174
Working Relation	3.1990	1.46976	-.183	.174

4.6.4: Legal and regulatory framework

Legal & Regulatory framework was the fourth variable the research envisaged could be one of the determinants of corporate performance in state corporations in Kenya. Initially it had seven factors and which converged into three main components on factorization to reduce the data for easier analysis and interpretation. The three components were named as investigation activities, appointment regulations and government policies.

Descriptive result in Table 4.22 showed that in state corporations in Kenya, investigation activities were noticeably in place (mean=4.42, SD=.696). Example the inspectors investigated non-compliance with statutory requirements and investigated complaints by stakeholders as one of the key to Corporate Governance. The data was marginally negatively skewed (-.854, SE= .173). This corroborates Roe (2003) that depending on the applicable laws and regulations, as well as their enforcement, Corporate Governance may be enhanced through the protection of capital providers (shareholders and creditors).

Procedure of appointment of the auditors in state corporations in Kenya were in place (3.500, SD=.972) as one of the practices that sustains governance in state corporations in Kenya. The data was also marginally skewed (-.514, SE=.173) hence the distribution was near normally distributed.

Government policies in most state corporations in Kenya that support corporate performance were in place (mean=3.53, SD=.971). Therefore, the legal & regulatory framework in the surveyed corporations was in place.

Table 4.22: Descriptive Statistics on L & RF in state Corporations in Kenya

Legal & reg. framework	Mean Statistic	Std. Deviation Statistic	Skewness Statistic	Std. Error
Investigations	4.4196	.69652	-.854	.173
Appointment regulations	3.5000	.97153	-.514	.173
Government Policies	3.5279	.96520	-.518	.173

4.6.5 Corporate Governance

Corporate Governance was the dependent variable in this study. It had two main sub-variables after factorization; transparency and disclosure. Descriptive result in Table 4.23 showed that in state corporations in Kenya there was transparency (mean=4.11, SD=.996) and the distribution was marginally skewed to the left (-.678, SE=.174). The state corporations' level of disclosure was not adequate (mean=3.10, SD=1.002) to sufficiently support Corporate Governance. The standard deviation was found to be high and therefore implied that there was high variations in responses on disclosure. Therefore the level of Corporate Governance in the surveyed corporations was in place.

Table4.23: Descriptive Statistics on Corporate Governance

Corporate Governance	Mean	Std.	Skewness	
	Statistic	Deviation Statistic	Statistic	Std. Error
Transparency	4.1139	.99575	-.678	.174
Disclosure	3.1046	1.00283	-.118	.174

4.7 Correlational Results

Correlation is a measure of association between two or more variables. Correlation analysis is a statistical technique used to indicate the nature and degree of relationship existing between one variable and the other(s). It is also used along with regression analysis to measure how well the regression line explains the variations of the dependent variable with the independent variable. In this study correlation analysis was necessary to investigate the relationship between practices in State Corporation and Corporate Governance. The study had hypothesized a relationship between the two sets of variables. The correlation matrix presented in table 4.24 shows the correlation coefficients between independent variables and their significance. The procedure was necessary so as to assess the nature of relationship

among variables and to check for multicollinearity among the independent variables. Multicollinearity is the undesired situation when there is a strong linear relationship between independent variables and its presence causes errors in hypothesis testing using regression analysis.

In this case there is an indication that there is no likely cause of worry of the presence of multicollinearity as the correlations are all weak. The result indicated that all the four independent variables correlated positively and significantly with Corporate Governance.

That is, board characteristics ($r=.486$, $p<.001$), according to Miring'u (2011), are efficient corporations can only be established and developed by responsible, creative, innovative boards and more appropriately elected and governed boards executive compensation policies ($r=.616$, $p<.001$) audit committee characteristics ($r=.582$, $P<.001$) and legal & regulatory framework ($r=.597$) had positive moderate correlation with Corporate Governance in state-owned corporations in Kenya. It is worthy to note that Executive Director Compensation policies (.616) had the most moderate relationship with governance and board characteristics (0.486) had the least moderate relationship with Corporate Governance.

Table 4.24: Correlation of variables

Variables		G1	BC	EDC	ACC	LF
1. Governance (G1)	Correlation	1	.486**	.616**	.582**	.597**
2. Board Characteristics	Sig. (2-tailed) Correlation	.	1	.172*	.170*	.239**
3. Executive & Director Compensation	Sig. (2-tailed) Correlation			.016 1	.017 .154*	.001 .436**
4. Audit Committee characteristics	Sig. (2-tailed) Correlation				.031 1	.000 .130
5. Legal & Regulatory Framework	Sig. (2-tailed) Correlation					.070 1
	Sig. (2-tailed)					

** . Correlation insignificant at the 0.01 level (2-tailed). * . Correlation is significant at the 0.05 level (2-tailed N=163)

The result shows that the dependent variables were positively correlated with each other. The positive correlation implied that these dependent variable moves in the same direction. An increase in one variable will be accompanied by an increase in the other variable and vice versa. Example, the board characteristics had a positive and significant correlations with director compensation policies($r=.172$, $p=.016$), and with audit committee characteristics ($r=.170$, $p=.17$) and with legal framework ($r=.239$, $p=.001$).

The relationship between legal framework and executive director compensation policies were found to be the strongest (.436) and the weakest relationship was between the legal framework and audit committee characteristics (.130).

4.8 Regression Assumptions

The underlying assumptions of the linear regression, the linearity, normality and homoscedasticity are tested in continuous data used for the regression analysis. Linearity is the relationship between dependent and independent variables, representing the degree to which change in the dependent variable is constant across the range of values for the independent variable. Linearity is assessed by analyzing the scatter plots of the variables. If nonlinearity is detected a data transform technique is used to convert the data into linear format. In this study the scatter plots between the independent variable and dependent variables were obtained and checked for linearity. The result is presented in Appendix V.

The result clearly indicated that the variables were linearly related hence no need of any data transform. The most fundamental assumption in linear regression analysis is normality, which refers to the degree to which the distribution of data corresponds to a normal distribution (Hair *et al.*, 2006). Normality was checked using quartile-quartile (Q-Q) plots and skewness testing. If non-normality was found, data transformation techniques were used to transform the data into normality. The skewness test was performed early and now the Q-Q plots test was performed to confirm the other result from skewness. The normality result showed that the data distribution of the Independent Variables and Dependent Variables were all normally distributed (Appendix VI).

Consistent variance of the error term is associated with homoscedasticity. Homoscedasticity assumes that the dependent variable exhibits equal levels of variance across the range of predictor variables (Hair *et al.*, 2006). Variability affects the standard error and makes hypothesis testing either too stringent or too insensitive. The Levene's test was used to assess whether the variances were equal across any number of groups. Indeed the result in table 4.34 below. Multicollinearity is another factor that needs to be taken into account in interpreting results, as it distorts the results of the regression.

A Multicollinearity problem arises when two or more independent variables are linearly related.

This situation can be detected by analyzing variation inflation factors (VIFs). A VIF value of 1.0 indicates that a variable is orthogonal to all other independent variables, implying that no Multicollinearity exists. However, a common rule of thumb to indicate the existence of Multicollinearity is a VIF value of 10 or higher (Lomax, 1992). The result in the Collinearity diagnostic table 4.25 indicated that there was no problem of multicollinearity since all variance inflation factor (VIF) was more 10. To this end therefore, regression analysis was appropriate to test the study hypothesis without severely violating the required assumptions in linear regression.

