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**EXAMINING THE RELATIONSHIP BETWEEN CORPORATE GOVERNANCE AND
FINANCIAL ACCOUNTABILITY IN STATE-OWNED ENTERPRISES IN KENYA**

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REG: MPPM 137506

**A RESEARCH THESIS SUBMITTED IN PARTIAL FULFILMENT OF THE
REQUIREMENTS FOR THE AWARD OF THE DEGREE OF MASTER OF PUBLIC
POLICY AND MANAGEMENT - STRATHMORE UNIVERSITY**

**VT OMNES
VNVM SINT**

JUNE 2023

DECLARATION

I declare that this work has not been previously submitted and approved for the award of a degree by this or any other University. To the best of my knowledge and belief, the dissertation contains no material previously published or written by another person except where due reference is made in the dissertation itself.

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Approval

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ABSTRACT

State corporations have been instrumental to the development of society, serving as the main avenue for governments to deliver public services. They have been instrumental in the delivery of health, education, transport and other critical services and they continue to account for a significant portion of economic activity. However, locally their performance has been below par resulting from lack of financial accountability and transparency which limits their ability to deliver public services and maintain a good standing. The focus of this research was to examine whether corporate governance factors do have an influence on the financial accountability of state-owned enterprises. The study specifically looked at board diversity, board independence, ethical practices and risk governance practices influence on financial accountability of state-owned enterprises. Further, the impact of political environment was considered as moderator variable in the stated main objective. The survey was premised on the stakeholder and agency theory. A descriptive research design was applied in the survey with a total of 138 state-owned enterprises considered for the research. A sample of 102-ranking officer in the finance/governance and compliance departments were considered in the research. Semi-structured questionnaires were designed to collect research data with drop and pick method used in the collection of study data. The collected survey data was analyzed using a mix of quantitative and qualitative research approach. The survey obtained eighty responses which presented a 78% response rate which was dependable for utilization in quantitative analysis of the interaction between the predictor variables and financial accountability of the state-owned corporations. The study used the Spearman rank correlation in analysis with the results affirming that there is a significant correlation between corporate governance factors, political environment, and the operational performance of state corporations in Kenya. Regression tests affirmed there was significant predictive power of corporate governance factors on the financial accountability of state-owned firms in Kenya. The findings of the study led to the conclusion that corporate governance factors (board diversity, board independence, ethical practices, risk governance practices) have positive and significant effects on the financial accountability of State-Owned Enterprises in Kenya. This shows that the state firms can increase their financial accountability through the application of proper corporate governance practices. The study found out that board diversity and board independence did not have a significant influence on the financial accountability of State-Owned Enterprises in Kenya. Individually, the coefficients supported the conclusion that ethical practices and risk governance practices have a positive impact on financial accountability of State-Owned Enterprises in Kenya. Overall, the findings found out that political factors do have a positive moderating effect on the relationship between corporate governance factors and financial accountability of State-Owned Enterprises in Kenya. The study suggestions are that for state firms to increase the degree of financial accountability, the study recommends that they embrace the best governance practices and ensure that these practices specifically address how to properly manage shareholders' assets, provide adequate risk management and that the codes of conduct and standards of operation are enforced in day-to-day operations and not just put in writing. The study further calls on the government to develop sector specific governance frameworks that would complement the guidelines from the Mwongozo code of governance. Finally, the study calls on the government to enact legislations that makes the provisions of the Mwongozo code mandatory and not just mere suggestions.

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LIST OF ABBREVIATIONS

CBRR	Capital Budget Realization Ratio
CG	Corporate governance
CEO	Chief Executive Officer
PSE	Pakistan Stock Exchange
SCD	Systematic Country Diagnostic
SOE	State Owned Enterprises
USA	United States of America



DEFINITION OF TERMS

Board diversity

Diversity refers to the degree of variety and in management and leadership positions including foreigners, experts, and women (Goyal, Kakabadse, & Kakabadse, 2019).

Board independence

Board independence is a measure of the extent to which boards include people without material relationships with the company and who do not get involved in the day-to-day operations of the firm (Ahmad, Rashid, & Gow, 2017).

Corporate Governance

Corporate governance refers to the means through which organizational heads are directed, controlled, and held accountable for their actions (Solomon, 2020).

Ethical practices

Ethical practices guide other principals on the directions to take on certain matters, such as communication with stakeholders, human rights, and community development (Ferrell, 2016).

Financial Accountability

The stipulations define the responsibility for the way money is used and managed (Agwor & Akani, 2017). Accountability exercises hold public service organizations and individuals answerable for the outcomes, activities, and stewardship through financial accountability structures such as the Mwongozo Code of governance

**Mwongozo
Governance**

Code

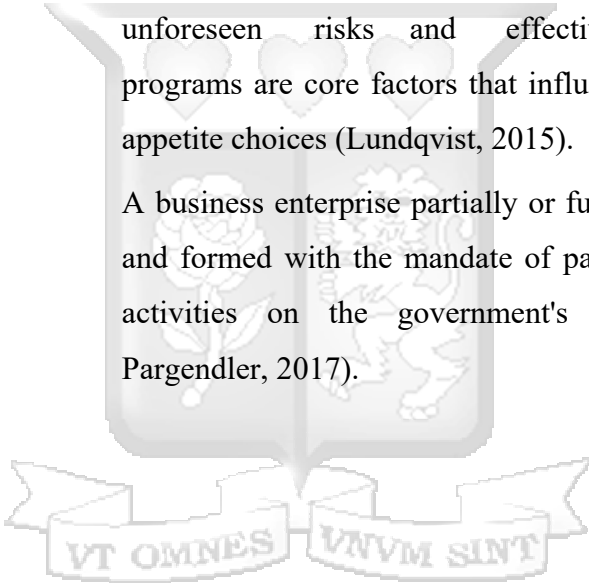
of The Mwongozo Code of Governance is a framework developed under the guidance of the Implementation Committee, the Institute of Certified Public Secretaries of Kenya (ICPSK), the State Corporations Advisory Committee (SCAC), and the World Bank to provide a framework that provides an embodiment of the professional codes of conduct, board charters, and performance management of state-owned corporations in Kenya (Maranga, 2021).

Risk governance practice

Risk management protects firms from present and unforeseen risks and effective risk management programs are core factors that influence strategic and risk appetite choices (Lundqvist, 2015).

State Owned Enterprises

A business enterprise partially or fully owned by the state and formed with the mandate of partaking in commercial activities on the government's behalf (Milhaupt & Pargendler, 2017).



CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

State-Owned Enterprises (SOE) serve as channels through which governments promote public interests, and according to Lin, Lu, Zhang, and Zheng(2020), their performance has been central to economic growth in developed countries such as China, Japan, and the USA. Jia, Huang, and Man Zhang (2019) aver that poorly run state firms carry substantive macroeconomic risks on fiscal policy, financial stability, and via productivity spill overs, economic performance. However, despite the knowledge that the failure of these firms poses great risks to development, SOEs in developing states are especially susceptible to poor management (Böwer, 2017). A World Bank (2021) report indicates that between the financial years 2018-2020, a third of the 46 commercial state corporations in Kenya made losses, and in the 2019-20 financial year, the aggregate operational performance of commercial state corporations turned negative. According to Omware, Atheru and Jagongo (2020), in addition to policy reforms, holding the management accountable for these firms' performance outcomes is one way to create incentives for them to ensure the firms perform more efficiently and deliver quality government products and services.

The structures governing how organizational heads are directed, controlled, and held accountable for their actions are referred to as corporate governance structures and Omware, Atheru and Jagongo (2020), and Turnbull (2019) hail good corporate governance practices as essential to promoting accountability among corporate heads. Corporate governance practices promote accountability and aim to address a series of major corporate scandals that came about from non-compliance with the law, nepotism, a non-merit-based system, and exploitation of minority shareholders that was affecting the firms' ability to meet shareholder expectations (Herbing, 2021). Corporate governance mandates organizations to recognize the interests of public and private shareholders responsibly and ethically, and according to Salehi, Moradi, and Paiydarmanesh (2017), there are increasing debates on the potential for corporate governance in addressing the lack of transparency challenges facing state-owned firms.

According to Gakpo (2021), governance structures are designed to encourage corporates to be accountable, fair, transparent, and responsible in their undertakings as well as reporting. Ndikwe and Owino (2016) confirm that good corporate governance (CG) is at the heart of healthy organizations and sustained competitive advantage in research into the relationship between CG and public schools'

financial performance. In another research, CG was linked to improved investor confidence, capital generation and organizational performance. These improvements result from the adoption of ethical practices and greater risk management (Solomon, 2020). Empirical evidence from the USA links the composition of independent and outside directors in a committee to reduced occurrence of fraud in earnings management (Bajra & Asllanaj, 2021). In Asia, Ahmad, Rashid, and Gow (2017) provide evidence that independent boards are more accountable and demand more transparency from their boards.

In Velte's (2017) exploration, the composition of the board in terms of board independence and diversity has a significant impact on the reliability and timeliness of responsibility reporting, thus increasing the firm's accountability to its investors. In India, Muttakin and Subramaniam (2015) assert that disclosure standards are significantly decided by ownership components which compose ownership, degree of board independence and Chief Executive Office (CEO) duality factors. Regionally, Gakpo's (2021) study highlighted the importance of small boards in enhancing ethical income distribution within an organization and in Tanzania's, Assenga, Aly, and Hussainey (2018) opined that the separation of CEO/Chairperson roles and gender diversity enhances the quality and timeliness of audit reports.

In the US, corporations are often subject to different obligations to federal and state governments, regulators at each level of government as well as the demands of relevant bodies such as the stock exchange (Aguilera & Grøgaard, 2019). The UK Corporate Governance Code sets out standards of good practice for listed companies on board composition and development, remuneration, shareholder relations, accountability, and audit. The code addresses the selection of board leadership and company purpose, division of responsibilities, composition, succession and evaluation, audit, risk and internal control, and remuneration (Aguilera et al., 2021). The Nigerian Code of Corporate Governance 2018 provides directions for best practices for the country's firms and promotes public awareness of corporate values and ethical practices that will enhance the business environment's integrity (Adeyemi & Olarewaju, 2018). The King IV Code on Corporate Governance code provided the principles and recommended practices that state corporations in the country principles and recommended practices. The code aims to promote ethical culture, good performance, effective control, and legitimacy.

The Kenyan government expects state firms to complement the private sector and be sustainable and competitive in their commercial activities, thus designing and operating them with principles of self-financing, sustainability and profitability (Kuria, 2015). However, despite their contribution to national development, Kenyan state corporations suffer from cyclical mismanagement, pilferage, and

bureaucracy, combined with irresponsibility and incompetence among both employees and directors (Government of Kenya Sessional Paper No. 4, 1991). The governance structures are complex, involving the parliament, ministries, boards and CEOs, and this complexity has been a source of confusion and conflict, especially with regard to the allocation of responsibilities and accountability for results (Kuria, 2015).

The Mwongozo Code of governance was established with clear measures aimed at addressing matters related to board effectiveness, transparency, accountability, risk management and ethical leadership (Republic of Kenya, 2016). The code aims to entrench principles and values of public service and best practices in the management of state corporations. However, despite the potential benefits of effective governance practices, changing governance models is complicated, given the models are embedded within the national institutional environment. Moreover, governments in developing economies regularly change national laws in a bid to ensure the proper implementation of good governance practices. Bett and Kihara (2022) aver that the code's litmus test is whether it will endure the management and governance challenges that have plagued public entities around the world, given the World Bank (2021) opines that the code fails to guarantee public participation, contradicts provisions of the statute and does not address the main challenges facing Kenyan state firms. Moreover, it also fails to fit in the social and economic environment given it is not a legally binding norm (Oruke et al. 2022).

According to Andreas, Christine and Diana (2021), there have been limited studies examining the efficacy of the Mwongozo code since its publication as executive order 7. Additionally, Kenya's 2022 general election has seen the new administration initiate a host of reforms mainly targeted at top positions in state firms, and this is bound to change the degree of dedication and application of the Mwongozo code within state firms. Consequently, little is known about the impact of its implementation on the state firms given majority of SOEs boards had not adhered to Mwongozo code requirements (Oruke et al., 2022). These researchers examined the relationship between corporate governance and modification of audit opinion and confirmed that the majority of Kenyan state firms received modified opinions which shows financial discrepancies in the firms' reports. Githiri (2020) investigated the code's application and effectiveness and averred that weak legal frameworks, corruption and political interference have significantly impacted the code's implementation.

