RELATIONSHIP BETWEEN CORPORATE GOVERNANCE PRACTICES AND ORGANIZATIONAL PERFORMANCE OF SERVICE STATE CORPORATIONS IN KENYA

BY

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ABSTRACT

Corporate governance is a classification of laws and best regulations used by the corporations to achieve their mandate. It is believed to be one of the major determinants of organizational performance within the corporations including State Corporations in Kenya. Corporate governance therefore, has gained a lot of recognition as a tool for an efficient and effective board of directors. The purpose of the research was to determine a relation between corporate governance and organizational performance in service state corporations. The specific objectives of the study were; to establish the effect of board size, the effect of board composition and the effect of gender diversity in the board on organizational performance. The study targeted 675 top management employees of Service State Corporations in Kenya, a sample of 245 respondents were selected using Mugenda and Mugenda (2003) formula. Reliability was established using test-retest method and the result compared to the threshold value of 0.7. Validity was established through expert review. The findings revealed that the three corporate governance practices collectively accounted or 39.5% (R^2= 0.395, p=0.000) variation in organizational performance in Service State Corporations in Kenya. It was further revealed that dimension of Board Size (B=0.270, p=0.000), Gender Diversity (B=0.210, p=0.019) had significant positive influence on organizational performance of Service State Corporations. However, it was revealed that Board Composition (B= -0.027, p=0.806) had a negative influence on organizational performance of Service State Corporations in Kenya. The study concludes board size and gender diversity have positive influence on organizational performance of service state corporations in Kenya. However, board composition bears a negative influence on organizational performance of service state corporations in Kenya. Therefore the study recommends that Policy should focus on corporate governance practices, the government should intervene on the composition of the board, address gender diversity in the board and this should be in line with the gender rule enshrined in the constitution of Kenya (2010). Further studies can be conducted to establish other determinants of organizational performance in Service State Corporation in Kenya other than board size, board composition and gender diversity. The policy makers at the Service State Corporations may find the study key in acknowledging the extent of the industry reforms and use the findings to improve on the governance of this industry to avoid losses that have been experienced in the past and also currently.

CHAPTER ONE

INTRODUCTION

This section gives the general overview of Corporate Governance; it will define corporate governance, performance and service state corporations. It will also underscore the purpose of the study.

1.1 Background of the Study

Corporate Governance can be described as the structure or formulae used in directing and managing business affairs of the organization (Kajola, 2008). This is done to ensure improved corporate reporting with the aim of achieving shareholder's long term goals and objectives as well as for other stakeholders. Corporate Governance may be defined as an interior system that has people and policies which addresses the needs of equity holders and also the needs of other industry players, by directing the activities of the senior managers with sound operational goals, accountability and integrity. Corporate Governance is believed to be one of the major determinants of performance within the corporations, such as service State Corporations in Kenya. For this purpose the research sought to find out the relation between corporate governance and organizational performance in service corporations in Kenya.

According to Al-Hussein (2009), performance is defined as the act of performing financial action. Performance refers to the degree to which financial targets and objectives are being realised. It is the course of measuring the marks of policies and of a company monetarily. It is used to measure the overall monetary wellbeing of the firm over a specified period. Performance can be used to draw comparisons between similar companies in the same industry or in the comparison of sectors of industries in aggregation.

Service State Corporation is an entity that provides services to the general public and is owned wholly by the government (State corporations Act, 2012). According to Chapter 446 of the State corporations Act (2012), the Parliament of Kenya is mandated to make stipulation for the institution of state corporations; for management and direction of state corporations. This acts provides procedures on how State Corporation should be run, it also gives details on meetings and selections of board members.

Some studies have looked at state corporations in general, others have looked at regulatory and commercial, and these studies have recommended a look into service state corporations.

The study looked at different theories on corporate governance practices, these included stakeholder theory which is described as any collection of people that can influence or be influenced by the firm's goals and achievements. Agency theory which states that an organization will be viewed as a meet point of agreements amid the equity holders the resource dependency theory that puts spotlight on dealings with many groups for personality benefits. Resource dependency theory is concerned with function of policy makers in ensuring access to resources required by the firm. Stewardship theory and Upper Echelons theory are also discussed.

Corporate governance is described to be configuration process used in directing and the managing of commerce dealings of the firm. By doing so, there is enhanced prosperity and corporate accounting. This is by taking into account stakeholders interests with the aim of realizing the shareholders long-term value. It may also be described as the system of domineering or directing a company (Cadbury report, 1992).

According to the report by Cadbury of (1992) corporation governance consists of different practices that include: board sub-committees, size of dependent directors, size of board, frequency of meetings, Chief executive officer Duplicity, the number of external/self-governing directors, number of years the company has been in existence and company size.

Al-Hussein (2009) defines performance as the level to which monetary goals has been attained. It's the procedure of assessing the outcome of a firm policy and activity in financial language. It is used to ascertain the general monetary wellbeing of a company; this is done over time and may be used in comparison to same organizations within a similar industry or to compare different sectors.

The study used an average of Return on Asset to measure the performance of service state corporations in Kenya. Return on asset shows how efficient the management is using the assets of the company in generation of earnings. ROA is represented as an average percent. Return on asset was used as financial statements and annual reports are available from service state corporation Kenya. An average of ROA was used as it takes into account any variability in the figures and therefore will give a clear and more precise result.

Relationship between corporate governance and organization performance has attracted research for sometimes now. For instance, a study by Al-Hussein and Johnson (2009) show a

strong relationship existed between corporate governance and the bank performance in Saudi. It illustrated the positive influence of corporate governance practices on performance.

In Kenya, Ndungu (2013) studied how corporate governance affects performance of companies that deal in insurance sector. The study established that there is relatively weak association between duality of CEO, board size, composition of board sub-committees, frequency of board meetings, independent directors, number of dependent directors, time the company has been operational and company size which form the corporate governance practices under study.

Service State Corporation is an entity that provides services to the general public and it is owned wholly by the government. State corporations are regulated by the 2012 Act of parliament- state corporations act. According to Chapter 446 (2012) State corporations Act, this is an Act of Parliament to make stipulation for the institution of state corporations; for direction and guideline of state corporations. The president can establish state corporations to perform specified functions. The composition of the board has a chairperson chosen by the head of state which shall be a non-executive unless otherwise directed by the president. The principal secretary within parent ministry will also be a board member, the principal secretary to the treasury, the attorney-general delegate, and not more than 11 other representatives who will not be workers of the corporation and whom 3 among them will be appointed by the cabinet secretary and shall be public officers. According to state corporations advisory committee website there are 27 service state corporations in Kenya.