Table 4.25: Collinearity diagnostics

Variables	B coefficient	t	Sig.	Collinearity Statistics		
				Tolerance	VIF	Comment
1 (Constant)	.188(.135)	1.391	.166			
Board Characteristics	.224(.028)	8.123	.000	.920	1.087	No multicollinearity
Executive Compensation	.213(.021)	10.057	.000	.797	1.254	No multicollinearity
Audit Committee	.216(.016)	13.240	.000	.953	1.049	No multicollinearity
Legal Framework	.271(.031)	8.669	.000	.781	1.281	No multicollinearity

Note: standard errors are in parenthesis, VIF= variance Inflation Factor

4.9 Regression Analysis between independent Variable and Corporate Governance in State Corporations in Kenya

A simple linear regression analysis was performed between each independent variable and the dependent variable. Each variable was regressed with the Corporate Governance to establish whether the variable was a significant determinant of governance in state corporations in Kenya. The simple linear regression analysis was justified to enable the study underscore the contribution of each independent variable to the dependent variable and therefore test the study hypothesis H01, H02, H03 and H04. The model summary of each variable is presented in table 4.27. The table gives the R value the R Square and Adjusted R Square. The R square value is the coefficient of determination. It represents the portion of the variation that that independent variable accounts for in the dependent variable, in this case, Corporate Governance. Board characteristics had an R square value of .239 implying that the board characteristics accounted for 23.9% of the governance variations witnessed in state-owned corporations in Kenya.

The result in table 4.27 indicated that the variations in governance in the state corporations in Kenya was significant ($F=192, p<.000$). Similarly executive & Director Compensation policies accounted for 38.0%, audit committee characteristics 33.8% and legal framework 35.8%. The regression beta coefficients for each independent variable are presented in table 4.26.

Table 4.26: Regression Beta-Coefficients

Corporate Practices	Unstandardized B	t	Sig.
1 Board Characteristics	.399 (.051)	7.830	.000
2 Compensation	.361(.033)	10.895	.000
3 Audit Committee characteristics	.286(.029)	9.958	.000
4 Legal Framework	.513(.049)	10.438	.000

NOTE: Each independent variable was regressed with the DV (governance), standard error is given in parenthesis.

Board characteristics were one of the variables of corporate practices the researcher envisaged to determine the Corporate Governance. The result in table 4.35 shows that the coefficient of the independent variables, that is, board characteristics ($\beta=.399$, $p<.001$), compensation ($\beta=.361$, $p<.001$) audit committee characteristics ($\beta=.286$, $p<.001$) and legal framework ($\beta= .513$, $p<.001$) were all significant in explaining the following hypothesized relationships:

H01: There is no significant relationship between Board characteristics and Corporate Governance in state-owned corporations in Kenya.

H02: There is no significant relationship between executive compensation and Corporate Governance in state-owned corporations in Kenya.

H03: There is no significant relationship between audit committee characteristics and corporate governance in state-owned corporations in Kenya.

H04: There is no significant relationship between legal framework and Corporate Governance in state-owned corporations in Kenya.

The result of the hypothesis testing therefore are; hypothesis H01 was not supported ($\beta=.339$, $p<.001$) that is, there was no significant relationship between board characteristics and Corporate Governance in state-owned corporations in Kenya. From table 4.27result, board characteristics, holding other factors constant, explained about 23.9% of the variations in Corporate Governance in Kenya.

H02 was rejected ($\beta=.361$, $p<.001$), implying that the β coefficient was significantly different from zero, that is, executive compensation was a significant determinant of Corporate Governance in state-owned Corporations in Kenya. The executive compensation explained about 38.0% of the variations in Corporate Governance in Kenya as noted from table 4.27.

The third hypothesis; (H03: There is no significance relationship between audit committee characteristic and Corporate Governance in state-owned corporations in Kenya) was rejected ($\beta=.286$, $p<.001$). Therefore the β coefficient was significantly

different from zero. From table 4.27, audit committee characteristics, alone, explained about 33.8% of variations in corporate performance in Kenya.

The fourth hypothesis, H04 was not supported. That is, there was no significant relationship between legal framework and Corporate Governance in state-owned corporations in Kenya ($\beta=.286$, $p<.001$). Therefore the beta coefficient was significantly different from zero. The legal & regulatory framework accounted for 35.8% of the variations in Corporate Governance in state-owned corporations in Kenya.

Table 4.27: Regration Analysis Result on Determinats of Effectiveness of Cooperate Gorvenance in State Cooperations in Kenya

Model	R	R Square	Adjusted Square	R F	Sig
Board Characteristics	.489 ^a	.239	.235	61.311	.000
Compensation	.616	.380	.376	118.7	.000
Audit Committee characteristics	.582	.338	.335	99.164	.000
Legal Framework	.599	.358	.355	108.962	.000

NOTE: Each independent variable was regressed with the Dependent Variable (governance), the F ratio and the significance of the model is given in last 2 columns respectively.

4.10 Multiple linear regression model

The foregoing sections dealt with simple linear regression analysis. In simple linear regression, one independent variable was regressed with the dependent variable to enable the study to determine the influence of the dependent variable on the dependent variable when other factors are held constant. Multiple linear regressions on the other hand involve regressing Independent Variable simultaneously with one Dependent Variable. The purpose was to determine the combined influence of the Independent Variable on the Dependent Variable. The result of the standard multiple linear regression is as shown in table 4.28, 4.29, and 4.30

Board characteristics, audit committee characteristic, legal & regulatory framework and executive compensation were used in standard regressed analysis to predict Corporate Governance. Results in Table 4.28 show that the model accounted for about 80% of the variance in Corporate Governance (R square=.801, adjusted R square=.797).

Table 4.28: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.895 ^a	.801	.797	.18746

a. predictors: (constant), legal & regulatory framework, audit committee characteristics, board characteristics, executive & director compensation

Therefore, 80% of the variations in Corporate Governance in State Corporations in Kenya can be accounted or explained by the four variables Board Characteristics, Director & Executive Compensation, Audit Committee Characteristics and Legal & Regulatory Framework. The remaining 20% can be explained by other factors not considered in this study. Table 4.29, shows that the prediction model was statistically significant, $F(4,191)=192.040$, $p,<.001$.

Table 4.29: ANOVA

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	26.994	4	6.748	192.04	.000 ^b
	Residual	6.712	191	.035		
	Total	33.705	195			

The raw and standardized regression coefficients of the predictors together with their t statistics are as shown in table 4.30.

Table 4.30: Coefficients

Model	Unstandardized coefficients B	Std Error	Stanardized Coefficients Beta	t	Sig.
Constant	.188	.135		1.391	.166
Board Characteristics	.224	.028	.273	8.123	.000
Director Compensation	.213	.021	.364	10.057	.000
Audit Committee Characteristics	.216	.016	.438	13.240	.000
Legal & Regulatory Framework	.271	.030	.317	8.669	.000

The raw coefficients in table 4.37c show that regulatory framework received the Strongest weight in the model ($\beta=.271$, $p<.001$) followed by board characteristics ($\beta=.224$, $p<.001$) and then Audit committee characteristics ($\beta=.216$, $p<.001$) and least in weight in the model was Director Compensation policies ($\beta=.213$ $p<.001$). All the four predictors had significant weights in the model and therefore the four predictor variables were retained in the model.