The research by Kangogo (2020) avers that the Mwongozo code has not provided a framework of preventive and detective techniques which makes it ineffective as a tool for transparency. This gap

informs the choice of the current research which sought to assess the relationship between corporate governance and state firms' financial accountability with specific focus on the political environment as a mediating variable. According to Ochieng (2017), accountability refers to the degree of answerability of decision-makers to report, explain, and justify their actions to a firms' stakeholders (Zahraa, 2021). It indicates the degree to which managers are able to meet the stakeholders' normative, cultural, and professional expectations (Zahraa, 2021).

1.1.1 Corporate Governance

Corporate governance refers to the system of rules, guidelines, structures, procedures, and processes that dictate how an organization's board of directors manages and oversees its operations (Andreas, Christine, & Diana, 2021). According to Solomon (2020), corporate governance (CG) is a mechanism through which stakeholders monitor boards and management to safeguard their interests. CG practices are designed to ensure boards of directors balance aspects of power, transparency, and accountability in a company's relationships with shareholders, associated stakeholders, employees, and the government among others (Gakpo, 2021). Hence CG aims to encourage boards to ensure that they prioritize stakeholders as well as the organization's interests when making decisions and adhering to laid-down governance practices (Jia, Huang, & Man Zhang, 2019).

Effective CG incorporates elements of accountability, transparency, protection, and guarantee of the rights and privileges of all stakeholders and the extent of genuine checks and balances in the organization (Böwer, 2017). Companies are usually directed by a Code of Corporate Governance framework and adherence to these guidelines has been associated with improved accountability and responsibility of organizational boards towards its stakeholders' interests. CG practices can be explained in Jensen and Meckling's (1976) agency theory which provides clear parameters for corporate officers and board members making strategic decisions and their impact on the relationship between agents and principals. Empirical evidence shows that CG is a multifaceted subject encompassing multiple variables that interact together to affect an organization's degree of commitment to practising sound and safe professional behaviours and practices that conform to regulations and legislation (Yusoff, Ahman & Darus, 2019).

Corporate governance codes are relatively recent in modern business and empirical investigations have focused on different aspects of CG frameworks. Queiri, Madbouly, Reyad, and Dwaikat (2021), for instance, examined CG in terms of the ownership concentration, ethical guidelines, board size, the number of board meetings, and the ratio of the independent board of directors, finding that firms under

institutional ownership and with smaller boards perform better financially. In Malaysia, Yusoff, Ahman, and Darus (2019) used the board size, the degree of board independence, the number of board meetings, and female directors as the predictors of a company's accountability, finding that only board size affects the degree of accountability in corporate disclosure. In Jordan, Alkurdi and Mardini (2020) examined tax avoidance strategies and found that managerial and institution ownership system discourages tax avoidance behaviour while foreign-owned institutions with large boards encourage such vices.

Some studies suggest that boards having frequent board meetings and foreign directors are effective at reporting (Min & Chizema, 2018), while Davis and Garcia-Cestona (2021) aver that the degree of inclusion, fostering ethical practices and diversity determines the quality of financial reporting. Milhaupt and Pargendler (2017), on the other hand, argue that SOE boards must be independent and without interference from political heads to become competitive. However, according to Setiawati, Ichi, and Suangga (2019), having independent directors does not necessarily enhance board effectiveness while larger boards are more effective due to the presence of more diverse and knowledgeable directors. Jin and Mamatzakis (2018), on the other hand, aver that larger boards can be ineffective if they lack the requisite professional ability in skills to achieve quality reporting standards, calling for boards to evaluate the competencies and skills of their members.

These studies vary significantly and so do their findings. However, it is certain that poor governance leads to the collapse of organizations and boards gave to be more proactive and design competent governance structures to ensure they meet the expectations of a wide range of stakeholders. This study adopted the variables used in the study by Abang'a, Tauringana, Wang'ombe, and Achiro (2021) to investigate the effect of CG practices on SOE's financial accountability. However, it examined emerging issues and additional measures to enhance the application. Agency theory was used to understand and explain these corporate governance practices and how they enable stakeholders to dictate, monitor, and control top managers to ensure they align the organization's goals with their expectations.

1.1.2 Financial Accountability

Accountability is the exercise whereby individuals are held answerable for the outcomes of their activities and stewardship (Arslan, 2021). Financial accountability is an assessment that reviews value for money and acceptance by individuals of personal responsibility for their actions in relation to quality of their outputs and decisions (Brown, 1998). Dewi, et al (2019) aver that financial accountability results from holding an individual accountable for effectively performing a financial

activity. Agwor and Akani (2017) aver that financial accountability ensures budgets comply with accounting and lawful requirements, prepare precise and up-to-date financial statements, and enact systems of internal controls to manage risk or fraud. Financial accountability assigns responsibility for financial decisions and is associated with good governance in the management of public finances (Idoko & Jimoh, 2013). Accountability is a principal part of good governance and according to the stakeholder theory, an organization must be accountable to those who was affected by its decisions or actions (Dewi et al., 2019). Since SOEs are usually funded by government taxes, they must be accountable to the government, the taxpayers, shareholders, and other stakeholders (donors and employees) (Kamau & Simiyu, 2019).

Mestry (2018) asserts that financial accountability practices compel management to make sure that the finances given to them are spent according to proper rules and regulations. Dewi et al. (2019) associate financial accounting with increased organizational effectiveness. Njobvu, Kaira and Chowa (2018) opine that financially accountable organizations practice financial honesty, deter fraud, and ensure proper recording and prompt reporting of financial statements, keeping stakeholders informed and knowledgeable about the organization's financial position. According to Eton, Murezi, Fabian, and Benard (2018), management can guarantee quality financial accountability by preparing and circulating correct financial statements or reports to stakeholders in a prompt fashion. Assenga, Aly, and Hussainey (2018) asserts financially accountable institutions are more legitimate and credible which significantly contributes to their competitiveness and sustainability since they suffer little fraud and mismanagement. The Institute of Social Accountability posits that accountability is expressed in terms of accounting quality, reporting standards, and assurance. In this study, disclosure, monitoring and evaluation measures, roles and responsibilities of the boards of directors, and feedback system put in place by the SOE were used as indicators of accountability.

1.1.3 Political Environment

The political environment refers to the political conditions in a country, describing the state of stability and peace, as well as the attitude of the elected government towards business. As affirmed by Eton, Fabian and Benard (2022), a stable political system can make business-friendly decisions through its policy decisions and approach towards implementation of the aforementioned policies. Political factors that affect businesses range from government stability, regulation and deregulation to bureaucracy, trade control and corruption level (Olubodun, 2019). Aguilera and Grøgaard (2019) identify taxation,

employment laws, and political stability as the political factors that affect businesses performance. The research affirms that the political ideology of the government influences firms' financial as well as market performance in terms of sales growth and accountability and explains the variation in performance between state corporations across national contexts.

According to the logic behind Jensen and Meckling's (1976) agency theory, the goals, objectives, and assistance provided by the government influences firm performance and can generate conflict if they vary significantly from the expectations of other stakeholders (Lazzarini & Musacchio, 2018). These differences arise from the expectations of state firms to pursue social objectives, meet political objectives, and remain operationally sustainable. Furthermore, according to Cuervo-Cazurra (2017), state owners are usually accused of ineffective monitoring and the implementation of risk-averse strategies. The researcher associated state ownership with negative firm performance. According to Richmond et al. (2019), poor governance of SOEs is at the root of the problem, especially with regard to ownership policy, financial allocation, and the balance between delegation of active management and active government interference.

Currently, the Kenyan cabinet has approved the Privatization Bill 2023, which aims to sell Govt-owned entities to the private sector in light of their continued underperformance (Ngugi, 2023). While the privatization plan was drafted in 2008, out of an initial 26 parastatals that were scheduled for privatization, the government has managed to conclude only one deal involving Kenya Wine Agencies Ltd (KWAL) in over a decade. The government aims to do away with the bureaucratic legal framework guiding the sale of inefficient State enterprises, which has been cited as a hindrance to the privatisation process (Herbst, 2019). Meanwhile, in an effort to get greater control over state-owned firms, the new president has made board changes in at least 58 parastatals in a series of reforms that has seen more than 100 appointees exiting (Alushula & Muiruri, 2023). These changes affect the firms' performances over the next months. This study is positioned as one of the first to examine these changes as they occur and was informative in examining the moderating role of the political environment on the performance of state-owned corporations.

1.1.4 The Mwongozo Code of Governance

The Mwongozo Code of Governance is a framework developed under the guidance of the Implementation Committee, the Institute of Certified Public Secretaries of Kenya (ICPSK), the State Corporations Advisory Committee (SCAC), and the World Bank to provide a framework that provides an embodiment of the professional codes of conduct, board charters, and performance management of

state-owned corporations (Maranga, 2021). The framework draws inspiration from the Kenyan constitution, 2010, OECD guidelines, the Malaysian Code, the corporate governance report issued by King III, and other overarching principles (Oruke, Iraya, Odhiambo, & Omoro, 2020). According to Maranga (2021), the code is key to informing on matters that influence the board's effectiveness, transparency, risk management, tenure, disclosure, and corporate citizenship among others. The framework also addresses stakeholder issues such as engagement, shareholder rights, and obligations. The code is one of the recommendations suggested by the Presidential Task Force on Parastatal Reforms and promises to transform Kenya's public sector into a vibrant sector with high degrees of compliance, transparency, and corporate, social, and environmental responsibility (Omenta, 2019).

In reviewing the Mwongozo Code of Governance, Omenta (2019) affirms that the code was developed under the executive order, adopted foreign codes with little regard to the national conditions and norms, developed provisions for board appointment procedures, structure, and remuneration packages, and described the roles of the board. Accordingly, Maranga (2021) adds that the code makes significant efforts to promote stakeholder engagement and public participation in policymaking and board independence in decision-making. However, despite the seemingly considerate principles, Mwikairi (2018) argues that implementing the same has been difficult. The scholar argues that guaranteeing board independence and control has been troublesome, considering board appointments still occur based on political patronage rather than individual qualifications and competencies. This makes it difficult to develop a framework for control and accountability, especially in appointments and board decisions.

Gikaria (2021) provides evidence that since the Mwongozo Code is subordinate to the 2002 State Corporations Act in the hierarchy of norms and is not a compulsory code, many state corporations choose to ignore its overarching principles in a bid to reduce the costs associated with complying to numerous conflicting legislations. According to Githiri (2020), Kenyan politicians have shown little interest in implementing recommendations made by the implementation committee such as the recommendation to repeal the State Corporations Act Cap 446 and provide proper definitions of the state corporations and their governing principles. This has resulted in a lack of uniformity in board composition and governance factors, bloated boards, conflicting guidelines on CEO appointment and improper skills mix among state firm boards.

In conclusion, researchers confirm that lack of procurement transparency and corruption are the biggest threat to the effective governance of state corporations in Kenya (Mihyo & Mukuna, 2018; Koech,

2018). Otieno, Ogutu, Ndemo, and Pokhariyal (2020) demonstrate that the powerful executive arm of the government holds too much power over the activities of state corporations, arguing that the board serves on the president's behalf. Mutambo (2017) avers that role duplication among state corporations in Kenya is high, and this is a significant challenge as some executives are not aware of their roles and purviews. The Code requires that the board carries out an internal review every five years to review the code's applicability in the current environment, making it essential for continued research into how the code can be upgraded to address emerging issues. The section below reviews corporate governance practices that have been identified in the literature to make proposals that the Kenyan government can adopt to improve financial accountability within state corporations.

1.1.5 State-Owned Corporations in Kenya

State corporations are set up and controlled in Kenya under the provisions of the State Corporations Act. State-owned enterprises (SOEs) refer to any commercial entities whereby the government has significant control through direct and indirect ownership (Ginting & Naqvi, 2020). They are diverse in nature, and vary in size, sector of operation, complexity, and extent of government ownership and control (IMF, 2020). They use perpetual succession models whereby they remain operational through several changes in the composition of management (Kabiru, Theuri, & Misiko, 2018). Heo (2018) adds that SOEs are able to sue and be sued and hold both movable and immovable assets. The government forms state firms to meet commercial and social goals such as the provision of health services, education, security, income redistribution, and to correct market failures, among others (Kamau & Simiyu, 2019).