1.2 Statement of the Problem

In Kenya, researches have been done on corporate governance and performance in many sectors apart from the service state corporations. Research has been on the association between corporate governance practices and performance of commercial state corporations. The study identified that board size affects the performance of the state corporations negatively while board composition, CEO duality and independent board members affect it positively. Recommendations for future studies recommended on the study of non-commercial state corporations.

A study carried out in 2009 that looked into state corporations in Kenya found out that most of the state corporations are well thought-out by inadequacy, fatalities and the provision of deprived products and services. These conditions came about because of reduced

governance, reduced public sector financial management, and intrusive wastage in the management of parastatals, all of which consequently resulted in grave budgetary burden to the people. As a result, IMF and World Bank in 1994 proposed the privatization of parastatals in Kenya.

The studies that have been done have been mostly in commercial and regulatory state corporations. Research on the corporate governance and organizational performance in the service corporations in Kenya has not been adequate. This is why most of the studies have suggested for a study into service state corporations. This study was therefore aimed at establishing the relationship between corporate governance and organizational performance of service corporations in Kenya.

1.3 Objective of the Study

The main objective of this study was to establish relationship between corporate governance practices and organizational performance in service corporations in Kenya. The specific objectives were to;

i. Establish the effect of board size on organizational performance of service state corporations in Kenya.

ii. Establish the effect of board composition on organizational performance of service state corporations in Kenya.

iii. Establish the effect of gender diversity in the board on organizational performance of service state corporations in Kenya.

1.4 Research Hypotheses

The study sought to address the following research hypotheses;

H_{01}: There is no difference in organizational performance of Service State Corporation in Kenya

by board size.

H_{02}: There is no difference in organizational performance of Service State Corporation in Kenya

by board composition.

H_{03}: Gender diversity in the board does not affect organizational performance of Service State

Corporation in Kenya.

1.5 Scope of the Study

The study sought to address relationship between corporate governance and organizational performance in service corporations in Kenya. It looked at twenty seven service state corporations which are listed in the 2019 website of State Corporations Advisory Committee. The study was concentrated in Nairobi City, the capital of Kenya where the service state corporations are headquartered. The study explored three specific objectives.

1.6 Justification of the Study

The studies that have been done have been mostly in commercial and regulatory state corporations. Research on the corporate governance and performance in the service corporations in Kenya has not been adequate. This is why most of the studies have suggested for a study into service state corporations. This study therefore sought to establish the relationship between corporate governance and organizational performance of service corporations in Kenya.

Management of service corporations will find the study useful as the recommendation will affect their operations. The policymakers at the Service state corporations will find this study key in acknowledging the extent of the industry reforms. The policy makers will use the findings to improve on the governance of this industry to avoid losses that have been experienced in the past and also currently.

1.7 Conceptual Framework

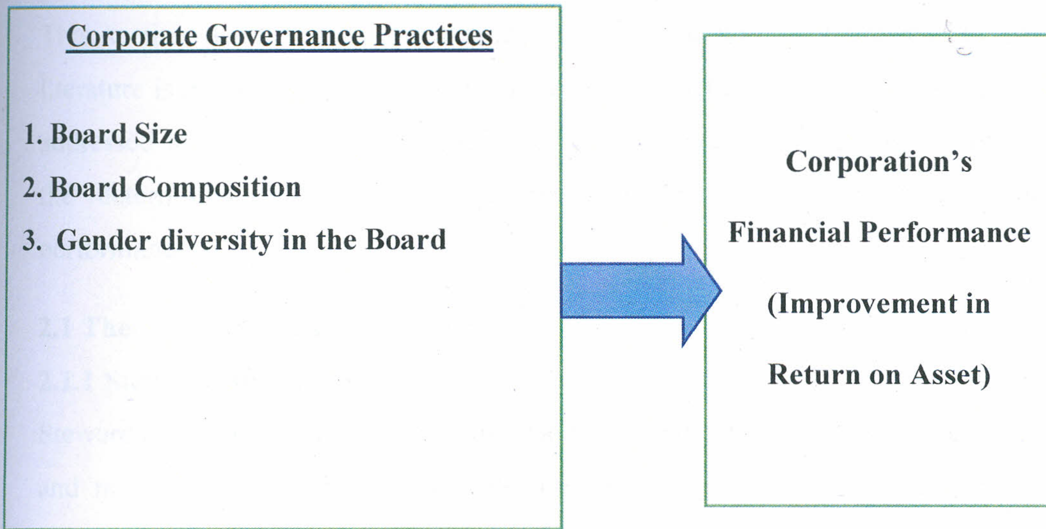

Figure 1.1: Corporate Governance Practices and Organizational Performance Relationship

This study looked into board size, board composition and gender diversity in the board. The study sought to establish how the above corporate governance practices being the independent variables influence the organizational performance of the corporations which is the dependent variable.

CHAPTER TWO

LITERATURE REVIEW

This section deals with the available literature that will be reviewed for the study. The literature is mainly on the Corporate Governance practices. The specific areas that have been addressed include the theories that have been advanced and support corporate governance, the determinants of corporate governance and corporate governance practices and performance.

2.1 Theoretical Literature Review

2.1.1 Stewardship Theory

Stewardship theory has its origin from sociology and psychology and is defined as protection and maximizing shareholders wealth. This is through organizational performance, by so doing, the utility functions of the steward are maximized. These stewards are the organization managers and executives working for the shareholders (Davis and Donaldson, 1997).

Stewardship theory stresses not only on the perspective of distinctiveness but on the role of management who are the ship captains, incorporating their aims as division of the business (Donaldson and Davis, 1991). Stewardship theory also suggests bringing together role of organization heads into one so as to control organization spending and for the CEO to have broader functions as custodian in the company.

2.1.2 Agency Theory

Agency theory states that an organization will be viewed as a meeting point of agreements between the equity holders (Jensen and Meckling 1976) .According to Clarke, 2004) an agency relationship arises whenever one or a lot of people, known as principals, hire one or more of alternative people, referred to as agents, to carry out some service then allot the power to make decisions to others.