The estimated regression model for this study was:

$$Y = \beta_0 + \beta_1X_1 + \beta_2X_2 + \beta_3X_3 + \beta_4X_4 + \varepsilon$$

Where:

Y = Corporate Governance (dependent variable, DV).

β_0 = Constant or intercept-the value of DV when all the independent variables are zero.

β_{1-4} = Regression coefficient for each of the four independent variable.

X₁ = Board Characteristics

X₂ = Executive compensation

X₃ = Audit Committee characteristics

X₄ = Legal & Regulatory Frameworks

Therefore, using the regression beta coefficients in table 4,27c, the fitted regression model for this study was:

$$Y = 0.188 + 0.224X_1 + 0.213X_2 + 0.216X_3 + 0.271X_4$$

In the absence of board characteristics, executive compensation, audit committee and legal & regulatory framework in state corporations in Kenya, corporate governance would be 0.188. a unit increase in board characteristics, would lead to 0.224 increase in corporate governance holding other factors constant.

Also unit increase in executive compensation would lead to 0.213 increase in corporate governance holding other factors constant. Similarly a unit increase in audit committee characteristics would lead to 0.216 increase in corporate governance holding other factors constant. Finally a unit increase in legal & regulatory framework would in state corporations in Kenya would lead to 0.271 unit increase in corporate governance in Kenya.

Consequently legal and regulatory framework had the greatest contribution (0.271) to corporate governance in state owned corporations in Kenya. Followed by board characteristics (0.224), then audit committee characteristics (0.216) and least was executive compensation (0.213). Therefore corporate practices (board characteristics, board compensation, audit committee characteristics and legal framework) collectively determined the level of Corporate Governance in state-owned corporations in Kenya. Therefore the relationship between the independent variables and DV modeled as above can be used for prediction.

4.11 Discussion

Board characteristics was one of the variables the research envisaged could be a significant determinant of Corporate Governance in state-owned corporations in Kenya. The study found that board characteristics were appropriate to support Corporate Governance. This was measured using three factors (namely board integrity, board selection and monitoring). The overall mean score (3.600) indicated that there were some level of integrity and adequate monitoring and selection criteria; means scores were more than 3.00 (neutral) based on the 5-point Likert scale which ranged from 1- strongly disagree to 5- strongly agree. Board characteristics had a positive and significant correlation with Corporate Governance ($r=.486$, $p<.001$). This corroborates Carter and Lorsch (2004) who posits that how Boards interpret their roles and how they operate are key to their effectiveness. Regression result revealed that board characteristics was a significant determinant of Corporate Governance ($\beta=.399$, $p<.001$) and it accounted for about 24.0% of the variations in Corporate Governance.

The standard multiple regression analysis revealed board characteristics was a significant factor ($\beta=.224$, $p<.001$) in the Corporate Governance model. Therefore: Board characteristics were a significant determinant of Corporate Governance in state-owned corporations in Kenya. This corroborated Levrau (2004) who found out that board effectiveness was determined by the extend directors carry out their control and strategic role. The hypothesis that there is no significant relationship between board characteristics and Corporate Governance; was not supported.

Executive and Director compensation policies were the second independent variable. The mean score of responses indicated that on average the executive & Director compensation policies were in support of Corporate Governance in Kenya (mean=3.5). The executive and Director Compensation policies had a positive and significant correlation with Corporate Governance in State-owned corporations in Kenya ($r=.616$, $p<.001$). The simple linear regression analysis result indicated that compensation had a significant contribution to Corporate Governance ($\beta=.361$, $p<.001$) and it accounted for about 38.0% of variations in Corporate Governance.

Specifically, remuneration package, attractive director appraisal systems and attractive compensation in case of early separation of board member from the organization, are key effective corporate governance.

Further, it was established that Executive and Director Compensation policies were a significant determinant of Corporate Governance in state-owned corporations in Kenya. The standard multiple regression analysis revealed compensation was a significant factor ($\beta=.213$, $p< .001$) in the Corporate Governance model. The hypothesis that; there is no significant relationship between executive & director compensation policies and Corporate Governance; was not supported.

Audit Committee Characteristic was the third independent variable. The study established that, on average the Audit Committee Characteristic was in support of Corporate Governance in Kenya (mean= 3.7). That is to say, there was some adequate committee competency, the working relation among the committee members was fair and committee composition well constituted. This corroborates Raghunandan (2007) that an Audit Committee that consists of qualified independent directors is better able to contribute towards auditor independence. Lam (2000) also found that “the appearance of independence of an Audit Committee enhances auditor independence and improve transparency in financial reporting.

(Bedard et al., 2004), Song (2004) low frequency of meetings undermined the audit committee effectiveness. The Audit Committee Characteristic had a positive and significant correlation with Corporate Governance in State-owned corporations in Kenya ($r=.582$, $p<.001$). The simple linear regression analysis result indicated that audit committee characteristics had a significant contribution to Corporate Governance ($\beta=.286$, $p< .001$) and it accounted for about 33.8% of variations in Corporate Governance.

The Audit Committee Characteristics was a significant determinant of Corporate Governance in state-owned corporations in Kenya. The standard multiple regression analysis revealed audit committee characteristics was a significant factor ($\beta=.216$, $p< .001$) in the Corporate Governance model. The study corroborates Turtle, (2004) who found out that organizations with audit committees who failed had audit committees

that lacked independence through their composition of members. The study further corroborates” (Beattie *et al.*, 2014) who argued that Audit Committees with independent non-executive directors strongly encourages auditor independence.

In their study, (Coles *et al.*, 2001), and (Weir *et al.*, 2002) found that that there is no significant relationship between non-executive directors’ representation and performance. In contrast, in the U.K., Weir and Laing (2000) found a negative relationship between non-executive director representation and performance. In addition, Yermack (2004) present that small board has a higher market valuation. The hypothesis that; there is no significant relationship between Audit Committee Characteristics and Corporate Governance; was not supported.

Findings indicated that on average the Legal & Regulatory Framework was in support of Corporate Governance in Kenya (Mean=3.8). The Legal & Regulatory Framework had a positive and significant correlation with Corporate Governance in State-owned corporations in Kenya ($r=.597$, $p<.001$). Regression result revealed that Legal & Regulatory Framework was a significant determinant of Corporate Governance ($\beta=.513$, $p<.001$). Legal and Regulatory Framework accounted for 35.8% of the variations in Corporate Governance. The standard multiple regression analysis revealed Legal and Regulatory Framework was a significant factor ($\beta=.271$, $p<.001$) in the Corporate Governance model.

The hypothesis that; there is no significant relationship between Legal and Regulatory Framework and Corporate Governance; was supported. The legal and regulatory framework includes laws against corruption, laws pertaining to the protection of minority shareholders and. stock exchange rules, Laws and regulations are determined at the societal level (Dyck, 2001) and represent what is generally socially acceptable (Dore, 1993). Management of State Corporations should therefore strive to enforce their Legal and Regulatory frameworks to further guard against corruption, and also protect the minority to represent what is socially acceptable.

The overall objective of this study was to establish determinants of effectiveness of Corporate Governance in State Corporations in Kenya. In order to answer the research questions raised to address this objective, it was necessary first to perform a review of related theoretical and empirical literature. This was followed by the methodology documented in chapter three. The methodology involved a pilot study on carefully selected State Corporations that were isolated in order not to participate in the main study. The independent variables were tested for validity and reliability while factor analysis was used to identify factor loading for selection of relevant indicators. A normality test was performed on the dependent variable to inform the selection of the analysis method. The findings of the study were used to answer the four research questions formulated from the specific objective of the study.