According to the State Corporations Office, Kenya has 176 registered state corporations that exist in a wide variety of sectors. Mutua (2017) reports that Kenyan state-owned corporations contribute to about fifteen per cent of the national revenue and offer affordable, accessible, and standard goods and services in important sectors such as health, education, energy, and transport. Mutinda (2021) asserts that since they offer services that the private sector cannot afford, they are provided with substantial amounts of public finances. If professionally managed, state corporations can improve the Kenyan population's welfare and promote inclusive growth (Fondo, 2016).

However, an IMF report by Böwer (2017) affirms that although SOEs make up a significant share of employment and output in several countries, many are still loss-making. State corporations have been characterized by monopolistic production, corruption, nepotism, political interference, and financial mismanagement (Böwer, 2017), which has affected their effectiveness in delivering quality services

and being accountable. Owing to the scale of their operations and embeddedness into the economy, Xili (2019) avers that poorly regulated state firms pose a significant threat to economic productivity and can amplify financial instability. Poor governance structures, lack of close monitoring from the relevant regulatory authorities, and clear distinctions between roles have contributed to the mismanagement of public funds and a series of corporate scandals (Mutinda, 2021). The Kenyan government has had to regularly bail out underperforming state firms such as Telkom Kenya and Pan Africa Paper Mills to help them in restructuring after a series of losses (CBK, 2016). According to a Bloomberg (2021) report, many of Kenya's largest state firms are loss making, adding that to remain operational, they will need as much as Kshs 382 billion. The report affirms that firms such as East African Portland Cement, Kenya Railways and Kenya Power make a combined shortfall of more than Kshs. 70 billion each year

Despite many reforms designed to improve management within state corporations, poor fiscal management capabilities and lack of good governance structures have significantly contributed to the lossmaking reported. They are constantly underperforming financially and offer substandard goods and services in comparison to privately-owned firms (Fondo, 2016). This has resulted in a lack of confidence and trust in the citizens in them. Empirical and theoretical evidence suggests that good governance structures are key to the effective management of state firms; this study sought to examine the effect of governance practices on the financial accountability of these state firms.

1.2 Statement of the Problem

Increasing concerns regarding state firms' governance have fueled speculation about whether SOEs can achieve the desired goals, especially when the local governments have weak oversight structures, and politicians have significant influence. Accountability structures aim to improve financial resource utilization and are the foundations for effective performance monitoring and evaluation as they provide a means to gauge the effectiveness of utilization of revenue and expenditure in service delivery (Evelyn & Boateng, 2016). As in many other countries, Kenyan institutions are integrating corporate governance standards with aspirations of meeting international standards of accountability in developed economies (Kimani et al., 2021). Multiple codes have been enacted to direct the management of public organizations, such as the Mwongozo code, which was developed to promote good corporate practices and enhance board effectiveness, transparency, accountability and ethical leadership in state corporations (PSCK & SCAC, 2015). Despite this, state corporations have not

performed at expected levels due to weak governance and other external factors. Corporations have been beset by a number of challenges linked to the lack of effective and efficient management of public finances (Wachira, 2019). They also lack official financial documentation against which accountability can be gauged (Oruke et al., 2022).

Financial accountability is the result of a complex structures of oversight and control, and Diamastuti et al. (2021) argue that decisions surrounding employment, resource allocation, state control, as well as commitment to good governance all intertwine to influence good corporate governance and corporate social responsibility disclosure. However, many state firms fail to comply with integrated reporting frameworks presented by national governments. In Nigeria, Idoko and Jimoh's (2013) study showed that poor financial accountability was predicated by a poor regulatory framework, weak infrastructure, and failure to address governance failures within the government apparatus. Kimani et al. (2021) are also of the opinion that instituting good CG practices, such as guaranteeing independence and diversity of the board, has had little impact on the financial accountability of state-owned firms in Kenya. These observations were made by Manini and Abdillahi (2015) in their paper which found negative influences of certain corporate governance mechanisms on commercial banks' quality of financial reports. Michael and Eric (2020) established a significant association between Control activities and financial accountability in South Nyanza County Governments, while Kisaka and Jagongo (2021) avered that elements of financial accountability, such as transparency, timely responses and adherence to constitution requirements, improved managerial performance.

While the Kenyan government, through the Mwongozo Code, assures investors that it is committed to transparency and accountability, insufficient capacity, execution problems, and poor enforcement have contributed to the deteriorating financial accountability in the public sector (Andreas, Christine, & Diana, 2021). According to Abang'a et al. (2021), of all the state corporations, only ten were able to post profits for the fiscal years 2019/2020. Furthermore, a third of state firms were loss-making, and the aggregate operational performance of commercial state corporations turned negative in the 2019-20 financial year. This suggests that improving governance alone does not guarantee improved performance outcomes. Research into the CG- accountability nexus offers certain gaps that motivate the current research. Perego and Verbeeten (2015) provide results from charities in the Netherlands, while Diamastuti et al. (2021) addressed social and environmental responsibility disclosure among Indonesian state firms. Dewi, Azam and Yusoff (2019), on the other hand, specified the determinants of information quality disclosure in local governments' financial statements as Manini and Abdillahi

(2015) investigated commercial banks using SEM methodology. Michael and Eric (2020) and Kisaka and Jagongo (2021) both based their findings on financial accountability within county governments, while the current explores state firms. Given the Mwongozo code purports to promote financial responsibility, this study seeks to examine the code's effectiveness as a management control tool.

1.3 General Objective

To undertake an analysis of corporate governance issues influencing financial accountability in State Owned Enterprises in Kenya and suggest policy options.

1.3.1 Specific Objectives

- i. To assess the link between corporate governance factors (board diversity, board independence, ethical practices, and risk governance practices) and financial accountability in State Owned Enterprises in Kenya.
- ii. To assess the moderating effect of the political environment on the relationship between corporate governance and financial accountability in State Owned Enterprises in Kenya.

1.4 Research Questions

- i. What is the link between corporate governance factors (board diversity, board independence, ethical practices, and risk governance practices) and financial accountability in State Owned Enterprises in Kenya?
- ii. What are the moderating effects of the political environment on the relationship between corporate governance and financial accountability in State Owned Enterprises in Kenya?

1.5 Scope of the Study

The research investigated state corporations located in Nairobi City County. Specifically, the study studied the effect of corporate governance factors on the financial accountability of state corporations in Kenya. The study adopted quantitative metrics in the analysis of the relationship between variables. The research scope examined on the financial accountability of the 138 SOEs in Kenya as of 2022 by applying a cross-sectional examination.

1.6 Significance of the Study

This study made observations that were important to policymakers who gained value on the importance of corporate governance structures as policy instruments. The study findings increased the understanding of how state firms can use CG elements to enhance accountability among state firms. This study was informative to stakeholders who were able to understand how certain practices employed by state corporations affect their ability to deliver quality services. This improved how they view and

demand for accountability within state firms. This study was also important to scholars and academicians who developed a better understanding of how corporate governance factors relate to financial accountability among SOEs. Further, this study made theoretical contributions to the agency theory and its relationship with good governance practices. Moreover, the study also helped in the identification of study gaps that researchers can use in future examinations into governance structures and their impact on firm performance. Furthermore, the findings also improved the understanding of the relationship between politics and governance within state firms.



CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

The theoretical and empirical reviews are contained in this chapter. The section presented the stakeholder theory and then proceeded to a discussion of the empirical literature on different governance factors and their effect on financial accountability.

2.2 Theoretical Review

2.2.1 Stakeholder Theory

The Stakeholder Theory was introduced by Freeman (1984), who sought after the relationship between organizations and the environments in which they operate and how these interactions determine the firm's performance. An extension of systems theory, Freeman (1984) identifies multiple stakeholders whom firms must consider when making decisions, affirming that there should be no single prevailing set of stakeholder interests. This theory argues that firms must understand and balance the interests of all their stakeholders to remain operational and competitive. In extending the theory, Freeman (1984) identified legal and social stakeholders. Organizations have a legal responsibility to their contractual stakeholders, such as lenders, employees, suppliers, distributors, and the government and social stakeholders, who include pressure groups, the community, the media, environment, among others (Mungai & Muturi, 2019).

Freeman (1984) argues that firms should strive to meet the expectations of their stakeholders, and this theory has proved useful to firms assessing their environment to identify stakeholders and the severity of their expectations. According to Ortega-Rodríguez, Licerán-Gutiérrez, and Moreno-Albarracín (2020), transparency is a key element in accountability among non-profits and affirms that firms use a set of controls to ensure they remain accountable to their stakeholders. Jeong and Kearns (2015) opine that firms can express responsibility to stakeholders through transparency indicators, adding a positive association between organizational transparency and legitimacy. Mithia and Kosgey (2022) argue that the stakeholder theory aims to improve the value of an organization. Wanjau, Muturi, and Ngumi (2018) provide evidence that listed firms in East Africa that have a high degree of corporate transparency are more profitable than firms that don't disclose their financial outcomes and risk exposure.

Freeman (1984) states it is imperative that managing stakeholder interests improves relationships and has monetary and sentimental effects on consumers. Therefore, the stakeholder argues that firms must implement deliberate systems and technologies to ensure they remain appealing to their stakeholders.

While the theory purports to offer corrective measures to perceived defects in business and business ethics, Sternberg (1997) argues that stakeholder theory is misguided, and incapable of providing better corporate governance and improving business performance or business conduct. Moreover, Beck and Storopoli (2021) argue that it is impossible to contextualize and address the needs of all stakeholders equitably. The argument is that some stakeholder interests will have to take the back seat. Others argue that stakeholder interests are too broad to manage realistically (Pinto, 2019). However, the stakeholder theory understands these weaknesses, and according to Hörisch, Schaltegger, and Freeman (2020), stakeholder theory stresses the need for firms to develop competencies to improve their ability to identify overarching stakeholders and their expectations.

Freeman (1984) affirms that firms must identify and address the most significant expectations to become legitimate before a wide range of stakeholders. This component makes the theory useful in identifying the needs of multiple stakeholders from various settings. Kariuki, Ombaka, and Mburu (2021) used the theory to examine the effect of governance practices on the performance of public universities, while (Kiriinya, Ngugi, Mwangangi, & Odhiambo, 2018) used the theory to examine the impact of trust and transparency on pharmaceutical firms' performance. The study was used to examine state firms' audit performance Gacheru (2020), signifying the extensiveness of its use. This theory was significant in this study as it justifies the need for transparency-enhancing strategies. The Mwongozo Code of Governance aims to entrench transparent and ethical business behavior among state corporations and this theory was a valuable instrument in this study which sought to build upon existing frameworks to develop a quality governance framework that would enhance state firms' transparency.

2.2.2 Agency theory

The agency theory is a concept used to explain and resolve issues that may emerge from the relationship between principals and their agents. As per the agency theory, a principle refers to the individual who relies on the actions of an agent for specific goods/services. The agency theory was advanced by Jensen and Meckling (1976) who sought to explain and conceptualize the role and behaviour of agents, including managers and directors of companies. Jensen and Meckling (1976) opined that the agency problem exists due to differences in priorities, expectations and pressures faced by agents from different stakeholders and the scholars assert that holding directors accountable for their choices is among the main issues of corporate governance. According to Mwangi and Nyaribo (2022), there should be a concentrated effort to ensure that agents act with the principles' interests at heart and the agency theory provides the rationale for ensuring that the board of directors is accountable for its choices.

The agency theory explains that the difference in interests of the directors and managers of a given firm and its owners gives rise to the agency problem and that a board of directors is the first corporate governance mechanism that owners can use to represent and protect owners' interests because the board of directors performs the role of ensuring that managers achieve organizational goals. The scholars (Mwangi & Nyaribo, 2022; Mwanza, 2013; Al-Gamrh, Al-Dhamari, Jalan, & Jahanshahi, 2020) also identify other governance control mechanisms such as the number of board committees, the frequency of board meetings, gender diversity and board tenure, number of independent, executive and non-executive directors on the board, as well as board independence in their explorations.

The agency theory has been successfully applied to a myriad of disciplines such as economics, accounting, politics, and sociology, and in examinations into the effects of CG on SACCO's financial performance (Wako, 2020), financial management of community development funds (Mwanza, 2013), and on the education sector (Mwangi & Nyaribo, 2022). According to Oruke et al. (2020), self-seeking agents can be effectively controlled through boards dominated by non-executive directors, and as per Wako's (2020) findings, board accountability, integrity, professionalism, and transparency and has positive influences on SACCO's financial performance. Elsewhere, Aguilera et al. (2021) used the theory in research which affirms that political ideology is a critical component of SOE's performance around the world with Çera, Breckova, Çera and Rozsa (2019) adding that business enabling policies, tax treatment, corruption and political connections all have significant influences on the business climate.