The primary agency relationships in business are those between managers and the stockholders and also between equity holders and money owing holders. This has effect for, among alternative effects, company governance and industry principles (Padilla, 2000). Once delegation happens it conjointly tends to administer rise to agency prices which are charges occasioned so as to sustain a good agency association.

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2.1.3 Stakeholder Theory

Stakeholder theory was introduced in management discipline in 1970 and gradually urbanized by Freeman (1984). This was by integrating corporate responsibility. This theory is derived from a mixture of industrial and sociological disciplines. By doing this, stakeholder theory has become less of an official integrated supposition and more of a wide research tradition, incorporating ethics, political theory, economics, law philosophy and organizational science (Wheeler 2002).

The fundamental premises of Stakeholder Theory are: The Company enters into relationships with many groups that are influenced or influence the company, for example the stakeholders in line with Freeman's (1984) terminology. The focal point of the theory is on the character of these associations in expression of the results and process for the organization and the other stakeholders.

2.1.4 Resource Dependency Theory

Resource dependency theory was first pioneered by Salancik (1978). Stakeholder theory puts focus on associations with many groups for personal gains. On the other hand, resource dependency theory is concerned with the role of the directors in provision of access to assets needed by the company. On their view Hillman, Canella and Paetzold, (2000) concur that resource theory is biased on the functions that are played by the directors particularly in providing funds to a company by their connectivity to the organization environment. Theorists in this area concentrate on the engagement of representation of autonomous organization as a way for getting in touch with the resources important to the company triumph. For instance, external heads who are associated to a legal organizations give lawful opinion, either in private communication with the firm management or in board meetings that maybe costly to secure. It has been recommended that the provision of assets improve firm's performance and its endurance and also organizational running as a whole (Daily et al, 2003).

2.1.5 Upper Echelons Theory

Upper Echelons Theory focuses on observable top management characteristic and its influence on managerial decisions in organizations of any kind corporates notwithstanding. The proponents of this theory (Hambrick and Mason 1984) are of the view that observable managerial characteristics as indicators of the givens that a manager brings to an administrative situation. In this study, the researcher is interested in establishing relationship between corporate governance practices and organizational performance of service state

corporations in Kenya. Managers characteristics play important role in corporate governance, the researcher will observe board size, board composition, and gender diversity and how they influence organizational performance.

2.1.6 Leadership Structure and Composition

The leadership board structure is a critical corporate governance factor, which is reflected in the positions of CEO and chairman of the board. Both stewardship theory and agency theory have looked into the leadership structure of the board. Separation of the role of chairman of the board and CEO is largely in the agency theory (Daily & Dalton 1993) which assumes that due to agency problem, it is important to monitor the performance of both the CEO and the board so as to protect the rights of the stakeholders (Rechner & Dalton 2006). Composition of the board may be determined through direct appointments, voting, mutual agreement, competitive vetting and referral. The leadership structure of the board can also be determined through who is accountable for ensuring observance of company's policies, roles of the members, effectiveness of directors, frequency of self-evaluations and reviews by members, sanctions for violating duties and the members term of service.

2.1.7 Size of the Company

The performance of a company is influenced in many ways by the size of the firm. Due to the taking advantage of the economy of scale large companies are more efficient in operations when they are compared with small firms. For the determination of the size of a firm, the numbers of customers who are active at a given point in time are considered. The large firms would also use this advantage of customers to get more financial benefits. Factors that are more important in production are more accessible to larger companies, this include human resources and they also have access to cheaper funding compared to small companies (Mathur and Kenyon, 2007)

2.1.8 Corporate Governance Practices and Performance

This research will seek to ascertain a connection between corporate governance practices and performance of service state corporations in Kenya.

Olweny (2013) considered effect of corporate governance on performance of scheduled indemnity firms in Kenya. The study brought to being that board size negatively affects the performance of indemnity companies scheduled in the NSE. The study found out that

division of roles between CEO and chairman absolutely affected the performance of indemnity companies scheduled in the NSE.

Robinah (2012) investigated corporate governance and its effect on performance of communal universities in Uganda. It was established that board size negatively affects performance while procedure and verdict making role of the board absolutely affected the performance of these public Universities.

Najjar (2012) investigated the influence of corporate governance on indemnity firm's performance in Asia.

The study set up that there was statistically significant relationship between board size and composition and performance of these indemnity companies.

Brown (2004) studied corporate governance practices and organization performance. He found out that better managed firms are more profitable and more valuable.

2.2 Empirical Literature Review

2.2.1 Board Size and Organizational Performance

According to (Pfeiffer, 2002), size of the board is described as the number of Directors, for example, non-executive directors and executive directors of the Board of an organization or an institution. To be able to incorporate key skills and perspective, the board size should be large enough. It should also be small enough to allow smooth functioning of meetings and also allow for active involvement of the board members.

Hermalin and Weisbach (2003) argued the possibility that larger boards can be less effective than small boards. When boards consist of too many members agency problems may arise as some directors may tag along as free-riders. They argued that when a board becomes too big, it often moves into a more symbolic status rather than fulfilling its mandate as part of the management. On the other hand, very small boards lack the advantage of having the spread of expert advice and opinion around the table that is found in larger boards. Furthermore larger boards are more likely to be associated with increase in board diversity in terms of gender and nationality Dalton and Dalton (2005).

Vafeas (2000) found out that firms with the smallest boards (minimum of five board members) are better informed about the earnings of the firm and thus can beregarded as

having better monitoring abilities. In support of the above findings, Mak and Yuanto (2003) reported that listed firm valuations of Singaporean and Malaysian firms are highest when the board consist of five members.

Bennedsen, Kongsted and Nielsen (2004) in their analysis of small and medium sized firms, closely held that Danish corporations reported that board size has no effect on performance for a board size of below six members but found a significant negative relation between the two when board size increases to seven members and more.

Abera (2011) carried out a study on the relationship between corporate governance practices and performance of commercial state corporations locally. His study established that board size influences the performance of the state corporations negatively. Abera (2009) in his recommendations for future studies recommends on the study of non-commercial state corporations.

Guzeh (2012) looked at the relationship between corporate governance and performance of parastatals in Kenya. He established that board size is negatively related to return on asset. In his suggestions for future studies he stated that studies to be conducted separately in each sector of the state corporations which includes service state corporations.