The questions sought to establish the effectiveness of the four independent variables (Board Characteristics, Executive and Director Compensation policy, Audit Committee Characteristics and Legal and Regulatory Framework).

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

This chapter presents the summary of major findings of the study, conclusions and the recommendations. The study sought to establish the determinants of effectiveness of corporate governance in state corporations in Kenya. The summary of key findings, conclusions and recommendations is done in line with the objectives of the study based on the output of the descriptive and inferential statistical analyses guided to test the research hypothesis of the study

5.2 Summary of findings

5.2.1 Influence of board characteristics on effectiveness of Corporate Governance at state corporations in Kenya

The first objective of the study was to determine the influence of board characteristics ` effectiveness of corporate governance in state corporations in Kenya. Results were reached after analysis of several factors that contributed to effectiveness of corporate governance. The sub-variables included strategic planning, leadership and controls and monitoring

The study found that board characteristics in most corporations were appropriate to support Corporate Governance. This was measured using three factors (board integrity, board selection and monitoring). Board characteristics had a positive and significant correlation with Corporate Governance ($r=.486$ $p<.001$). This corroborates Ashburner (1997), and Carter and Lorsch (2004) who posits that how Boards interpret their roles and how they operate were key to their effectiveness. Regression result revealed that board characteristics was a significant determinant of Corporate Governance ($\beta=.399$, $p<.001$) and it accounted for about 24.0% of the variations in Corporate Governance.

The standard multiple regression analysis revealed board characteristics was a significant factor ($\beta=.224$, $p< .001$) in the Corporate Governance model. Therefore, the study concluded that board characteristics were a significant determinant of Corporate Governance in state-owned corporations in Kenya.

5.2.2 Influence of executive and Director Compensation policies on effectiveness of Corporate Governance at state corporations in Kenya

The second objective of the study was to establish the influence of executive and Director Compensation policies on effectiveness of Corporate Governance at state corporations in Kenya. The study found that a mean score of responses indicated that on average the executive & Director compensation policies were in support of Corporate Governance in state corporations in Kenya (mean=3.5).

The simple linear regression analysis result indicated that compensation had a significant contribution to Corporate Governance ($\beta=.361$, $p< .001$) and it accounted for about 38.0% of variations in Corporate Governance. Specifically, remuneration package, attractive director appraisal systems and attractive compensation in case of early separation of board member from the organization, are key for effective corporate governance. The standard multiple regression analysis revealed compensation was a significant factor ($\beta=.213$, $p< .001$) in the Corporate Governance model.

5.2.3 Influence of board audit committee characteristics on effectiveness of Corporate Governance at state corporations in Kenya

The third objective of the study was to determine the Influence of board audit committee characteristics on effectiveness of Corporate Governance at state corporations in Kenya. The results indicated that that, on average the Audit Committee Characteristic was in support of Corporate Governance in Kenya (mean= 3.7). An indication that the committee was competent, the working relation among the committee members was fair and committee composition well constituted. The Audit Committee Characteristic had a positive and significant correlation with Corporate Governance in State-owned corporations in Kenya ($r=.582$, $p<.001$). The

simple linear regression analysis result indicated that audit committee characteristics had a significant contribution to Corporate Governance ($\beta=.286$, $p< .001$) and it accounted for about 33.8% of variations in Corporate Governance. The standard multiple regression analysis revealed audit committee characteristics was a significant factor ($\beta=.216$, $p< .001$) in the Corporate Governance model.

5.2.4 Influence of the legal and regulatory framework on effectiveness of Corporate Governance at State owned Corporations in Kenya

The fourth objective of the study was to determine the influence of legal and regulatory framework on effectiveness of Corporate Governance at State owned Corporations in Kenya.

The study Findings indicated that on average the Legal & Regulatory Framework was in support of Corporate Governance in Kenya (Mean=3.8). Regression result revealed that Legal & Regulatory Framework was a significant determinant of Corporate Governance ($\beta=.513$, $p< .001$), and it accounted for 35.8% of the variations in Corporate Governance. The standard multiple regression analysis revealed Legal and Regulatory Framework was a significant factor ($\beta=.271$, $p< .001$) in the Corporate Governance model. Management of State Corporations should therefore strive to enforce their Legal and Regulatory frameworks to further guard and support positive corporate practices.

5.3 Conclusions

5.3.1 Influence of board characteristics on effectiveness of Corporate Governance at state corporations in Kenya

Board characteristics were found to be positively linked with corporate governance, specifically, board integrity, board selection procedures and monitoring have a positive link with corporate governance. Therefore board characteristics were a significant determinant of corporate governance in state owned-corporations. For that reason greater emphasis need to be taken by firms to have proper planning which was found in this study to have a positive implication on firm performance.

In the same vein, there is need for the boards of corporations to be more efficient in its monitoring role in order to create value for the firms and the stakeholders. This calls for a proactive board that puts in place an effective system of internal control. Consequently companies with integrity, proper board membership through competitive selection procedures would have proper governance structures.

5.3.2 Influence of executive and Director Compensation policies on effectiveness of Corporate Governance at state corporations in Kenya

Executive & director compensation procedures had a positive and significant relationship on the level of corporate governance on corporate governance in state owned corporations. The remuneration package, attractive clear payment in case a director separates earlier from the organization and director appraisals procedures are key in determining the level of corporate governance.

In this regard it is prudent that the remuneration policy of both directors and executive managers has an influence on the managers and directors' interest in the company's activity.

There is need to disclose the remuneration policy for directors and managers as well as information on board members, including their qualifications, and selection process' Consequently, CGCs introduced major sections designed to regulate remuneration and other benefits granted to directors and managers. The role of the Remuneration Committee is also well-stated.

5.3.3 Influence of board audit committee characteristics on effectiveness of Corporate Governance at state corporations in Kenya

Audit committee characteristic had a positive significant correlation with corporate governance in Kenyan state owned corporations. Therefore the competency of the audit committee team, team composition, its working relation within itself and the management are key to effective corporate governance.

There is need to develop organizations with highly competent, well constituted audit committee and has a good working relationship that promotes governance in them.

There is need to ensure that all internal control and risk management functions operate effectively and reliably. This can be achieved through creating effective audit committee that evaluates quality of the internal audit function.

There is need to ensure that there is integrity of financial reporting and an effective oversight over internal audit function. This can be achieved through establishing a strong relationship between management and external audit to ensure compliance to legislative and regulatory requirements.

Further Independent Directors increase the quality of monitoring because they are not associated with the corporation either as officers or employees; and therefore act as the share- holder's watchdog.

5.3.4 Influence of the legal and regulatory framework on effectiveness of Corporate Governance at State owned Corporations in Kenya

The Legal and Regulatory Framework was established has a positive significant link with corporate governance in Kenyan State Corporations. The investigations, the appointment regulations in place and government policies are related to corporate governance in state corporations in Kenya. Therefore to achieve good corporate governance in state owned corporations in Kenya, favourable and fair Legal and Regulatory Framework policies should be in place.

There result provided further evidence that a country's legal system plays a significant role in determining the success of its corporate governance system.