Despite the potential offered by the agency theory in explaining agency behaviours, it fails to account for selfish human decisions when agents fail to act in accordance with shareholder interests and goals. Yusof (2016) adds that despite its influence, the theory does not provide sufficient understanding of many issues surrounding human behavior, given these behaviors are also influenced by the social environment, other institutional factors and the local context. Moreover, stakeholders often lack the requisite information and institutional mechanisms either to bargain over the terms of management's employment, or to monitor and control management's activities. However, this theory is still useful as it advances our understanding of corporate governance not only as a mechanism for addressing agency issues but also as a political and social instrument. This theory will anchor the board structure factors such as diversity and accountability as well as the risk management and political environment factors which influence agents' behaviors and decisions.

2.3 Empirical Review

2.3.1 Corporate governance factors and Financial Accountability in State-Owned Enterprises

2.3.1.1 Board Diversity on Financial Accountability

Diversity refers to the degree of variety and in management literature, board diversity refers to the state of having leadership positions occupied by people from a wide variety of backgrounds including foreigners, experts, and women (Goyal, Kakabadse, & Kakabadse, 2019). According to Sarhan, Ntim and Al Najjar (2018), despite being initially formed to address the moral shortcomings of male-dominated leadership, diversity principles are developed based on cost-benefit concerns. A wider range of diverse characters has been associated with increased organizational performance since it improves the boards' understanding of different market conditions but Carter, et al., (2010) opine that this relationship is endogenous.

A French study by Beji, Yousfi, Loukil, and Omri (2021) sought the effect of board characteristics on corporate social responsibility, assessing data reported between 2003 and 2016. Empirical analysis revealed that diversity is positively associated with the firm's CSR performance. Larger, more experienced boards improved all areas of CSR performance, gender diversity improved human rights dimensions while national diversity strongly influences community involvement and environmental responsibility factors. Sarhan, Ntim, and Al Najjar (2018) assessed the effect of board diversity on firm performance by focusing on 600 firms listed in North Africa and the Middle East. The study sourced data reported between 2009 and 2014 and relied on regressions, revealing a significant positive association between board diversity proxied by gender and nationality, and profitability. Further, the analysis revealed that diversity has significant impacts on governance practices, particularly remuneration factors. Highly diverse boards were more inclined to adopt pay according to performance rather than using pay scales. Moreover, age diversity was associated with fundraising capability which is key to firm performance.

In Pakistan, Khan and Abdul Subhan (2019) reviewed the impact of board diversity and audit on the performance of firms listed in the Pakistan Stock Exchange (PSE) 100 Index. The study used data reported between 2008 and 2017 and used quantitative techniques in data analysis. The findings were that while having females on boards enhances performance, their number has insignificant effects. Further, according to this study, foreign board membership reduces the firms' financial performance due to the different cross-cultural perceptions and communication barriers. Nigeria's Nwezoku and Egbunike (2020) specified the relationship between board diversity and intention to commit tax fraud and avoidance using data from quoted healthcare manufacturers. Using an ex-post facto research design

and Panel Estimated Generalised Least Squares in analysis, the findings were that while age and gender diversity have strong correlations with tax aggressiveness, tenure and non-executive diversity factors had negative effects. This study was from manufacturing firms while the current addressed state firms. A South African study by Vilakazi (2021) employed quantitative methods in examining the effect of board diversity factors on state-owned firms' non-financial performance outcomes. Analysis revealed that the presence of females on the board has insignificant effects on the firm's ability to realize non-financial goals. The study concluded that although increasing female board membership advances gender equality, it does little to improve service provision. This study specified board diversity while the current researched on all CG practices contained in the Mwongozo code of governance.

Mwangi and Nyaribo (2022) focused on a variety of corporate governance structures and their impact on the performance of state firms in the education sector. Regressions were used in data analysis of data from 27 firms. The findings were that the three investigated CG factors, CEO independence, audit committee independence and board diversity all have significant effects on the corporations' financial performance of the organization in respect to Return on Equity, Return on Assets, and Tobin's Q. The study called on state firms to establish guidelines that would guarantee the appointment of experienced and qualified CEOs and auditors from a wide variety of backgrounds.

Similarly, Abang'a, Taurigana, Wang'ombe, and Achiro (2021) investigated state firms' CG practices in a bid to establish their effect on the firm's financial performance. The study collected panel data reported by 45 SOEs between 2015 and 2018 and the findings were that diverse boards, with professional elements and frequent meetings, have a strong correlation with capital budget realization ratio (CBRR). Meanwhile, the independence of non-executive members, the existence of sub-committees, and large boards had insignificant effects on financial performance, showing the need for skilled diverse boards operating under strict rules. This study used financial performance while the current used financial accountability.

2.3.1.2 Board Independence on Financial Accountability

Independence shows the degree to which individuals make decisions without external influence (Koech, 2018). Board independence is a measure of the extent to which boards include people who are not part of the company's executive team, without material relationships with the company, and who do not get involved in the day-to-day operations of the firm (Ahmad, Rashid, & Gow, 2017). Board independence has been associated with an improved capacity to criticize CEO decisions and greater diversity, resulting in improved decision-making (Adeyemi & Olarewaju, 2018). Governance

frameworks call for the establishment of non-executive membership positions to control the executive team. However, according to Amartey, Yu, and Chukwu-lobelu (2019), independent directors can have negative impacts on the firm's performance if they cannot make informed decisions.

Al Amosh and Khatib (2021) applied content analysis in an investigation on the impact of ownership structure and board independence on environmental, social, and governance performance disclosure. The study sourced data from 51 Jordanian firms reported between 2012 and 2019. The findings were that there is a significant difference in reporting quality among foreign-owned and state-owned firms. Further, it was ascertained that the board's independence moderates the quality of disclosures and reduces the influence of block holder owners in disclosure decisions. This study specified state-owned and foreign-owned firms while the current focused on state firms.

Malaysia's Yusoff, Ahman, and Darus (2019) purposed to examine the influence of board size, board independence, board meetings, and diversity on firms' transparency, accountability, liability, responsibility, and responsiveness. The study used data reported between 2015 and 2016 from 100 listed companies and used descriptive and content analysis. The analysis determined that many firms had failed to properly incorporate accountability related CSR practices and that board size was the only measure that improved accountability reporting.

A similar exploration was carried out in the UAE, where Al-Gamrh, Al-Dhamari, Jalan, and Jahanshahi (2020) investigated the relationship between foreign ownership, board independence, and social and financial performance of listed firms. Analysis revealed that while Arab ownership reduces firms' social and financial performance, foreign ownership has positive effects. Further, the researchers ascertained that independent board members play an important role in monitoring Arab-owned firms' practices and reducing the negative association between Arab-owned firms and socio-financial performance. This study specified Arab and foreign-owned firms, making it unique to firms with that type of ownership and not state firms.

In Ghana, Amartey, Yu, and Chukwu-lobelu (2019) researched corporate governance practices employed in the country's financial sector and their impact on board accountability using data reported from banks between 2011 and 2016. The study used structural equation modelling in analysis, revealing that the banks mainly rely on a shareholder approach to accountability. The study revealed that the banks relied heavily on the quality of audit committees and external and internal auditors to enhance accountability. The study asserts that requiring frequent elections for non-executive board

members and regularly rotating external auditors would improve accountability within the banks.

Kaawaase, Nairuba and Akankunda (2021) adopted a cross-sectional and correlational research design to investigate the effect of board expertise, board independence, and board role performance as the governance factors implemented in Uganda's financial sector on the quality of financial reporting. Applying regressions in analysis, it became apparent that while board expertise and board role performance factors improve the quality of financial reporting, the composition of independent executives had insignificant effects. The study asserts that financial firms should pay close attention to the educational qualifications and recent performances of their executives to improve the quality of internal audits and financial reporting.

Wachira (2019) carried out an empirical review into the effect of governance factors on risk disclosure among listed non-financial firms in Kenya using data from 48 listed firms reported between 2010 and 2016. The descriptive study used content and regression methods in analysis, revealing that boards characterized by dispersed ownership, a higher percentage of non-executive directors and foreign owners, and a reasonable number of women are more transparent about risks facing the firm. This was more prevalent in large profitable firms which face pressures from a wide variety of stakeholders.

2.3.1.3 Ethical Practices in Financial Accountability

Ethical business practices refer to those contemporary organizational standards, principles, values, and norms that govern how individuals behave within an organization (Ndikwe & Owino, 2016). Ethical practices dictate how all businesses and their representatives conduct themselves and they guide other principals on the directions to take on certain matters such as communication with stakeholders, human rights, and community development (Ferrell, 2016). Ferrell, Harrison, Ferrell, and Hair (2019) argue that ethical business practices direct firms to have the least negative impact, while at the same time enriching the system in which they function. Gacheru (2020) argues that ethical businesses translate abstract ethical injunctions into a series of obligations that promote the quality of their interactions with the environment.

Kim and Thapa (2018) reviewed anti-corruption policies and their impact on the profitability and growth of listed firms. The study collected panel data from 392 firms listed under the Singapore Stock Exchange (SGX). Relying on panel data regressions, the findings ascertained that anti-corruption policies actualized in the country between 1995 and 2014 significantly increased the firm's net profit margin and asset growth. The study asserts that Singapore's case is unique and called for an investigation into anticorruption policies under different cultures.

Turyakira, (2018) carried out a literature review on the impact of ethical practices used by SMEs in developing countries on their performance. The study also sought after the significance of business ethics to SMEs and the ethical dilemmas and challenges that arise upon actualizing the practices. The research asserts that one of the main causes of failure for businesses is the involvement in unethical behaviour by employees, as well as top executives. The study identified issues associated with illegal funds transfer, unethical accounting, and corruption in the workplace. The research called on businesses to provide an ethical framework and the top management to remain committed to the terms of the code of conduct.

Anyim, Ufodiama, and Olusanya (2018) researched the Nigerian public to examine the effect of ethics standards and practices on public sector opinions. The study involved government agencies and parastatals and applied Chi-square statistics in hypotheses testing. The study reports that Nigeria's government does not include human resource departments in its ethics infrastructure and lacks a comprehensive ethics framework that forms the guiding principles of executives in the public sector. The result is that the public sector suffers from reputational damage due to many instances of reported corruption.

Barare (2018) affirms that the Kenya Revenue Authority is committed to ethical leadership in an investigation into the effect of the company's ethical leadership practices on its performance. The specific focus was on the effect of the leader's integrity, ethics training, ethical recruitment process, and ethical organization culture on the firms' performance. Descriptive as well as regressions were used in the analysis revealing a significant positive effect of ethical practices and culture on state firms' performance in terms of employee attraction and retention, efficiency, and image. Further, the study established that the organization's leaders must undergo routine training to keep them upraised with the best ethical considerations and to address the ethical gaps in state firms' engagements.

Shafique, Kalyar, and Ahmad (2018) reviewed the ethical leadership-job satisfaction, performance, and turnover intention nexus among tourist firms in Pakistan. Using structural equation modelling, the research reveals a strong positive influence of ethical leadership practices on employees' job satisfaction and performance. Further, the analysis findings point to the conclusion that ethical leaders harm turnover intentions. The study called on managers to have empathy and consideration of their employees as this will determine their ability to attract and retain quality employees who are key to sustained competitive advantage.

Kang (2019) conducted empirical research into the effect of ethical leadership, the perceived salience of an ethics code, and the leader-follower distance on employees' work performance. The study sourced data from four multinationals and used regressions in the analysis. The findings were that a manager's ethics and principles have a positive influence on the employees' perceived salience of the firm's ethics. This, in turn, resulted in improved performance output. Further, the study asserts that frequent interactions between the leader and the employee strengthen the impact of ethical leadership on employee performance.

Kwakye, Yusheng, and Gyau (2021) assessed the effect of organizational ethical behaviour on the profitability of Ghanaian firms. The study specified the effect of good ethical behaviour, corruption reduction, and nepotism reduction on return on assets using a cross-sectional survey approach. The analysis involved multiple regressions, revealing a significant association. The findings were that observable efforts to reduce corruption and nepotism have significant positive effects on the firm's ROA. Conclusions were that firms must implement policies that promote ethical leadership and reduce or eradicate corruption and nepotism to remain profitable and competitive.