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2.2.2 Board Composition and Organizational Performance

Boards mostly compose of executive and nonexecutive directors. Executive directors refer to dependent directors and non-executive directors to independent directors (Shah et al., 2011).

At least one third of independent directors are preferred in a board, for effective working of the board and for unbiased monitoring. Dependent directors are also important because they have insider knowledge of the organisation which is not available to outside directors, but they can misuse this knowledge by transferring wealth of other stakeholders to themselves (Beasly, 1996). A board composed of members who are not executives of a company, nor shareholders, nor blood relatives or in law of the family (Gallo, 2005).

An independent board is generally composed of members who have no ties to the firm in any way, therefore there is no or minimum chance of having a conflict of interest because independent directors have no material interest in a company. Dalton, Daily, Ellstrand & Johnson (1998) stated that independent directors are important because inside or dependent directors may have no access to external information and resources that are enjoyed by the firm's outside or independent directors (eg. CEOs of other firms, former governmental officials, investment bankers, social workers or public figures)

2.2.3 Gender Diversity and Organizational Performance

The board diversity concept states that boards of organizations should reflect the structure of society and properly represent the gender, professional backgrounds and ethnicity of those within it. For the essence of diverse viewpoints, boards of directors in a firm need to have the right composition. Board diversity has been supported on the basis of moral obligation to, stakeholders, shareholders and for commercial reasons by getting extensive decisions (Daily, Dalton & Cannella, 2003)

Ochoi and Memba (2015) on the international Journal of management and commerce innovations looked at Effect of Corporate Governance Practices on Performance of state corporations in Kenya. They found out that good corporate governance if applied to organizations can improve the performance. Atieno (2009) studied state corporations in Kenya and found out that most of them are characterized by inadequacy, fatalities and the provision of deprived products and services. These conditions came about because of deprived governance, deprived public sector financial management, and overbearing wastage in the management of parastatals, all of which afterwards led to grave budgetary burden to the people. As a result, IMF and World Bank in 1994 proposed the privatization of parastatals in Kenya.

CHAPTER THREE

RESEARCH METHODOLOGY

This section presents the research design and methodology used to carry out the research. It represents the research design, the target population, sampling techniques and sample size, data collection, data analysis, validity and reliability tests.

3.1 Research Design

The researcher used correlation research design. This research design is a non-experimental research method. Correlation research design was considered because it helped the researcher to measure the two variables, understand and assess the statistical relationship between them with no influence from any extraneous variable. The study looked at diverse service state corporations to find out a relationship between corporate governance practices and the performance.

3.2 Study Area

The study area was within Kenya. The study focused in Nairobi City the capital city of Kenya where most of the Service State Corporations are headquartered.

3.3 Target Population

The study targeted 27 service state corporations in Kenya listed in the 2019 website of the State Corporations' Advisory Committee. The study included the board members and top management of the service state corporations which include heads of departments. The heads of departments vary in number from one state corporation to another. However the national average number of departments in each service corporation is 10 according to the State Corporations Act (2012). In addition, there should be a maximum of 15 board members in each state corporation according to the requirements of the State corporations Act of 2012. Therefore, the total target population of the study was 675, made up of 10 heads of department and 15 board members from each of the 27 service State Corporations in line with the State Corporations Act (2012).

Table 3.1:Target Population

Description	Target population
Service State Corporation Board Members (10*27)	270
Service State Corporation Management(15*27)	405
Total	**675**

State Corporations Advisory Committee Website (2019)

The study looked at how the organizational performance of service corporations in Kenya has been affected by corporate governance indicators for the financial years from FY 2014/2015 and FY 2015/2016.

3.4 Sample and Sampling Technique

3.4.1 Sample Size

The sample size was calculated by employing Mugenda and Mugenda (2003) formulae to get the sample size from the target population. This formula was used because it allows for a much lower margin of error compared to other methods. Another reason is that target population is lower making it suitable. The sample size for the study was calculated for the members of service state corporations in Kenya.

This formula is expressed as shown below:

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

Where:

n = Sample size (when the population is less than 10,000). In this case a constant of 384 is used.

N = Estimate of the population size; 675

Therefore the sample size of the study was;

$$\text{Sample size} = \frac{384}{(1 + \frac{384}{675})}$$

= 244.74 (round off to the nearest integer)

245 respondents.

3.5 Data Collection Methods

For primary data collection, questionnaires and interview schedules were used. Interview schedules were used for the top management while the questionnaires were used for the other employees within the organization.

3.5.1 Data Types and Sources

The study relied on primary and secondary data. Primary data is original data that has been collected specifically for the purpose in mind. Secondary data is data collected by someone other than the user, it is data that have been already collected by and readily available from other sources. Primary data was collected from officers working within the service corporations. This was carried out by use of questionnaires filled by the employees. Secondary data was collected from the various service corporation's financial statements, management reports and audit reports as well as from earlier researches that have been carried out in this field.

3.5.2 Data Collection Procedure

Questionnaires were read to the participants who were requested to answer the questions. The researcher filled the questionnaires. For the employees who were comfortable to fill the questionnaires on their own, the researcher provided them with a nondisclosure agreement before the commencement of the process. The researcher explained to employees that the data he is collecting was to be used only for academic purpose and would not be used whatsoever in a way that may affect them negatively. After filling the questionnaires the researcher collected them. The researcher would be available to help the participants who required explanations or clarification. The researcher also observed the respondents and note down details. The researcher also requested a meeting with the management team where the interviews were conducted. This would be during lunch time or the time of choice of the management team.

3.5.3 Data Collection Instruments

Semi-structured questionnaires were used to collect data. The questionnaire was made up of unrestricted and restricted questions. Unrestricted questions gather in depth information and were used so as to enable the researcher to gather data from a large number of respondents at a particular time, while restricted questions gave out structured responses, which facilitated the ease of tabulation and analysis. Furthermore, the questionnaires were used to collect data for the independent variables used to measure corporate governance, such as board size, board composition and gender diversity in the board.

Secondary data refers to data that was composed from previous studies. For the first researcher they are primary data, but for the second researcher, they are secondary data. The researcher got secondary data from financial statements, management reports and audit reports.

3.5.4 Instruments Reliability Test

Reliability is synonymous with repeatability or stability. A measurement that yields consistent results over time is said to be reliable Kothari (2008). This study used the test retest method to ascertain the reliability.