Legal and regulatory framework policies affect almost all aspects of corporate characteristics- remuneration, audit committee composition and even remuneration policies. Therefore a well-established legal framework is the foundation of an effective and well-functioning CG system in public in state owned corporations in Kenya.

There is need to ensure that legal and ethical requirements in state owned corporations are satisfactory. This can be achieved through establishing company code of ethics and that the company is a good employer.

The four independent variables; board characteristics', executive compensation, audit committee characteristics and Legal and Regulatory Framework were significant determinants of corporate governance. These factors collectively accounts for large variations (79.9%) in corporate governance in these state owned corporations.

5.4 Recommendations

Based on the findings of the study and the conclusions drawn thereof, the following recommendations are made;

5.4.1 Managerial Recommendations

The finding of this research revealed that there is a positive practice of Corporate Governance in State Corporations in Kenya. This implies that Top Management of State Corporations do adopt and entrench policies and systems that support practices of good governance in the state corporations. State corporations being in providing key services and products to the country, they need to be supported in entrenching governance practices.

The findings of this study provide insights to State Corporations on the importance of positive practices of governance. Due to the changing business environment and the need to embrace transparency in business operations, managers of State Corporations should embrace the positive practices of corporate governance,

5.4.2 Implication to share holders

It was established that board characteristics', executive compensation, audit committee characteristics, legal and regulatory framework, were significant determinants of Corporate Governance. These factors collectively accounts for large variations (79.9%) in corporate governance in these state owned corporations. For these corporations to increase shareholder value, they need to be keen on these key determinants.

5.4.3 Study's Contribution to Theory and existing body of knowledge

The results of this study revealed that Corporate Governance practices had four drivers; Board Characteristics, Executive and Director Compensation, Audit Committee Characteristics and Legal and Regulatory Framework practice, Strategic Planning, Control and Monitoring, policy, competency, incentive plans, rules and procedure, practices, and these underpinned a key major factor which was effective corporate governance the independent variable of this study. This conclusively meant that as much as corporate governance practices were enhanced by utilizing empirical literature and theoretical perspectives from the most developed countries and economies, their variables converged appropriately to their respective drivers and, hence, the Agency and Stewardship theories were very relevant in the study.

5.5 Areas for further research

The General objective of the study was to establish determinants of effectiveness of Corporate Governance in State Corporations in Kenya. It was delimited to only four variables, namely Board Characteristics, Executive & Director Compensation, Audit Committee Characteristics and Legal & Regulatory. These determinants are not exhaustive and further research should be carried out to unearth other determinants like organizational culture, leadership style, economic conditions, Political interference, Technological, Environmental and Organization Culture of Corporate Governance in the Sector.

Since the study relied mainly on data from State Corporations alone, further research could also be undertaken include all Government Institutions in Kenya. This would give more reliable results for generalization. It is recommended that a comparative study be carried out on the effectiveness of corporate governance in both commercial and non-commercial corporations because this study was general in nature.

Finally, further studies be undertaken on the subject to include various aspects of Board of Directors characteristics and explore board processes such as remuneration and nominating committees, board of director's frequency meeting and experience on Board of Directors.

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APPENDICES

Appendix 1: Letter of Introduction

Peris Koech

PHD Student

JKUAT Mombasa CBD, Mombasa

Dear Respondent,

RE: ASSISTANCE WITH STUDY FOR PHD RESEARCH PROJECT

My name is Peris Koech a PHD Student at JKUAT, Mombasa. I am conducting a study concerning; determinants of effectiveness of corporate governance in state corporations in Kenya. I have selected you as my study respondent due to the position that you hold in your Organization. Please take a few minutes to answer the questions in this questionnaire by indicating the extent to which you agree or disagree with a given statement on the space provided.

This research project is required for the award of a PhD in Business Administration in Strategic Management of Jomo Kenyatta University of Agriculture & Technology.

Your specific answers will be completely anonymous, but your views in combination with those of others are extremely important.

The information generated using this questionnaire will be treated confidentially and will not be in any way used against the respondent. The information obtained will be used purely for the intended academic purposes.

Yours faithfully,

Peris Koech

E-mail periskoech@ymail.com 0722879822

Appendix II: Questionnaire

DETERMINANTS OF EFFECTIVE CORPORATE GOVERNANCE AT STATE CORPORATIONS IN KENYA
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Please fill the questionnaire openly and honestly. Confidentiality will be strictly adhered to and there will be no mention of your personal name. Please provide the following information as required.

I. GENERAL INFORMATION

1. Name of your Parastatal (optional):

.....

2. What is your level in the organization?

i. Senior manager

ii. Middle-level manager

3. Kindly indicate your department:

i. Internal Audit

ii. Operations /Technical

iii. Finance

iv. Corporate Services

v. Human Resources

vi. Any other, please specify.....

3. What is your highest level of education?

Tertiary level Under-graduate degree Masters degree

4. For how long have you been a Manager in your parastatal?

0 > 5 years 6 > 10 years Over 10 years

II: CORPORATE GOVERNANCE DETERMINANTS

Using the scale provided below, please rate the following statements by circling the number that most reflects your opinion:

1 = Strongly Disagree, 2 = Disagree, 3 = Neutral, 4 = Agree, 5 = Strongly Agree

a). BOARD CHARACTERISTICS

Question: Please indicate the extent of your agreement as to the characteristics of the board in your corporation:	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
1. Directors discuss and approve the strategic plan of the company					
2. Directors make decisions about the CEO's remuneration					
3. The board ensures the integrity of the corporation's financial reporting system					
4. The board monitors the effectiveness of the governance practices					
5. Board members supervise the process of					

disclosure					
6. Non-executive directors constitute the majority on the board of directors					
7. Economic and social affiliations exist between directors and the company or company top management or large shareholders					
8. The Chief Executive is not at the same time the Chairman of the board					
9. The Chairman of the board is an independent non-executive director					
10. The process of selecting/appointing directors is known to all stakeholders					
11. Explicit criteria for selecting directors exist					
12. The agenda for the board meeting is set by the CEO					
13. Directors make the decision to hire a CEO					
14. Directors can discipline/fire the CEO					
15. Directors formally evaluate their activities, the corporation and the individual directors					
16. The board has a Governance Committee to scrutinize all matters relating to Corporate Governance in the company and meets at least once during the year					
17. The board has a Nomination Committee to lead the process for board appointments, make recommendations to the board and be involved with succession planning in the company					
18. The majority of members of the nomination committee are independent non-executive directors					
19. The CEO serves on no more than two other boards of public companies					
20. No former CEOs of this corporation sit on the					

board					
21. A mandatory retirement age for directors exists					
22. A board-approved CEO succession plan is in place					
23. Directors are required to submit their resignation upon a change in job status					
24. Outside directors meet without the CEO and disclose the number of times they meet					

b). EXECUTIVE AND DIRECTOR COMPENSATION

Question: Please indicate the extent of your agreement as to the compensation practices in your corporation:	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
1. The board has an effective remuneration committee.					
1. There is an elaborate policy on executive remuneration.					
2. There is clear remuneration package for the Directors					
4. The remuneration committee is composed solely of independent directors					
5. Non-employees do not participate in the company pension plans					
6. In the organization Incentive plans are used to improve Directors monitoring of performance					
7. Directors receive all or a portion of their fees in Bonuses					