Nginyo, Ngui, and Ntale (2018) focused on KenolKobil Company, Kenya, when investigating the influence of corporate governance structures on the firms' performance. The specific focus was on transparency, accountability, responsibility, and fairness in the firm's competitive position. The study analysed the quantitative data using descriptive and correlational analyses. The analysis determined that transparent, accountable, and responsible firms are more competitive and enjoy a larger market base. Recommendations were for firms to promote accountability through honest and independent audit committees and independent boards. The study also called for firms to embrace codes of conduct and cultivate a culture of internal support and communication.

2.3.1.4 Risk Governance Practices and Remuneration Control on Financial Accountability

Risk management protects firms from present and unforeseen risks, and effective risk management programs are core factors that influence strategic and risk appetite choices (Lundqvist, 2015). According to Andreas, Christine, and Diana (2021), companies operate in turbulent environments and deserve effective procedures that would improve their ability to identify, assess and manage the business, operational, market, liquidity, and credit risks. Koech (2018) opines that companies should have ethics committees, risk management committees, risk framework and metrics; risk information sharing competencies to effectively address emerging challenges.

Dewi, Azam, and Yusoff (2019) investigated the factors that influence the quality of information

reported by local governments in Indonesia by focusing on the internal control system and human resource competence. The study used path analysis on the collected data revealing a significant positive association between the variables and the quality of reported information. Further, the analysis also revealed that having competent human resources is essential to sustained quality financial reporting, which improves financial accountability and firm profits. The study called on appropriate oversight mechanisms to ensure the free and accurate flow of company information, as this reduces organizational malpractices.

Al-hadal, Alsamhi, Tabash, and Farhan (2020) reviewed the governance mechanisms applied by Indian and Gulf state countries on the performance of listed firms. The study used data reported between 2009 and 2016 and applied multiple regressions in the analysis. The findings of the analysis were that policies promoting board accountability and the degree of independence of the audit committees have insignificant effects on the firms' ROE and Tobin's Q. The findings also revealed that the quality of information reporting does not impact the firm's value but has a positive impact on its ROA. These studies were based on larger markets than the Kenyan market, which is still developing. This study conceptualized performance in terms of ROA and Tobin's Q, while the current measures it is using financial accountability.

Adeyemi and Olarewaju (2018) researched the effect of internal control systems on the financial accountability of public firms in Nigeria. The study proxied financial accountability in terms of effective and efficient financial operation, and compliance with applicable laws and regulations. The study sourced data from unit heads and accounting and audit representatives and applied descriptive analysis and regression techniques, showing a positive relationship between an organization's internal control systems and compliance, effectiveness, and efficiency in financial operations. Thus, improving the control environment, control activities, risk assessment, and information and communication mechanisms would enhance accountability in the public sector.

In Uganda, Olwol, Mpora, Kayongo, and Tukundane (2022) researched internal control systems and their effect on organizational accountability by focusing on the country's National Water and Sewerage Corporation. The company's risk assessment, control environment, control activities, and internal control systems formed the independent variables, and the cross-sectional survey study used quantitative and qualitative approaches in analysis. Findings were that internal control systems have a significant effect on the firms' accountability. The analysis singled out risk assessment capacity and the control environment as the most significant internal control activities that influence organizational

transparency, responsiveness, and compliance.

In another exploration, Eton, Fabian, and Benard (2022) examined the importance of internal control systems on the financial accountability of local governments in Uganda. The study also used a correlational design and regressions in the analysis of the extent of the relationship between the study variables. The findings were that internal control systems have a significant effect on public firms' financial accountability. This research singled out control environment and monitoring controls as the most influential internal control systems. However, control activities such as supervision, role identification and separation, and the top management commitment had insignificant effects on organizational accountability.

Kigen and Ndegwa (2021) researched the impact of governance structures and the performance of state firms with a specific focus on the Kenya Revenue Authority. The study targeted all employees and specified the effect of ethical practices, CEO duality, and audit committee competencies and independence on the state firm's non-financial performance. The study used regression, text analytics, and document analysis, to determine the significant impact of governance committees on the firm's reporting quality. The study also identified nomination committees' role in board appointments and succession planning which is essential for sustained transparency. The study concludes that it is necessary that state firms work with ethical leaders and stringent rules to tame unethical behaviour by a firm's executives since transparency remains an essential indicator of corporate performance.

2.3.1.5 Political Environment on Financial Accountability

Mustapha (2019) conducted an investigation into the effect of political institutions on public financial management in a study that used cross-country dataset reported by the Public Expenditure and Financial Accountability (PEFA). According to the analysis, the presence of ex-ante legislative budgetary institutions, better oversight institutions and more programmatic political party systems do not enhance the handling of public finances. However, there is evidence that PFM systems can be improved with the presence of multiple political parties controlling the legislature. The researcher affirmed that internal resistance is a more critical hindrance than weak capacity and that the wider political and institutional environments generate the incentives for reforming the PFM systems.

The research by Bandiyono (2019) was on the association between CG and political connections on the value of firms listed on the Indonesian Stock Exchange. The research sourced data from manufacturing firms reported between 2014 and 2016. The analysis involved panel data estimation with the results revealing that both variables under investigation had positive and significant effects on

firm value. Malaysia's Najaf and Najaf (2021) also sought after the effect of political ties on corporate performance of politically connected firms but utilized secondary data. From the literature analysis, the researchers' findings were that more efficient political systems produce firms with a good record of corporate performance. The researchers concluded that politicians, through their impact on reinforcing firm efficacy, influence performance outcomes.

Arslan and Alqatan (2020) explored the institutional factors that determine the implementation of good CG practices in Pakistan. Data was collected through semi-structured interviews involving CEOs, Directors, CG consultants and experts. The study revealed that apart from the political system, the country's culture, voting, auditing, legal as well as board values all influence the institution of good corporate practices. The researcher asserted that the firms relied on political connections in exchange for strategic advantages such as access to resources. However, conclusions were that board appointments are often appointed on connections rather than merit, which results in low-skilled people occupying higher positions.

While these studies mostly provide positive effects, according to Bartlett (2021), political connections tend to undermine the business performance of connected firms. The researcher used a cross-sectional design and relied on the BEEPS survey as the main data source for South East Europe. The researcher referred to the concept as "business capture", whereby politicians take control of state institutions through the appointment of politicians to company boards or outright ownership of firms by politicians or their family members. The researcher argued that political connections contribute to poor business and investment decisions, wasteful use of scarce resources and damaged corporate reputation and called for regulations that would reduce or eliminate business capture.

On the other hand, Balqis, Raharjo and Supratiwi (2022) opine that having political connections may have positive impacts on corporate performance. The research sourced secondary data which, upon analysis, led to the observation that political connectedness enhances firms' access to various benefits such as superior incentives, monitoring and succession frameworks, lower tax rates and cost of borrowing that enhance corporate performance. In Nigeria, Haladu and Bin-Nashwan (2022) also demonstrated that the political apparatus plays an important role in facilitating sustainability reporting. The researchers collected primary and secondary data reported between 2015 and 2019 and specified the moderating impact of policy administrators on the relationship between CG attributes and sustainability reporting. According to the researchers, inefficient environmental policy administration regimes have an interactive impact on the sustainability reporting of listed firms.

Locally, Oluoch, K'Aol and Kosha (2021) specified the moderating influence of regulatory frameworks on the relationship between strategic leadership and NGO's Financial Sustainability. The research utilized a descriptive correlational research design that investigated NGO CEOs and board members and applied correlational analysis whose findings were that regulatory frameworks do not have a significant moderating effects on firms' sustainability in the presence of strategic leadership. In the research by Mutuma, Iravo, Waiganjo and Kihoro (2017), the government policies directing resource redistribution, monitoring and evaluation were reported to have insignificant effects on a culture of shared responsibility within local governments. The study which sourced data from county government officials and relied on multiple regressions concluded that promoting strategies that encourage responsibility sharing would enhance service delivery at local levels of government.

2.4 Overview of Literature and Research Gaps

The studies reviewed above present valuable insights into different corporate governance frameworks and their impact on firm performance. Beji, Yousfi, Loukil, and Omri (2021), for instance, called for more women and nationalities to improve firms' international position. However, these findings vary from the findings made by Pakistan's Khan and Abdul Subhan (2019), whose study provided evidence that the number of female boards does not have a significant influence on an organization's decisions. Further, according to Sarhan, Ntim, and Al Najjar (2018), the diversity aspect becomes important when it comes to remuneration since distinct categories of earners within the organization encourage transparency. On the other hand, Nigeria's Nwezoku and Egbunike (2020) opine that while age and gender diversity improve tax aggressiveness, including tenure and non-executive diversity factors negated the effects. These studies only specified the diversity aspect of corporate governance.

In Jordan, Al Amosh and Khatib (2021) and Al-Gamrh, Al-Dhamari, Jalan, and Jahanshahi (2020) provided evidence that the ownership structure has a significant impact on a firm's transparency scores, with a high number of foreign owners/board members being associated with increased transparency. On the other hand, according to Anyim, Ufodiama, and Olusanya (2018), state firms should have updated and frequently quoted codes of ethics and standards of operation as these are useful for creating a culture of ethics and governance. The study used Chi-squares in analysis while the currently adopted regressions in analysis. The study by Dewi, Azam, and Yusoff (2019) used path analysis to assess the factors influencing the quality of financial reports, and Eton, Fabian, and Benard (2022) affirmed that the control environment has significant impacts on corporate governance frameworks. These researchers sought data from local governments, while the current specifically on state-owned firms. This study studied how these practices impact the transparency performance of state corporations in

Kenya. The section above details the main findings from the studies reviewed in the empirical review section. The gaps that were identified are summarized in Table 2.1 below.



Table 2.1 Literature Gaps

Author and year	The Focus of the study	Findings	Methodology and type of data	Research Gap and how to address the gap
Beji, Yousfi, Loukil and Omri (2021)	The effect of board characteristics on corporate responsibility	Board diversity and size have significant influences on an organization's corporate governance performance	Descriptive design Primary research data	This study was based in France which has differing cultures and control mechanisms for unethical behaviour. This study presented the findings about Kenyan culture.



Nwezoku and Egbunike (2020)	The relationship between board diversity and tax avoidance intention to commit tax fraud and avoidance	Gender and age increase while tenure and non-executive diversity factors had negative effects	Quantitative research data	This study presented a methodological gap, using Panel least squares while the current used regression in analysis.
Mwangi and Nyaribo (2022)	Effect of corporate governance structures and their impact on the performance of state firms in the education sector	Findings showed that corporate structures have a strong impact on ROA and Tobin's Q	Descriptive Primary research data	This study measured performance using financial measures while the current explored the same but in terms of non-financial performance
Al-Gamrh, Al-Dhamari, Jalan, and Jahanshahi (2020)	Influence of foreign ownership, board independence, and social performance of listed firms	The analysis revealed significant impact of ownership and financial performance	Descriptive Secondary research data	This study was based on UAE countries which are heavily reliant on export trade and operate under Islamic laws. These findings were extended to the Kenyan situation
Barare (2018)	The effect of ethical leadership practices on performance	The results indicated a significant positive effect of ethical practices and culture on state firms' performance in terms of employee attraction and retention, efficiency, and image.	Descriptive Primary research data	This was a case study limited to governance practices applied by one state firm.
Khan and Abdul Subhan (2019)	Impact of board diversity and audit on firm performance	Increased board diversity has insignificant effects on the performance of listed firms apart from gender diversity	Descriptive Primary research data	This study specified one CG practice while the current study expounded this study to other CG practices such as board

factors. Foreign membership also had negative impacts on audit performance

independence.



Vilakazi(2021) The impact of Gender diversity Descriptive board gender adherence has study, This study investigated non-financial performance interms of servicedelivery while thecurrent explored performance in terms of accountability scores.

Mustapha,2019) Political InstitutionsThe control of theDescriptive and PFMlegislature by study, This paper used a cross-country dataset which grouped multiple countries with different governance systems while the current on state firms in one country with a common governance system.

Bandiyono, 2019) The effect of good Political connections Descriptive corporate and CG practices have Primary governance and CG practices have Primary political connection significant positive research data on value firm influences on firm value while the current focused onstate-owned enterprises in Kenya.

Arslan and Role of Institutional systemsDescriptive Alqatan (2020) institutions in that are part of theresearch, Primary shaping corporate political system, the Primary governance system: country’s culture asresearch data evidence from well as board values emerging economy. all influence how firms implement CG practices culture as well as board

2.5 Conceptual Framework

The conceptual framework presents a diagrammatical representation of the relationship between the independent and dependent variables (Bell, Bryman, & Harley, 2022). The independent variables were the corporate governance factors while financial accountability was the dependentvariable.