3.5.5 Instruments Validity Test

This researcher carried out piloting to test the validity of the instruments. Validity indicates that degree to which the instrument measures the constructs under investigation Mugenda Mugenda (2003). There are three validity tests which include content, criterion and related construct validity. This study employed content validity because it measures the degree to which the sample of items represents the content that the test was designed to measure.

3.6 Data Analysis Method

Statistical Package for the Social Sciences (SPSS) was employed to analyze the data collected from the field. Quantitative data was analyzed by use of descriptive statistics, namely frequency and percentage. Analyzed data was then reported using frequencies, percentages and tables. Cross tabulations and frequency tables were used in the analysis of quantitative data. Data was compared and represented on cross tabulation tables and explanations given. Also frequency tables represented percentages, frequency, mean and standard deviations. Multiple regression and correlation analyses were conducted to find out if there is association between governance variables and firm performance.

Multiple regression model was used to test the hypotheses of the study. **Equation 3.1** shows Multiple model regression model.

$$ROA = \alpha_0 + \alpha_1 BOS + \alpha_2 BODCOMP + \alpha_3 GD + et$$

Where:

ROA= Return on Assets

BOS = Board Size

BODCOMP=Board Composition

GD= Gender Diversity

et= error term

CHAPTER FOUR

RESULTS AND DISCUSSIONS

This section presents findings and discussion in line with the study objective.

4.1 Response Rate

This section presents findings on the response rate, table 4.1 shows the findings.

Table 4.1: Response rate

	f	%
Issued	245	100
Returned	232	94.69
Not returned	13	5.31

Source: Research Data (2019)

The researcher issued out a total of 245 questionnaires, which represent 100%. However, the research collected and analyzed 232 questionnaires which represent 94.67% only 13 questionnaires were not returned and this represent 5.3%. The findings imply that the questionnaires were adequate representation of the respondents.

4.2 Demographic Characteristics of Respondents

This section presents findings on the demographic characteristics of respondents

4.2.1 Gender

This section presents findings on gender of respondents. The research findings were indicated in Table 4.2.

Table 4.2: Gender

	f	%
Male	144	62.1
Female	88	37.9
Total	232	100.0

Source: Research Data (2019)

Table 4.2 shows that, 144 out of 232 respondents are male and 88 are female. This represents 62.1% and 37.9% in that order. The findings imply that most (62.1%) of the respondents are male and this means that service corporations in Kenya employ more male than females.

4.2.2 Age

This section presents findings on age of respondents. The research findings were indicated in Table 4.3.

Table 4.3: Age

	f	%
Below 30	66	28.4
30 to 50	127	54.7
More than 50	39	16.8
Total	232	100.0

Source: Research Data (2019)

Table 4.3 shows that, 127 out of 232 respondents are between 30 to 50 years, 66 are below 30 years and 39 are more than 50 years. This represents 54.7%, 28.4% and 16.8% in that order. The findings imply that slightly more than half (54.7%) of the respondents are between 30 to 50 years and this means that most of employees of service corporations in Kenya are between 30 to 50 years.

4.2.3 Duration of Employment

This section presents findings on duration of employment. The research findings were indicated in Table 4.4.

Table 4.4: Duration of Employment

	Frequency	**Percent**
Less than 5	64	27.6
5 to 10	109	47.0
More than 10	59	25.4
Total	232	100.0

Source: Research Data (2019)

Table 4.4 shows that, 109 out of 232 respondents have been employed for between 5 to 10 years, 64 have been employed for less than 5 years and 59 have been employed for more than 10 years. This represents 47%, 27.6% and 25.4% in that order. The findings imply that most (47%) of the respondents have been employed for between 5 and 10 years. This means that

most of employees of service corporations in Kenya have worked in those organizations for between 5 and 10 years.

4.2.4 Education Level

This section presents findings on education level. The research findings were indicated in Table 4.5.

Table 4.5: Education Level

	Frequency	Percent
Certificate	7	3.0
Diploma	74	31.9
Undergraduate	79	34.1
Graduate	58	25.0
Postgraduate	14	6.0
Total	232	100.0

Source: Research Data (2019)

Table 4.5 shows that, 79 out of 232 respondents have attained undergraduate, 74 have diploma, 58 have attained graduate, 14 have attained postgraduate and only 7 have attained certificate level of education. This represent 34.1%, 31.9%, 25.0%, 6% and 3% in that order. The findings imply that most (34.1%) of the respondents have attained undergraduate. This means that most of employees of service corporations in Kenya have attained undergraduate education.

4.3 Descriptive Statistics

This section presents descriptive statistic on the findings of the study.

4.3.1 Board Size and Organizational Performance

This section presents findings on the effect of board size on organizational performance of service state corporations in Kenya of respondents. The researcher was concerned with establishing three parameter of board size and its effect on organizational performance on a scale of 5 to 1, where 5 is equal to strongly agree and 1 is equal to strongly disagree. Table 4.6 illustrates the findings.

Table 4.6: Board size and organizational performance

Board size and organizational performance	5		4		3		2		1	
	f	%	*f*	%	*f*	%	*f*	%	*f*	%
Size of the board affects the organizational performance	50	21.6	85	36.6	64	27.6	33	14.2	0	0
Board considers strategic matters	77	33.2	77	33.2	63	27.2	15	6.5	0	0
Board size allow regular meeting	59	25.4	89	38.4	55	23.7	29	12.5	0	0

Source: Research Data (2019)

Table 4.6 illustrates that 85 out of 232 respondents agree that board size affects organizational performance, 64 are undecided, 50 strongly agree and 33 disagree, this represent 36.6%, 27.6%, 21.6% and 14.2%. The findings imply that most (58.2%) of the respondents agree that size of the board influence organizational performance of service corporations in Kenya.

Table 4.6 also shows that 77 out of 232 respondents agree that the board considers strategic matters and other issues that impact on the board size, another 77 strongly agrees, 63 are undecided, and 15 disagree, this represent 32.2%, 32.2%, 27.2% and 6.5%. The findings imply that most (64.4%) of the respondents agree that the board considers strategic matters and other issues that impact on the company's board size of service corporations in Kenya.