8. The Company does not provide any loans to executives for exercising options					
9. Executives are subject to annual appraisals					
10. Directors are subject to annual appraisals					
11. Executive and Directors long term compensation is tied to shareholder returns					

c). AUDIT COMMITTEE CHARACTERISTICS

Question: Please indicate the extent of your agreement as to the audit committee practices in your corporation:	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
1. In my organization there is an established audit committee					
2. The Audit Committee is composed of only non-executive directors who are independent of the company					
3. Members of the Audit committee possess certain level of financial competency					
4. There is a procedure to assesses the performance of the audit committee chair					
5. The independence of the audit committee is real as well as perceived					
6. Audit committee members are carefully recruited and retired					
7. The audit committee has effective working relationships with senior management					
8. The Audit Committee meets at least 3 times in a year.					

d). LEGAL AND REGULATORY FRAMEWORK

Question: Please indicate the extent of your agreement as to the legal and regulatory framework in your corporation:	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
1. Rules and procedures for transactions are in place					
2. Commercial laws, rules and regulations are in place					
3. Laws and rules for appointing and removing auditors are in place					
4. Government agencies responsible for enforcement of corporate laws are in place					
5. Inspectors investigate non-compliance with statutory requirements					
6. Inspectors investigate complaints by stakeholders about mismanagement					
7. Inspectors investigate oppression of stakeholders					
8. Actions are taken against auditors' failure to report improper financial records					

III. EFFECTIVE CORPORATE GOVERNANCE

A. Transparency and Disclosure

Question: Please indicate the extent of your agreement as to the transparency & disclosure practices in your corporation:	Strongly	Disagree	Neutral	Agree	Strongly
1. The board discloses the corporation's independent auditors					
2. There is equal access to information for all stakeholders					
3. The board discloses managerial ownership and compensation					
4. Board guidelines on Corporate Governance are published in the firm proxy statement					
5. Board guidelines on the code of ethics and conduct are published in the firm's proxy statement					

THANK YOU FOR YOUR TIME

**Appendix III: Total Number of State Parastatals in Kenya Under Sampling
Frame as at 9th October, 2013**

A) Agriculture, Livestock and Fisheries

1. Agro-Chemical and Food Company.
2. Kenya Meat Commission.
3. Muhoroni Sugar Company Ltd
4. Nyayo Tea Zone Development Corporation.
5. South Nyanza Sugar Company Limited.
6. Chemilil Sugar Company Ltd
7. Nzoia Sugar Company Ltd
8. Simlaw Seeds Kenya.
9. Simlaw Seeds Tanzania.
10. Simlaw Seeds Uganda.
11. Kenya Animal Genetics Resource Centre.
12. Kenya Seed Company (KSC)
13. Kenya Veterinary Vaccine Production Institute.
14. National Cereals And Produce Board (NCPB)
15. Agricultural Development Corporation.
16. Crops Development and Promotion Service(New)
17. Fisheries Development and Promotion Service(New)
18. Livestock Development and Promotion Service(New)
19. National Irrigation Board.
20. Agricultural, Fisheries and Food Authority.
21. Kenya Plant and Animal Health Inspectorate Service.

22. Livestock Regulatory Authority.
23. Bukura Agricultural College.
24. Kenya Agricultural and Livestock Research Organization.
25. Kenya Marine and Fisheries Research Institute.

B) Devolution and Planning

1. Anti-Female Genital Mutilation Board.
2. Constituency Development Fund.
3. Drought Management Authority.
4. Kenya National Bureau Statistics.
5. National Coordinating Agency for Population and Development.
6. Public Benefits Organizations Regulatory Authority.
7. Kenya Institute of Public Policy Research and Analysis (KIPPRA)
8. Kenya School of Government.

C) Interior and Coordination of National Government

1. Customs and Border Security Service.
2. National Campaign against Drug Abuse Authority.

D) Education, Science and technology

1. Jomo Kenyatta Foundation.
2. Jomo Kenyatta University Enterprises Ltd
3. Kenya Literature Bureau (KLB)
4. Rivatex (East Africa) Ltd

5. School Equipment Production Unit.
6. University of Nairobi Enterprises Ltd.
7. University of Nairobi Press (UONP)
8. Higher Education Loans Board.
9. Kenya Institute of Curriculum Development.
10. Kenya National Examination Council (KNEC)
11. Kenya National Innovation Agency.
12. Commission for University Education.
13. National Commission for Science, Technology and Innovation.
14. Technical and Vocational Education and Training Authority.
15. Chuka University.
16. Cooperative University College.
17. DedanKimathi University.
18. Egerton University.
19. Embu University College.
20. Garissa University College.
21. JaramogiOgingaOdinga University of Science and Technology.
22. Jomo Kenyatta University of Agriculture And Technology
23. Karatina University.
24. Kenya Multi-Media University.
25. Kenyatta University.
26. Kibabii University College.
27. Kirinyaga University College.
28. Kisii University.
29. Laikipia University.

30. Maasai Mara University.
31. Machakos University College.
32. Maseno University.
33. MasindeMuliro University of Science and Technology.
34. Meru University of Science and Technology.
35. Moi University.
36. Murang'a University College.
37. Pwani University.
38. Rongo University College.
39. South Eastern Education, Science and Technology Kenya University.
40. TaitaTaveta University College.
41. Technical University of Mombasa.
42. The Technical University of Kenya.
43. University of Eldoret
44. University of Kabianga.
45. University of Nairobi.

E) Office of the Attorney General and Department of Justice

1. Kenya Law Reform Commission.
2. Nairobi Centre for International Arbitration.
3. National Council for Law Reporting.
4. Council for Legal Education.
5. Kenya School of Law.
6. National Crime Research Centre.

F) National Treasury

1. Consolidated Bank of Kenya.
2. Kenya National Assurance Co.(2001) Ltd
3. Kenya Reinsurance Corporation Ltd
4. Kenya Development Bank (after merger of TFC,ICDC,KIE,IDB,AFC)
5. Kenya Exim Bank.
6. Kenya Post office Savings Bank.
7. Internal Revenue Service.
8. Financial Reporting Centre.
9. Investor Compensation Fund Board.
10. Kenya Accountants and Secretaries National Examination Board
11. Kenya Deposit Protection Authority.
12. Kenya Trade Network Agency.
13. Local Authorities Provident Fund.
14. Policy Holders Compensation Fund.
15. Unclaimed Financial Assets Authority.
16. Competition Authority.
17. Public Procurement Oversight Authority.
18. Financial Supervisory Council.

G) Sports, Culture and The Arts

1. Kenya Academy of Sports.
2. Kenya Film Development Service
3. National Museums of Kenya.
4. National Youth Council.

5. Sports Kenya
6. The Kenya Cultural Centre.
7. Kenya Film Regulatory Service.

H) Health

1. Kenya Medical Supplies Authority.
2. Kenyatta National Hospital.
3. Moi Teaching and Referral Hospital.
4. National Cancer Institute of Kenya.
5. National Hospital Insurance Fund.
6. National Quality Control Laboratories.
7. Health Services Regulatory Authority.
8. Kenya Medical Research Institute(KEMRI)
9. Kenya Medical Training College(KMTC)

Industrialization and Enterprise Development

1. Development Bank of Kenya Ltd
2. Kenya Wine Agencies Ltd (KWAL)
3. KWA Holdings.
4. New Kenya Co-operative Creameries.
5. Yatta Vineyards Ltd
6. Numerical Machining Complex.
7. Biashara Kenya.
8. Kenya Intellectual Property Service.
9. Leather Development Council.