Independent Variables

Moderator

Dependent variable

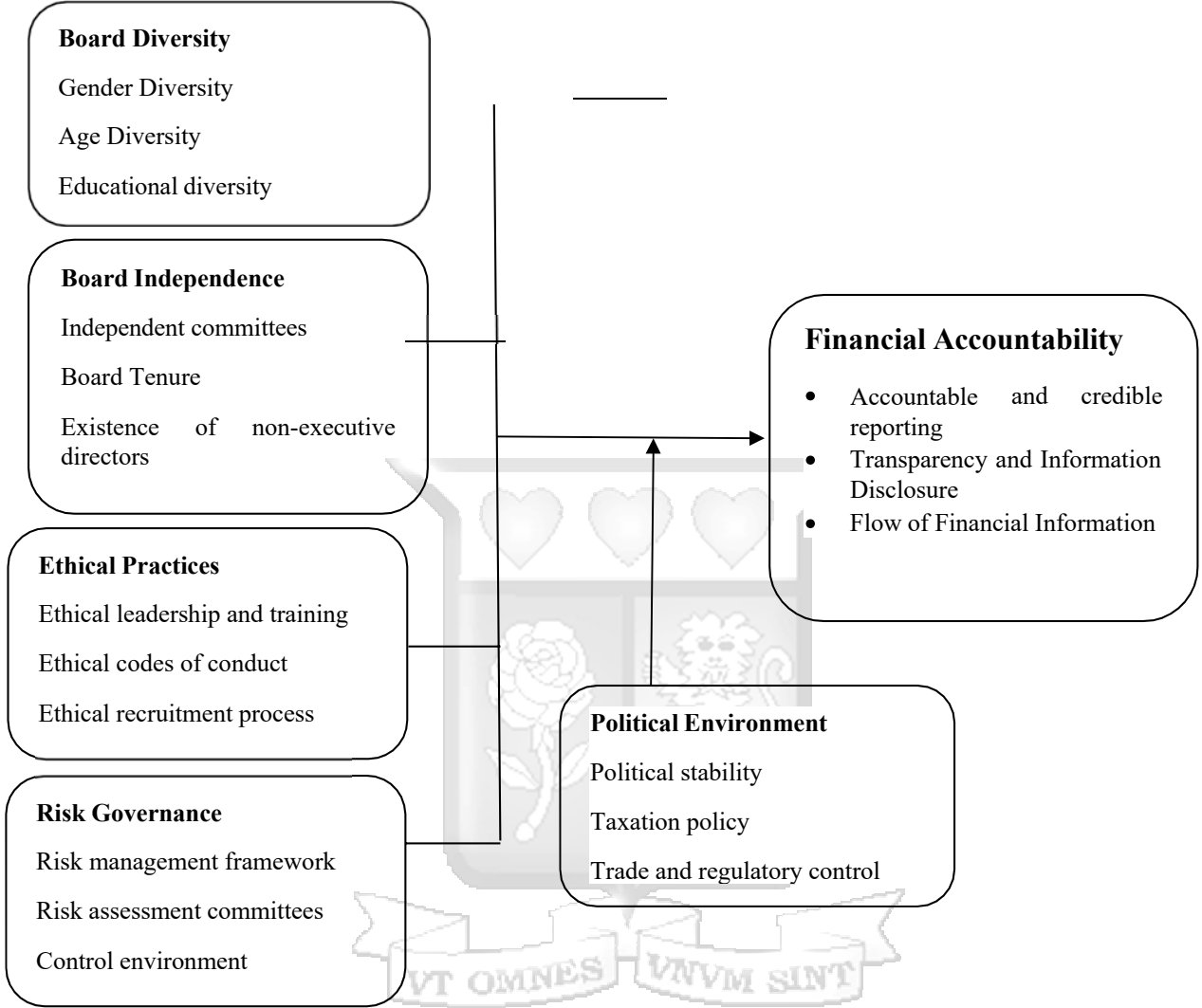


Figure 2.1 Conceptual Framework

The conceptual framework presents the interaction between the study variables. According to the figure, diverse boards that are independent and governed through ethical leaders are more financially accountable. Further, the figure postulates that while risk governance frameworks impact financial accountability, the state of political environment has a moderating effect on the relationship between corporate governance frameworks and financial accountability.

The study variables were operationalized and measured as indicated in Table 2.2 below.

Table 2.2 Operationalization of Variables

Variable	Indicators	Measurement	Supporting Literature
Financial Accountability	Accountable and credible reporting Transparency and Information Disclosure Flow of Financial Information	Semi-structured questionnaire (Likert Scale and Open-ended Statements)	(Adeyemi & Olarewaju, 2018)
Board Diversity	Gender Diversity Age Diversity Educational diversity	Semi-structured questionnaire (Likert Scale and Open-ended Statements)	(Ferrell, Harrison, Ferrell, & Hair, 2019)
Board Independence	Independent committees Board Tenure Existence of non-executive directors	Semi-structured questionnaire (Likert Scale and Open-ended Statements)	(Kariuki, Ombaka, & Mburu, 2021; Shafique, Kalyar, & Ahmad, 2018)
Ethical Practices	Ethical leadership and training Ethical codes of conduct Ethical recruitment process	Semi-structured questionnaire (Likert Scale and Open-ended Statements)	(Barare, 2018; Kwakye, Yusheng, & Gyau, 2021)
Risk Governance	Risk management framework Risk assessment committees Control environment	Semi-structured questionnaire (Likert Scale and Open-ended Statements)	(Adeyemi & Olarewaju, 2018)
Political Environment	Political stability Taxation policy Trade and Regulatory Control	Semi-structured questionnaire (Likert Scale and Open-ended Statements)	Aguilera and Grøgaard (2019), (Olubodun, 2019)

Source: Researcher, (2023)

2.6 Chapter summary

The study's second chapter carried out a review of the theories and empirical literature surrounding the relationships between corporate governance, the political environment and financial accountability. The chapter begins with a review of the theories and empirical analysis before providing a review of the research gaps, the conceptual frameworks and the table operationalizing the study variables.



CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

Chapter three of the research focuses on presenting the methodological techniques that systematically guided the conduct of the survey. The principal areas of the chapter are the research philosophy, design to be adopted, population of the research, sampling design and sample size, data collection instruments, research procedures, data analysis and presentation section as well as the ethical guidelines to be observed in conducting the research.

3.2 Research Philosophy

Research philosophy is the fundamental belief on the way data about a phenomenon must be collected, summarized, and analysed as well as a representation of the alternative philosophical orientations to knowledge and its justification (Saunders, Lewis, Thornhill, & Bristow, 2015). Positivism, upon which this research was anchored believes in the fact that reality is stable and can be observed and defined from an objective perspective without interfering with the phenomenon being studied (Cazeaux, 2017). The positivistic research philosophy was applicable in this research since the phenomenon under investigation sought to establish the relationship between the predictor variables and the financial accountability within state corporations in Kenya.

3.3 Research Design

The research design represents the conceptual foundation that governs the research procedures, data collection processes, and data analysis techniques (Adams, Khan, & Raeside, 2014). This study examined on a mixed research approach that was anchored on a descriptive research design. A descriptive research study was adopted in this research as it focuses on shading lighter on existing current matters or issues through a procedure of collecting data that facilitates the investigation of the issue or situation more elaborately than would be possible when using other methods (Sekaran & Bougie, 2016). More so, the design is appropriate when the study sought to describe various aspects of the phenomenon and its characteristics. This research is focused more on establishing the relation between corporate governance factors and financial accountability hence the design was appropriate in supporting this survey. Through application of a mixed research approach the study used quantitative and qualitative methods in achieving the objectives.

3.4 Target Population

A population is composed of a whole group of objects, events, or individuals that share common desirable and observable characteristics (Bell, Bryman, & Harley, 2022). As a result, the population forms the total elements from which a researcher can draw inference (Blumberg, Cooper, & Schindler, 2014). The target population for the study was the 138 state corporations (National Treasury and Planning, 2022; State Corporations, 2020). The unit of analysis was the state corporations in Kenya, with a unit of observation being the ranking officer in the finance/governance and compliance departments. The target participants for the study were 138 executives drawn from the state corporations in Kenya.

3.5 Sampling Design and Sample Size

Blumberg, Cooper and Schindler (2012) define sampling as a process by which a small number of individuals or events are selected from the entire population, and thus, they need to be clearly defined. According to Bell, Bryman and Harley (2022), a sampling frame is defined as the list of elements from which a sample may be drawn. The sample frame for this survey was drawn from the 138 state corporations in Kenya. A simple random sampling technique was utilized in selection of the respondents for this research. The simple random sampling technique was used in the selection of individuals from the state corporations in Kenya. The sample for the study was determined using the formula below.

$$n = \frac{N}{1 + N(e)^2}$$

where, n is the sample size, N is the total population, and e is the level of precision.

Thus; $n = \frac{138}{1 + 138(.05 \times .05)} = 102$ respondents

A sample was drawn for this study from 102-ranking officer in the finance/governance and compliance departments; drawn from the firms thus enhancing the representation of all the corporations and improving the quality of research data obtained. The selection of the senior personnel in the state corporations is based on their roles and responsibilities within the institutions which exposes them to knowledge on corporate governance and financial accountability of the state corporations thus can provide adequate and reliable responses on the study questionnaire.

3.6 Data Collection Instruments

Data collection method refers to the gathering of data for purposes of analyzing to be able to make inferences from the data. Research questionnaire is described as a tool for collecting semi-structured information (Sekaran & Bougie, 2016). According to Bell, Bryman and Harley (2022) a questionnaire provides an effective way of collecting information from a large sample in a brief period of time and at limited costs. This research used of semi-structured questionnaire as a method of collecting primary data from the field. The questionnaire captured both Likert scale statements and open-ended questions in line with the objectives of the study. The use of the two techniques in the research instrument enhanced the quality of the answers presented as well as enhance the results that was obtained from the research tool.

3.7 Data Collection Procedures

The research ensured that a systematic approach is adhered to while conducting the survey. Approval from the supervisor was needed before submitting the document to the institution for review. Secondly, the researcher sought clearance from the Institutional Review Board and the National Commission for Science Technology and Innovation. Further, informed consent was obtained from every individual participant before engaging in interviews/collecting research data. The study relied on physical data collection from the officials with Google forms only used where one-on-one data collection is not possible.

3.8 Research Quality

Bell, Bryman and Harley (2022) advised that, during the piloting stage, the researcher should assess the clarity of instructions, identify the questions that are clear, those that are ambiguous and whether there are omissions or items that are not relevant and need to be omitted or replaced. The study conducted a pretest of the research instrument with 10% (n= 15) of the sample size which supported research quality assessment through applying validity and reliability tests.

3.8.1 Validity Test

Validity refers to whether the administered instruments measure what they are expected to measure (Thanasegaran, 2009). Validity ensures the results obtained from a data accurately represent the phenomena under study (Roberts & Priest, 2006). The validity tests of the study were conducted with the help of the research supervisor who guided in ensuring the completeness of the research instrument thus enhancing the content validity of the tool. The study also conducted KMO-Bartlett Test to assess the sampling adequacy of the research instrument. Lastly, construct validity was

conducted to check whether all items operationalized in the research are included in the questionnaire to ensure the tool meets the objectivity and adequacy in answering the research problem.

Table 3.1 KMO and Bartlett's Test

Financial Accountability	Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		.796
	Bartlett's Test of Sphericity	Approx. Chi-Square	135.140
		df	15
		Sig.	.000
Board diversity	Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		.784
	Bartlett's Test of Sphericity	Approx. Chi-Square	158.262
		df	10
		Sig.	.000
Board independence	Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		.731
	Bartlett's Test of Sphericity	Approx. Chi-Square	156.021
		df	10
		Sig.	.000
Ethical practices	Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		.847
	Bartlett's Test of Sphericity	Approx. Chi-Square	159.312
		df	10
		Sig.	.000
Risk governance	Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		.785
	Bartlett's Test of Sphericity	Approx. Chi-Square	121.057
		df	15
		Sig.	.000
Political environment	Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		.692

Bartlett's Test of Sphericity	Approx. Chi-Square	132.966
	df	21
	Sig.	.000

Source: Research Data (2023)



The findings above focused on the sampling adequacy of the study data and suitability for factorization. The analysis focused on the Kaiser-Meyer-Olkin and the Bartlett's Test of Sphericity; from the results above all the research variables had KMO values that were above 0.6 indicating the sampling is adequate which enhances the validity of the research data. Further, the sphericity significance values were less than 0.5 signifying suitability of the research variables.