It is also worth to mention that table 4.6 shows that 89 out of 232 respondents agree that the board size to allow regular meetings during the year to review organizational performance and operations of the company, 59 strongly agree, 55 are undecided, and 29 disagree, this represent 38.4%, 25.4%, 23.7% and 12.5%. The findings imply that most (63.8%) of the respondents agree that the board size to allow regular meetings during the year to review organizational performance and operations of the company.

The findings are consistent with Brown (2004), who studied corporate governance practices and organization performance. He found out that better managed firms are more profitable and more valuable. However, the findings are not in line with, Bennedsen, Kongsted and Nielsen (2004) in their analysis of small and medium sized firms, which closely held that Danish corporations reported that board size has no effect on performance. Abera (2011) carried out a study on the relationship between corporate governance practices and

performance of commercial state corporations locally. His study established that board size influences the performance of the state corporations negatively.

4.3.2 Board Composition and Organizational Performance

This section presents findings on the effect of board composition and Organizational Performance of service state corporations in Kenya.

4.3.2.1 Determination of Board Composition

This section presents findings on how board of director composition is determined. The research findings were indicated in Table 4.7.

Table 4.7: Determination of board composition

	f	%
Direct Appointment	32	13.8
Voting	91	39.2
Mutual Agreement	47	20.3
Competitive Vetting	26	11.2
Referrals	36	15.5
Total	232	100.0

Source: Research Data (2019)

Table 4.7 shows that 91 out of 232 respondents are of the view that composition of board of directors is determined through voting, 47 are of the view that it is determined through mutual agreement, 36 consider it is achieved through referrals, 32 are of the view that it is determined through direct appointment and 26 are of the view that it is determined through competitive vetting. These findings represent 39.2%, 20.3%, 15.5%, 13.8% and 11.2% in that order. The findings infer that many (39.2%) of the respondents are of the view that voting is used to determine composition of the board of directors.

4.3.2.2 Person in Charge of Corporate Governance

The researcher was concerned with establishing the officer in charge of corporate governance. The findings are illustrated in table 4.8.

Table 4.8: Person in charge of corporate governance

	f	%
CEO	73	31.5
Board Chair	124	53.4
Ethic/Compliance Officer	35	15.1
Total	232	100.0

Source: Research Data (2019)

Table 4.8 shows that 124 out of 232 respondents are of the view that board chair is in charge of corporate governance of service state corporations in Kenya, 73 are of the view that CEOs are in charge and 35 are of the view that ethics/complains officers are in charge. The findings represent 53.4%, 31.5% and 15.1% in that order. The findings imply that slightly more than half (53.4%) of the respondents are of the view that board chairs are in charge of corporate governance in service state corporations in Kenya.

4.3.2.3 Executor of Roles in your Company

In this section the study was concerned with establishing executor of service state corporation roles. Table 4.9 the findings are illustrates the findings.

Table 4.9: Executor of roles in your company

	Board of Directors		Management	
	f	%	*f*	%
Setting strategy and vision of the company	125	53.9	107	46.1
Selection and compensation of the CEO and senior management	97	41.8	135	58.2
Risk Management, oversight of internal controls, external audit and preparation of financial statements	105	45.3	127	54.7
Major capital expenditures and large-value transactions	111	47.8	121	52.2

Source: Research Data (2019)

Table 4.9 illustrates that 125 out of 232 respondents are of the view that board of directors execute setting of strategy and vision company, 135 are of the view that management is in charge of selection and compensation of the CEO and senior management, 127 consider that management execute Risk Management, oversight of internal controls, external audit and preparation of financial statements. It is also in order to mention that 121 out of 232 respondents concur that management execute major capital expenditures and large-value

transactions. The results represent 53.9%, 58.2%, 54.7% and 52.2% in that order. The results imply that most roles of service state corporation are executed my management.

4.3.2.4 Effectiveness of company's Board of Directors'

The research was concerned with establishing effectiveness of board of directors. Table 4.10 illustrates the results.

Table 4.10: Effectiveness of company's Board of Directors

	f	%
Ineffective	41	17.7
Indifferent	73	31.5
Effective	67	28.9
Very Effective	51	22.0
Total	232	100.0

Source: Research Data (2019)

Table 4.10 illustrate that 73 out of 232 respondents are indifferent on the effectiveness of the board of directors, 67 are of the view that board of directors are effective, 51 are of the view that board of directors are very effective and 41 are of the view that Board of Directors is ineffective. The results correspond to 31.5%, 28.9%, 22% and 17.7% in that order. The results infer that half of the respondents (50.9%) are of the view that board of directors is effective.

4.3.2.5 Appointment of Board of Directors'

The study sought to find out how appointment of board of directors is done. Tables 4.11 illustrate the findings.

Table 4.11: Appointment of Board of Directors

	f	%
Voting in AGM	60	25.9
Formal Application	117	50.4
Lobbying	55	23.7
Total	232	100.0

Source: Research Data (2019)

Table 4.11 illustrates that 117 out of 232 respondents are of the view that board of directors is appointed through formal application, 60 are of the view that board of directors is appointed through voting in AGM and 55 concur that the board of directors is appointed through lobbying. The results represent 50.4%, 25.9% and 23.7% in that order. From the results it is evident that half (50.4%) of the respondents concur that board of directors is appointed through formal application.

4.3.2.6 Tendency of self-evaluations of Board of Directors

The researcher was concerned with establishing tendency of board of directors' self-evaluation. Table 4.12 illustrates the findings.

Table 4.12: Tendency of self-evaluations of Board of Directors

	f	%
Once a year	29	12.5
Twice a year	82	35.3
Quarterly	54	23.3
When Necessary	67	28.9
Total	232	100.0

Source: Research Data (2019)

Table 4.12 illustrate that 82 out of 232 respondents are of the view that board of directors conduct self-evaluation twice a year, 67 are of the view that self-evaluation is conducted when necessary, 54 are of the view that self-evaluation is conducted quarterly and 29 concur that it is conducted once a year. The results represent 35.3%, 28.9%, 23.3% and 12.5% in that order. The findings imply that many (35.3%) of the respondents are of the view that self-evaluation is conducted twice a year.

4.3.2.7 Sanctioned for Violating Duties

The study was concerned with establishing if board members are sanctioned for violating duties table 4.13 illustrate the findings.