10. Export Processing Zones Authority (EPZA)
11. National Industrial Training Authority.
12. Kenya Bureau of Standards (KBS)
13. Kenya National Accreditation Service.
14. Kenya Industrial Research and Development Institute.

D) East Africa Affairs, Commerce and Tourism

1. Kenya National Trading Corporation(KNTC)
2. Kenya Safari Lodges And Hotels Ltd(Mombasa Beach, Ngulia Lodge, Voi Lodge)
3. Golf Hotel Kakamega.
4. Kabarnet Hotel Limited.
5. Mt Elgon Lodge.
6. Sunset Hotel Kisumu.
7. Kenyatta International Convention Centre.
8. Bomas of Kenya
9. Tourism Fund.
10. Tourism Regulatory Authority.
11. Kenya Utalii College (KUC)

J) Labor and Social Security Services

1. National Council for Persons with Disabilities.
2. National Social Security Fund Board of Trustees.

K) Transport and Infrastructure

1. Kenya National Shipping Line.
2. Kenya Airports Authority(KAA)

3. Kenya Ports Authority (KPA).
4. Kenya Railways Corporation (KRC)
5. Kenya Ferry Services Ltd (KFS)
6. Kenya National Highways Authority (KeNHA)
7. Kenya Roads Board(KRB)
8. Kenya Civil Aviation Authority.(KCAA)
9. Kenya Maritime Authority.
10. National Land Transport and Safety Authority.

L) Energy and Petroleum

1. Geothermal Development Company (GDC)
2. Kenya Electricity Generating Company (Kengen)
3. Kenya Electricity Transmission Company (KETRACO)
4. Kenya Pipeline Company(KPC)
5. Kenya Power and Lighting Company (KPLC)
6. National Oil Corporation of Kenya
7. Nuclear Electricity Board
8. Energy Regulatory Commission

M) Environment, Water and Natural Resources

1. National Water Conservation and Pipeline Corporation.
2. Water Services Trust Fund.
3. Kenya Wildlife and Forestry Conservation Service.
4. Water Resources Management Authority.
5. National Environment Management Authority (NEMA).

6. Water Services Regulatory Board.
7. Kenya Forestry Research Institute.
8. Kenya Water Institute.

N) Executive Office of the President

1. LAPSSET Corridor Development Authority.

O) Information, Communication and Technology

1. Kenya Broadcasting Corporation
2. Postal Corporation of Kenya
3. KonzaTechnopolis Authority
4. Information and Communications Technology Authority
5. Communications Commission of Kenya
6. Kenya Institute of Mass Communication

P) Defense

1. Kenya Ordnance Factories Corporation

Q) Mining

1. Mining and Oil Exploration Regulatory Service.

R) Land, Housing and Urban Development

1. National Housing Corporation.
2. Research Development Unit Company Ltd.
3. National Construction Authority.

S) Foreign Affairs and International Trade

1. Kenya Investment Promotion Service.

Source: GoK (2013). Report on Presidential Taskforce on Parastatal Reforms 248

Appendix IV: List of State Parastatals in Kenya that Participated in the Study

A) Agriculture, Livestock and Fisheries

1. Kenya Meat Commission.
2. Nyayo Tea Zone Development Corporation.
3. Chemilil Sugar Company Ltd
4. Nzoia Sugar Company Ltd
5. Kenya Seed Company (KSC)
6. National Cereals and Produce Board (NCPB)
7. Agricultural Development Corporation.
8. National Irrigation Board.
9. Kenya Plant and Animal Health Inspectorate Service.
10. Kenya Agricultural and Livestock Research Organization.
11. Kenya Marine and Fisheries Research Institute.

B) Industrialization and Enterprise Development

1. Development Bank of Kenya Ltd
2. Kenya Wine Agencies Ltd (KWAL)
3. New Kenya Co-operative Creameries.
4. Export Processing Zones Authority (EPZA)

C) East Africa Affairs, Commerce and Tourism

1. Kenya National Trading Corporation(KNTC)
2. Kenya Safari Lodges And Hotels Ltd(Mombasa Beach, Ngulia Lodge, Voi Lodge)
3. Kenyatta International Convention Centre.
4. Bomas of Kenya

D) Devolution and Planning

1. Kenya National Bureau Statistics.

E) Labor and Social Security Services

1. National Social Security Fund Board of Trustees.

F) Education, Science and technology

1. Kenya Literature Bureau (KLB)
2. Higher Education Loans Board.
3. Kenya National Examination Council (KNEC)
4. National Commission for Science, Technology and Innovation.
5. Technical and Vocational Education and Training Authority.
6. Egerton University.
7. Jomo Kenyatta University of Agriculture And Technology
8. Kenyatta University.
9. MasindeMuliro University of Science and Technology.
10. Moi University.
11. Pwani University.
12. Technical University of Mombasa.
13. University of Nairobi.
14. Multi – Media University of Kenya

G) Environment, Water and Natural Resources

1. National Water Conservation and Pipeline Corporation.

2. Kenya Wildlife and Forestry Conservation Service.
3. National Environment Management Authority (NEMA).

H) Transport and Infrastructure

1. Kenya Airports Authority(KAA)
2. Kenya Ports Authority (KPA).
3. Kenya Railways Corporation (KRC)
4. Kenya Civil Aviation Authority.(KCAA)
5. Kenya Maritime Authority.

I) Health

1. Kenyatta National Hospital.
2. National Hospital Insurance Fund.
3. Kenya Medical Research Institute (KEMRI)

J) National Treasury

1. Consolidated Bank of Kenya.
2. Kenya Reinsurance Corporation Ltd
3. Kenya Post office Savings Bank.
4. Kenya Accountants and Secretaries National Examination Board
5. Local Authorities Provident Fund

K) Energy and Petroleum.