3.8.2 Reliability Test

Reliability is the extent to which research instruments are expected to yield consistent outcomes or data on repeated measurements (Roberts & Priest, 2006). The Cronbach's alpha index was computed using SPSS statistical software (version 25) to aid the computations. As a rule of thumb, the Cronbach Alpha score should be above 0.7 to ensure there is internal consistency in the research instrument. This was key to ensuring reliability in the questionnaire which is key to meeting the objectives of the research.

Table 3.2 Reliability Test

Reliability Statistics	Cronbach's Alpha	N of Items
Financial accountability	.798	6
Board diversity	.837	5
Board independence	.815	5
Ethical practices	.855	5
Risk governance	.785	6
Political environment	.773	7

Source: Research Data (2023)

The Cronbach's alpha coefficient ranges from 0 to 1 and alpha coefficients of 0.70 and above are considered appropriate. The results above indicated that all the study variables had an alpha score above 0.7 showing there was highly reliability in the instrument because they all had alpha coefficients greater than the minimum acceptable alpha of 0.70.

3.9 Data Analysis and Presentation

Data analysis is the systematic process that applies statistical techniques to evaluate data through inspecting, changing, and modelling data to derive fundamental information for sound decision-making (Leavy, 2017). The study adopted a quantitative approach in the analysis of the collected research data. Both descriptive and inferential analysis techniques was applied in the study. The

descriptive analysis involved the use of percentages, frequencies, means, and standard deviation. The inferential analysis involved the application of correlation and regression testing to estimate the relationship between the independent variables and the dependent variable. Qualitative data collected was analysed using content analysis techniques in line with the objectives of the study. The results of the study were presented using charts and tables with the below regression model applied in testing the relationship between research variables. The moderating variable was tested using hierarchical regression analysis.

$$Y = \alpha + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \epsilon$$

Where: Y = Dependent Variable financial accountability of state corporations independent variables, which include:

X_1 is board diversity

X_2 is board independence

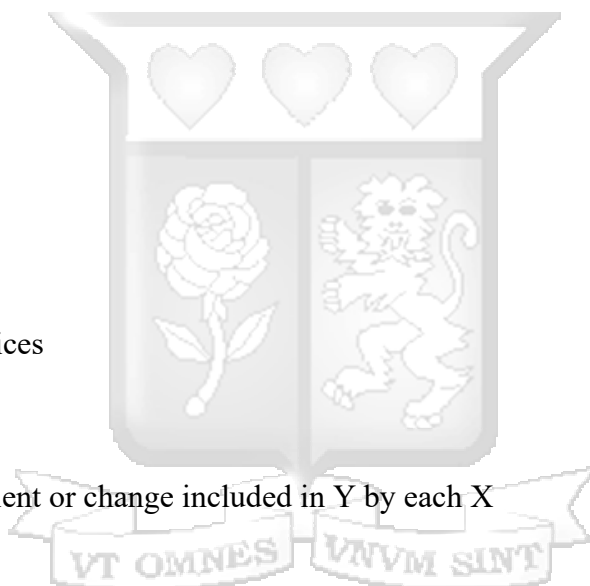
X_3 is ethical practices

X_4 is risk governance practices

α = the constant

β_{1-4} = the regression coefficient or change included in Y by each X

ϵ = error term



3.10 Ethical Considerations

The study considered that all ethical guidelines were observed in the study process. The research made sure that all participant's confidentiality is maintained during the study with their anonymity guaranteed during data collection. The respondents were presented with an informed consent form indicating their rights and the aims of this research. Further, necessary approvals from Strathmore University and NACOSTI was sought before starting the data collection process. The collected research data was utilized only for the stated academic goals with the results only disseminated to the participants as requested. The study ensured that all quoted materials are properly referenced and the plagiarism guidelines by the institution are observed during the research.

CHAPTER FOUR

PRESENTATION OF RESEARCH FINDINGS

4.1 Introduction

This chapter is important in the research process as it presents the various findings from the analysis of the collected data. The main sections in this chapter are the background profile of the firms, the descriptive analysis, correlation tests and the regression findings.

4.2 Response Rate

The study aimed to collect data from a sample of 102 state-owned corporations in Kenya within the headquarter offices in Nairobi County. Semi-structured questionnaires were utilized with drop and pick method preferred in the data collection as well as Google forms to assist in electronic data collection. The survey obtained 80 responses which presented a 78% response rate which was reliable for utilization in quantitative analysis of the interaction between the predictor variables and financial accountability of the state-owned corporations.

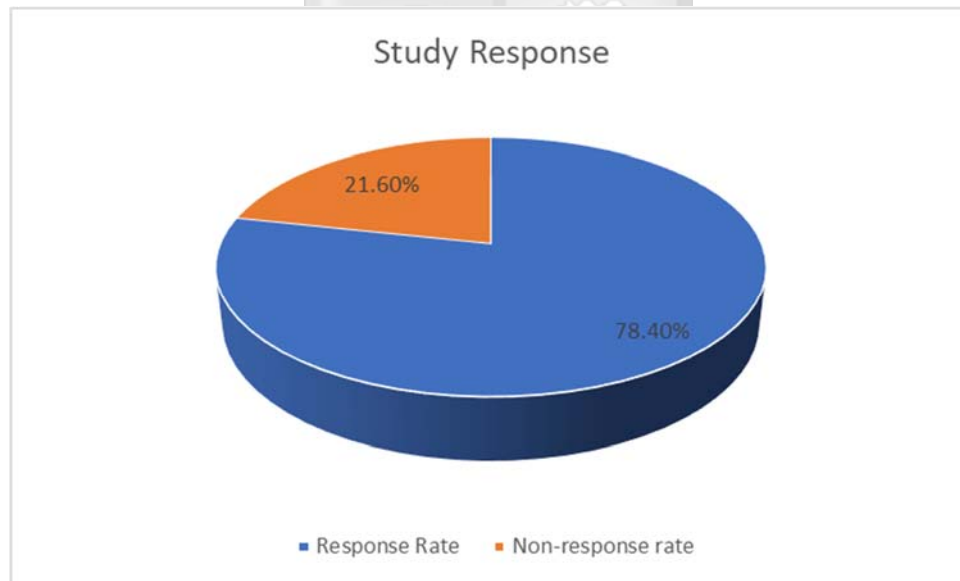


Figure 4.1 Response Rate Source: Research Data (2023)

4.3 Background Data

The survey examined various demographic characteristics of the participants and the state-owned corporations and results are shown in this section.

4.3.1 Department Presented by Participants

The researcher was interested in determining the departments the respondents were drawn from within the corporations and findings are shown in Table below.

Table 4.1 Department of Participants within the State-Owned Enterprise in Kenya

	Frequency	Percent
Finance	28	35.0
Governance	40	50.0
Compliance	12	15.0
Total	80	100.0

Source: Research Data (2023)

The results revealed that majority of participants 50% (n = 40) were drawn from the governance department with finance department drawing in 35% (n = 28) of the responses. The analysis showed responses were obtained from various departments within the firms thus the respondents provided relevant information on their experiences on the governance issues and financial accountability in the firms.

4.3.2 Position held by Participants

The survey queried respondents on their position within the corporation and findings indicated that 39% held a middle-level management position, 36% were senior managers and only 25% were junior employees in the corporation. The results demonstrate there was divergent views provided by the different level of employees which can enhance the quality of information obtained from the field work.

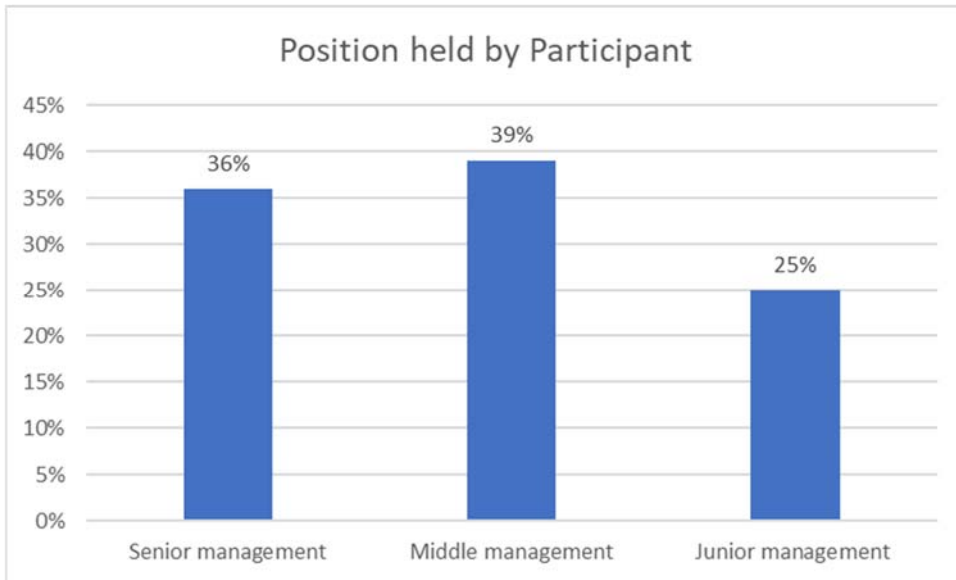


Figure 4.2 Position of the ParticipantSource: Research Data (2023)

4.3.3 Education level of Respondent

The research analyzed the education attainment among the respondents and results indicated that 64% (n = 51) of the respondents had a Masters degree with 36% having a bachelors degree showing higher educational qualification among personnel within the state-owned corporations in Kenya.

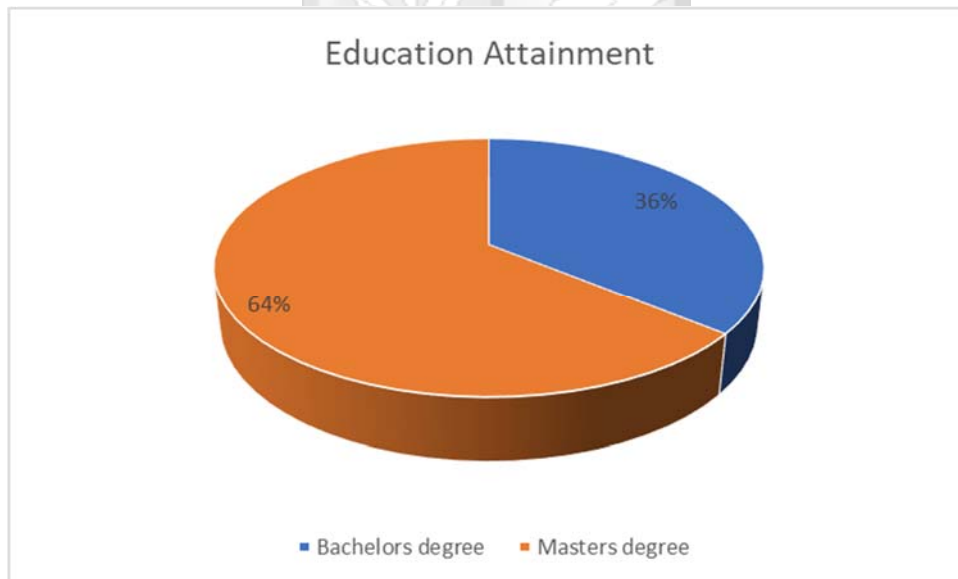


Figure 4.3 Education Attainment among RespondentsSource: Research Data (2023)

4.3.4 Length of Existence of State-Owned Corporation

The research was interested in understanding how long the state-owned enterprises have been in existence and findings are shown below.

Table 4.2 Length of State Corporation Existence

	Frequency	Percent
4-6 years	6	7.5
7-10 years	14	17.5
11-15 years	16	20.0
16-20 years	18	22.5
Over 21 years	26	32.5
Total	80	100.0

Source: Research Data (2023)

Out of the sampled firms, 32% (n = 26) have operated for over 21 years, 22% (n = 18) for between 16-20 years, 17% (n = 14) have been in existence for 7-10 years. The results reveal that firms considered have been in operation for a varying time thus have been exposed to changes in their financial accountability and how it has been impacted by governance factors.

4.3.5 Industry of Operation for State Corporations

The study reviewed the industry which the state-owned corporations are operating, and the summary of results is shown below.