Table 4.13: Sanctioned for violating duties

	f	%
Never	7	3.0
Rarely	39	16.8
Moderately	89	38.4
Often	47	20.3
Very Often	50	21.6
Total	232	100.0

Source: Research Data (2019)

Table 4.13 illustrate that 89 out of 232 respondents are of the view that the board of directors is moderately sanctioned for violating duties, 50 are the are very often sanctioned, 47 are of that they are often sanctioned, 39 are of the view that they are rarely sanctioned and on 7 out of 232 concur that the board of directors are never sanctioned for violation of duties. The results represent 38.4%, 21.6%, 20.3%, 16.8% and 3% in that order. The results mean that many (41.9%) of the respondents are of the view that board of directors is often sanctioned for violation of duties.

4.3.2.8 Directors Term of Service

The researcher sought to establish directors' term of service. Tables 4.14 illustrates the findings.

Table 4.14: Directors term of service

	f	%
One year	44	19.0
Two Years	116	50.0
Five Years	44	19.0
Not Restricted	28	12.0
Total	232	100.0

Source: Research Data (2019)

Table 4.14 demonstrate that 116 out of 232 respondents are of the view that directors term of service run for two years, 44 are of the view that it runs for one year, another 44 are of the view that it runs for five years and 28 are of the view that directors term of service is not restricted. The findings represent 50%, 19%, 19% and 12% in that order. The results infer that half (50%) of the respondents are of the view that directors term of service run for two

years. This means that directors' term of service in service state corporations run for two years.

4.3.3 Gender Diversity and Organizational Performance

It was in the interest of this study to establish effect of gender diversity on organizational performance of service state corporations in Kenya. This section presents descriptive statistics on the same. The researcher was concerned with establishing three parameter of gender diversity and its effect on organizational performance on a scale of 5 to 1, where 5 is equal to strongly agree and 1 is equal to strongly disagree. Table 4.16 illustrates the findings.

Table 4.15: Gender Diversity and organizational performance

Gender Diversity and organizational performance	5		4		3		2		1	
	f	%	*f*	%	*f*	%	*f*	%	*f*	%
Gender diversity in the board affects the organizational performance	31.9	110	47.4	31	13.4	13	5.6	4	1.7	
Gender diversity and communication with other stakeholders	69	29.7	107	46.1	45	19.4	11	4.7	0	0
Board of directors consists of a good mix	48	20.7	104	44.8	60	25.9	20	8.6	0	0

Source: Research Data (2019)

Table 4.16 shows that 110 out of 232 respondents agree that gender diversity in the board affects organizational performance of service state corporations, 74 strongly agree, 31 are undecided, 13 disagree and 4 strongly disagree. The findings represent 47.4%, 31.9%, 13.4%, 5.6% and 1.7% in that order. The findings infer that majority (79.3%) agree that gender diversity in the board affects organizational performance.

Table 4.16 also illustrate that 107 out of 232 respondents agree that gender diversity in board affects communication with stakeholders, 69 strongly agree, 45 are undecided and 11 disagree. The findings represent 46.1%, 29.7%, 19.4% and 4.7% in that order. It is worth to infer that majority (75.8%) of the respondents agree that gender diversity in board affects communication with the stakeholders.

It is also worth to mention that table 4.16 displays that 104 out of 232 respondents agree that board of directors consist of a good mix of male and female individuals with experience, skills and competences that affect the organizational performance of the company, 60 are undecided, 48 strongly agree and 20 disagree. These results present 44.8%, 25.9%, 20.7% and 8.6% in that order. The findings imply that most (65.6%) of the respondents agree that board of directors consist of a good mix. The findings are consistent with Daily, Dalton and

Cannella, (2003) who are of the view that board diversity has been supported on the basis of moral obligation to, stakeholders, shareholders and for commercial reasons by getting extensive decisions.

4.3.4 Organizational Performance

This section presents findings on the organizational performance of service state corporations. The researcher was concerned with establishing three parameter of organizational performance on a scale of 5 to 1, where 5 is equal to strongly agree and 1 is equal to strongly disagree. Table 4.17 illustrates the findings.

Table 4.16: Organizational performance of service state corporations

Organizational performance	5		4		3		2		1	
	f	%	*f*	%	*f*	%	*f*	%	*f*	%
Improvement on return on assets	75	32.3	94	40.5	46	19.8	17	7.3	0	0
Organizational Performance and Corporate governance	58	25	92	39.7	77	33.2	5	2.2	0	0
Organizational performance, board composition and size	59	25.4	60	25.9	96	41.4	17	7.3	0	0

Source: Research Data (2019)

The researcher was concerned with finding out improvement on return on assets in the years 2014, 2015 and 2016, table 4.17 illustrate that 94 out of 232 respondents agree that there has been improvement in return on assets, 75 strongly agree, 46 are undecided and 17 disagree. This represents 40.5%, 32.3%, 19.8% and 7.3%. The results infer that majority (72.8%) of the respondents agree that there is improvement in return on assets.

Table 4.17 illustrate that 92 out of 232 respondents agree that corporate governance affects organizational performance, 77 are undecided, 58 strongly agree and 5 disagree. The findings represent 39.7%, 33.2%, 25% and 2.2% in that order. The results infer that most (64.7%) of the respondent agree corporate governance affects organizational performance. Table 4.17 further illustrate that 96 out of 232 respondents are undecided that board composition and size affect organizational performance, 60 agree, 59 strongly agree and 17 disagree. The results present 41.4%, 25.9%, 25.4% and 7.3% in that order. The results infer that slightly more than half (51.3%) of the respondents agree that board composition and size affect organizational performance.

4.4 Regression Analysis Findings

This section presents regression results of the study. The study was concerned with establishing relationship between corporate governance practices and organizational performance of Service State Corporations in Kenya. The researcher sought to find out effect of Board Size (BOS), Board Composition (BODCOMP) and Gender diversity (GD) on organizational performance of Service State Corporations in Kenya. The researcher postulated that there is no relationship between corporate governance practices and organizational performance of service state corporations in Kenya.

4.4.1 Analysis of Variance (ANOVA)

This section presents findings on the Analysis of Variance for the study. Table 4.18 presents the findings.