1. Kenya Pipeline Company(KPC)
2. Kenya Power and Lighting Company (KPLC)

3. National Oil Corporation of Kenya.

L) Information, Communication and Technology

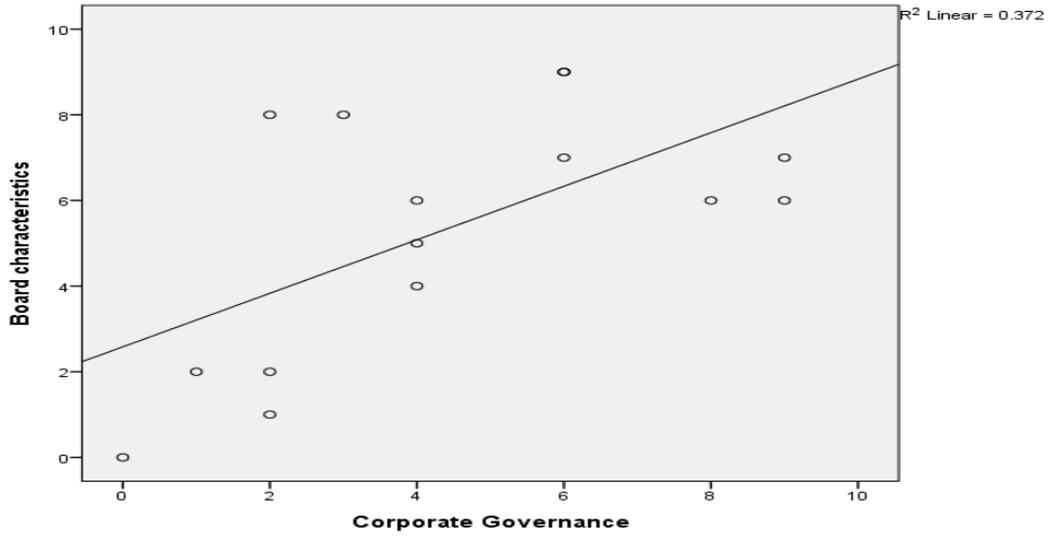
1. Kenya Broadcasting Corporation

2. Postal Corporation of Kenya

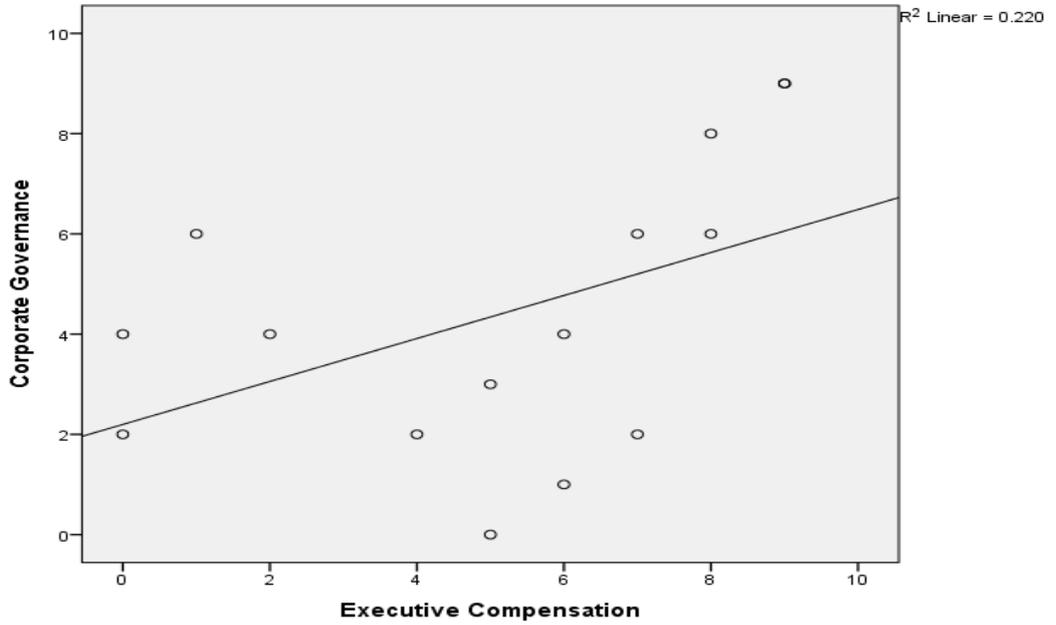
3. Communications Commission of Kenya

Appendix V: Linearity Test

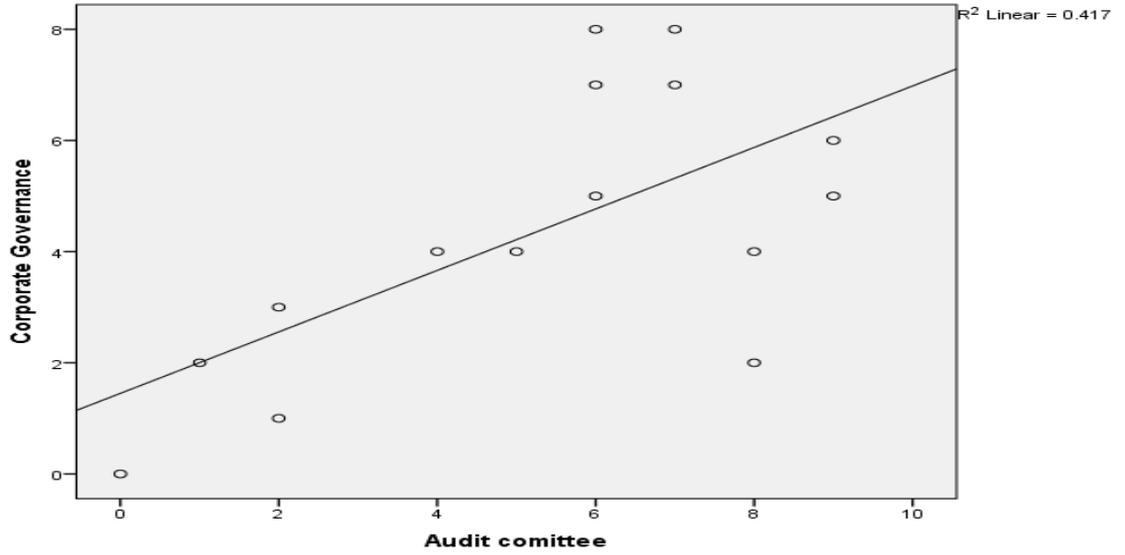
1. Scatter Plot of Board Characteristics And Corporate Governance



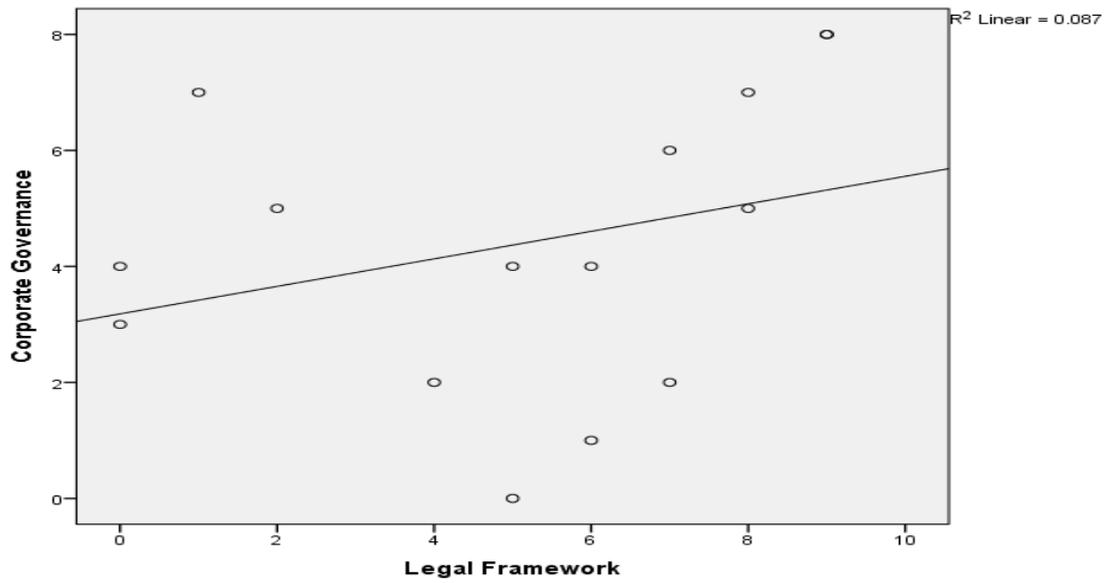
2. Scatter Plot of Executive Compensation And Corporate Governance



3. Scatter Plot of Audit Committee And Corporate Governance



4. Scatter Plots of Legal Framework And Corporate Governance



Appendix VI: Normality Test