Table 4.17: ANOVA

Model	Sum of Squares	df	Mean Square	F	Sig.
Regression	26.069	3	8.690	49.689	.000[b]
Residual	39.873	228	.175		
Total	65.942	231			

a. Dependent Variable: Performance

b. Predictors: (Constant), GenDiv, BoComp, BizSiz

Source: Research Data (2019)

The study was conducted at 0.05 significance level. The findings in table 4.18 show (p = 0.00), which is lower than 0.05 significance level thus we fail to accept the null hypothesis and conclude that there is a relationship between corporate governance practices and organizational performance of service state corporations in Kenya.

4.4.2 Model coefficients

This section presents findings on the model coefficients for the study. Table 4.19 presents the findings.

Table 4.18: Model coefficients

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	2.061	.283		7.292	.000
BOS	.270	.074	.394	3.646	.000
BoDComp	-.027	.110	-.013	-.245	.806
GenDiv	.210	.089	.255	2.356	.019

a. Dependent Variable: Performance

Source: Research Data (2019)

The following is the model summary for the study.

Equation 4.1: Model Summary

$$ROA = 2.061 + 0.270\alpha_1 - 0.027\alpha_2 + 0.210\alpha_3 + et$$

The results in table 4.19 imply that corporate governance practices influence organizational performance of service state corporations in Kenya. The test conducted at 0.05 significance level. Table 4.19 illustrates that Board size (BOS) has ($p = 0.00$) this value is lower than 0.05 this result imply that board size influence organizational performance. It is also important to point out that a unit change in board size leads to a unit change of +0.27 of organizational performance holding other variables constant. For this purpose we fail to accept the null hypothesis (H_{01}: There is no difference in organizational performance of Service State Corporations in Kenya by board size) and conclude that board size has a positive effect on organizational performance.

Table 4.19 also illustrates that Gender diversity (GenDiv) has ($p = 0.019$) this value is lower than 0.05 this result imply that Gender diversity influence organizational performance. It is also important to point out that a unit change in gender diversity accounts to a unit change of +0.21 of organizational performance holding other variables constant. For this purpose we fail to accept the null hypothesis (H_{03}: Gender diversity in the board does not affect organizational performance in Service State Corporations in Kenya) and conclude that Gender diversity has a positive effect on organizational performance.

It is also worth to mention that Table 4.19 also illustrates that Board composition (BoDComp) has ($p = 0.806$) this value is greater than 0.05 this result imply that Board

composition does not influence organizational performance. It is also worth to mention that a unit change in board composition leads to a unit decrease of -0.27 of organizational performance holding other variables constant. For this purpose we accept the null hypothesis (H_{02}: There is no difference in organizational performance of Service Corporation in Kenya by Board composition) and conclude that Board Composition has a negative effect on organizational performance.

4.4.3 Model Summary

This section presents model summary for the research. Table 4.20 presents regression model summary.

Table 4.19: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.629[a]	.395	.387	.418

a. Predictors: (Constant), GenDiv, BoComp, BoSiz

Source: Research Data (2019)

The value of R represents the multiple correlation coefficients which measure the quality of the prediction of the dependent variable. Table 4.20 shows (R = 0.629), this imply strong level of prediction. The R Square which is the coefficient of determination for corporate governance (R^2 = 0.395). This implies that the study model explains 39.5% of the study variables; the other 60.5% is not explained by the model.

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATIONS

This section presents summary, conclusion and recommendations of the study.

5.1 Summary

The study was concerned with establishing relationship between corporate governance practices and organizational performance in service corporations in Kenya. For this purpose the researcher sought to address three objectives, which were translated to hypotheses. First objective was concerned with establishing effect of board size on organizational performance of service state corporations in Kenya. The study established 58.2% of the respondents agree that size of the board influence organizational performance of service corporations in Kenya, 64.4% of the respondents agree that the board considers strategic matters and other issues that impact on the company's board size of service corporations in Kenya and 63.8% of the respondents agree that the board size to allow regular meetings during the year to review organizational performance and operations of the company.

The second objective was concerned with finding out effect of board composition on organizational performance of service state corporations in Kenya, the study established that 39.2% of the respondents are of the view that voting is used to determine composition of the board of directors, 53.4% of the respondents are of the view that board chairs are in charge of corporate governance in service state corporations in Kenya and most roles of service state corporation are executed by management. The findings further imply that 50.9% are of the view that board of directors are effective, 50.4% of the respondents concur that board of directors is appointed through formal application, 35.3% of the respondents are of the view that self-evaluation is conducted twice a year, 41.9% of the respondents are of the view that board of directors is often sanctioned for violation of duties and 50% of the respondents are of the view that directors term of service run for two years.

Finally the third objective addressed effect of gender diversity in the board on organizational performance of service state corporations in Kenya, the findings of this study infer that 79.3% of the respondents agree that gender diversity in the board affects organizational performance, 75.8% of the respondents agree that gender diversity in board affects communication with the stakeholders and 65.6% of the respondents agree that board of directors consist of a good mix.

The researcher sought to address three hypotheses for the study;

First; H_{01}: There is no difference in organizational performance of Service State Corporation in Kenya by board size. The results show ($p = 0.00$) which is lower than 0.05 and for this purpose we fail to accept the null hypothesis.

Second; H_{02}: There is no difference in organizational performance of Service State Corporation in Kenya by Board composition. The results show ($p = 0.806$) which is higher than 0.05 and for this purpose we accept the null hypothesis.

Finally; H_{03}: Gender diversity in the board does not affect organizational performance in Service State Corporation in Kenya. The results show ($p = 0.019$) which is lower than 0.05 and for this purpose we fail to accept the null hypothesis.

It is also worth to point out that the study model explains 39.5% of the study variables; the other 60.5% is not explained by the model.

5.2 Conclusion

The study sought to establishing relationship between corporate governance practices and organizational performance in service corporations in Kenya. From the findings the study concludes board size and gender diversity have positive influence on organizational performance of service state corporations in Kenya. However, board composition bears a negative influence on organizational performance of service state corporations in Kenya. The coefficient of determination of the model only accounts for 39.5%; this implies that 60.5% is not accounted for by the model.

5.3 Recommendations

The study recommends that;

1) Academically, further studies can be conducted to establish other determinants of organizational performance in Service State Corporation in Kenya other than board size, board composition and gender diversity.

2) Policy should focus on corporate governance practices, the government should intervene on the composition of the board, address gender diversity in the board and this should be in line with that gender rule enshrined in the constitution of Kenya.

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