Table 4.3 Industry of State-Owned Corporation

	Frequency	Percent
Agriculture	12	15.0
Energy	10	12.5
Education	11	13.8
Transport	14	17.5
Telecommunication	3	3.8
Finance	10	12.5
Health	7	8.8
Water and Sanitation	9	11.3
Other	4	5.0
Total	80	100.0

Source: Research Data (2023)

Most of the firm's 17% (n= 14) were operating within the transport industry, 15% in the agriculture industry, 12% in energy sector and finance sector respectively while only 4% were in the telecommunication sector.

4.3.6 Funding of State-Owned Corporations

The analysis focused on the funding source for the state-owned corporations and results revealed that 56.3% were funded through combination of government and internal revenue, 15% through only internal revenue and 28.7% from only government sourcing. This indicated that state-owned corporations have diversified their ownership as shown by the divergent sources of funding used by the firms.

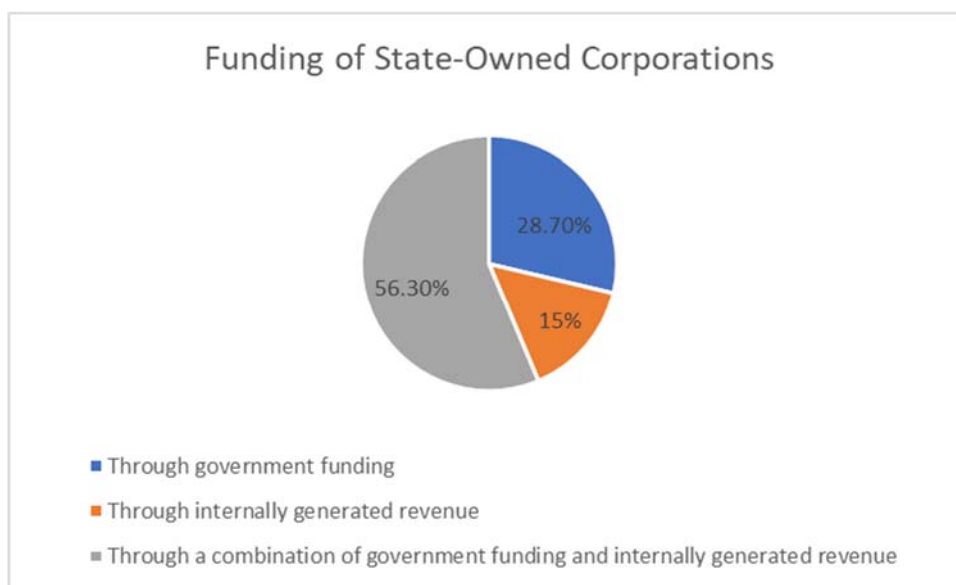


Figure 4.4 Source of Funding for State-Owned Corporations Source: Research Data (2023)

4.3.7 Summary of Mwongozo Code

The research indicated that all the participants were aware of the Mwongozo code of governance in existence in Kenya. Further, most of the respondents indicated that the code of governance is fully implemented within their respective organizations with moderate utilization in a few of the firms within the country. The participants also acknowledged that the guidelines in Mwongozo Code of Governance can be sufficient for promoting financial accountability in state corporations in Kenya. However, lack of enforceability and being a legal requirement/mandate has made the application of the code not strictly adhered to within the state-owned enterprises. The participants also noted there is need for the code to be aligned to the unique needs of each corporation to

enhance its' effect. Further, there is need to refocus the code to both corporate and financial governance aspects to help drive its effectiveness within state corporations in Kenya.

Regarding gaps in the Mwongozo code of governance respondents showed there was lack of professional competence by some board members, increased political interference in the corporations, conflict of interests and lack of alignment to mandates of the firms. Further, the changes in the management of the corporation during election cycles impacted the code. There was consensus among respondents that to improve Mwongozo code of governance there is need to harmonize the guideline, support legislation of the various entities and align it to best recognized standards. Further, to amplify financial accountability there is need for the firms to adopt a holistic approach that encompasses strong internal controls, stakeholder engagement, proper legislation, supportive political environment, compliance to board composition requirements, effective oversight, and a culture of total transparency and accountability.

Analysis also showed that 70% of the firms were affected by political interference, 74% by limited funding, 66% lack of autonomy, 61% corruption and unethical behavior, 48% inadequate governance and management structure. The results also indicated there was minimal challenges emanating from limited skilled labor (22%), lack of board understanding of specialized entities (18%) and leadership strategies (16%). Participants noted that for the state-owned enterprises to ensure financial accountability and transparency in its operations there is need for complete compliance with regulatory requirements, timely and accurate financial reporting (97%), robust internal controls and audit practices (96%) and disclosure of conflict of interest (94%),

4.4 Descriptive Analysis

The main research tool utilized ordinal Likert scale in obtaining responses from the participating officials on various financial accountability and governance factors statements. The Likert scale utilized was a 5-point and the means were interpreted using the following key; above 4.20 = very great extent, 3.50 – 4.19 = to a great extent, 2.50 – 3.49 = to a moderate extent, 1.50 – 2.49 = to a little extent, less than 1.49 to no extent at all.

4.4.1 Financial Accountability

The dependent variable for the survey focused on financial accountability of state-owned enterprises and the findings are shown in Table 4.4

Table 4.4 Descriptive Analysis of Financial Accountability

	N	Sum	Mean	Std. Deviation
The corporation has instituted policies to enhance the provision of accountable financial reporting	80	309.00	3.8625	.85305
The corporation has invested in systems to ensure that credible reporting is provided to various agencies and the public	80	270.00	3.3750	1.19466
The corporation maintains rules to improve on transparency in the financial disclosures	80	292.00	3.6500	.94266
The corporation has systems in place to ensure there is free flow of financial information	80	264.00	3.3000	1.09545
The corporation supports open information disclosure to enhance accountability among the public	80	273.00	3.4125	.89575
The corporation has put in place advanced internal control systems and procedures to enhance quality of financial reporting	80	266.00	3.3250	1.01601

Source: Research Data (2023)

Respondents revealed to a great extent (mean = 3.862, dev = .853) the corporation has instituted policies to enhance the provision of accountable financial reporting. The research showed to a moderate extent (mean = 3.375) the corporation has invested in systems to ensure that credible reporting is provided to various agencies and the public. Findings indicated to a moderate extent the corporation has put in place advanced internal control systems and procedures to enhance quality of financial reporting (mean = 3.325, dev = 1.016). The participants revealed to a moderate extent the corporation has systems in place to ensure there is free flow of financial information (mean = 3.300, dev = 1.095).

4.4.2 Board Diversity

The first governance factor considered in the survey was the level of board diversity and summary of responses is shown below.

Table 4.5 Descriptive Analysis of Board Diversity

	N	Sum	Mean	Std. Deviation
The corporation ensures that the board is constituted with professionals of diverse age levels	80	276.00	3.4500	1.30141
The corporation has ensured there is regional balance/diversity within the board members	80	234.00	2.9250	1.24041
The corporation board is constituted of members of different gender demographics to improve diversity	80	271.00	3.3875	1.09653
The corporation board is constituted with individuals with varying technical skills to improve the professionalism	80	284.00	3.5500	.97954
The corporation board has members with diverse education backgrounds to enhance the diversity level	80	282.00	3.5250	1.05513

Source: Research Data (2023)

Findings demonstrated to a great extent the corporation board is constituted with individuals with varying technical skills to improve the professionalism as shown by mean of 3.550. (mean = 3.525)the corporation board has members with diverse education backgrounds to enhance the diversity level. Results showed to moderate extent the corporation has ensured there is regional balance/diversity within the board members (mean = 2.925, dev = 1.240).

4.4.3 Board Independence

The second factor of governance considered was board independence and the responses from the participants are in Table 4.6

Table 4.6 Descriptive Analysis of Board Independence

	N	Sum	Mean	Std. Deviation
The corporation board has non-executive members within the team to improve independence	80	288.00	3.6000	1.08616
The corporation board ensures the selection of executive members is independent to improve on the performance of duties	80	263.00	3.2875	1.29452
The corporation board has included outside directors within the team to enhance the independence level	80	277.00	3.4625	.99293
The corporation board ensures that selection of new members is transparent to maintain the independence of the team	80	239.00	2.9875	1.21690
The corporation board tenure is entrenched in the bylaws and guidelines of the firm to minimize any undue interference from external members	80	277.00	3.4625	1.24213

Source: Research Data (2023)

The results demonstrated to a great extent the corporation board has non-executive members within the team to improve independence (mean = 3.600). The analysis revealed a mean of 3.462 showing to a moderate extent corporation board has included outside directors within the team to enhance the independence level. Further findings showed to a moderate extent the corporation board ensures that selection of new members is transparent to maintain the independence of the team as noted by mean of 2.987 with deviation of 1.216

4.4.4 Ethical Practices

The third factor considered in the survey was ethical practices and the results of the research are shown in Table 4.7

Table 4.7 Descriptive Analysis of Ethical Practices

	N	Sum	Mean	Std. Deviation
The corporation ensures that recruited leadership team exhibits ethical leadership	80	290.00	3.6250	.93287
The corporation routinely undertakes ethical retaining for employees to ensure compliance to all corporate guidelines	80	261.00	3.2625	.99038
The corporation has instituted a strict ethical code of conduct that all employees are expected to adhere to	80	283.00	3.5375	.99293
The corporation undertakes ethical recruitment to ensure the personnel team recruited is above board	80	273.00	3.4125	.98974
The corporation routinely reviews the ethical guidelines to ensure they are consistent with standard laws/regulations	80	254.00	3.1750	1.08820

Source: Research Data (2023)

The respondents noted to a great extent the corporation ensures that recruited leadership team exhibits ethical leadership as shown by mean of 3.625. (mean = 3.537) the corporation has instituted a strict ethical code of conduct that all employees are expected to adhere to with a deviation of .992. The research showed to a moderate extent the corporation routinely reviews the ethical guidelines to ensure they are consistent with standard laws/regulations (mean = 3.175).

4.4.5 Risk Governance Practices

The fourth variable considered in the survey focused on risk governance practices and the analysis is shown below.

Table 4.8 Descriptive Analysis of Risk Governance Practices

	N	Sum	Mean	Std. Deviation
The corporation maintains a risk monitoring system to ensure no inherent risks expose the firm to losses	80	274.00	3.4250	.86822
The corporation regularly reviews the risk management framework to help manage any potential risks	80	266.00	3.3250	.92470

The corporation has constituted a risk assessment team that actively engages industry experts to monitor and manage any risks to the firm	80270.00	3.3750	.94635
The corporation has developed clear set of standards, processes to support the internal control actions in the firm	80283.00	3.5375	.81043
The corporation has clear rules on assignment of authority and responsibility to ensure there is coordination in the team	80271.00	3.3875	.93448
The corporation board of directors regularly collaborates with the audit committee to help improve our internal risk analysis processes	80270.00	3.3750	.97273

Source: Research Data (2023)

The review indicated to a great extent the corporation has developed clear set of standards, processes to support the internal control actions in the firm (mean = 3.537). Respondents showed to a moderate extent the corporation board of directors regularly collaborates with the audit committee to help improve our internal risk analysis processes (mean = 3.375). Research showed that the corporation has constituted a risk assessment team that actively engages industry experts to monitor and manage any risks to the firm (mean = 3.375). A mean of 3.325 indicated that to a moderate extent the corporation regularly reviews the risk management framework to help manage any potential risks.

4.4.6 Political Environment

The final variable adopted in the study focused on the political environment and analysis is shown in Table 4.9

Table 4.9 Descriptive Analysis of Political Environment

	N	Sum	Mean	Std. Deviation
The political oversight of the state corporations leads to effective utilization of public finances	80	253.00	3.1625	1.14122
The political leaders in the country have put in place adequate policies and systems to enhance the financial management of the corporation	80	230.00	2.8750	1.22604

The review of the corporation activities by political leadership creates bureaucracies that limit the effectiveness of the corporations	80	285.00	3.5625	1.10056
The recruitment of political cronies within state corporations erodes the capacity of institutions to meet their accountability goals	80	321.00	4.0125	1.14177
The continuous political pressure creates external influences on the independence of the state corporations	80	325.00	4.0625	1.05954
The current taxation policies advanced by the political leadership negatively impact the financial accountability of the corporations	80	282.00	3.5250	1.17973
The various policies on resource distribution to corporations by the political leadership impacts the capacity to run state entities efficiently	80	319.00	3.9875	.92084

Source: Research Data (2023)

The mean 4.062 indicated that to a great extent continuous political pressure creates external influences on the independence of the state corporations. Findings showed that to a great extent the recruitment of political cronies within state corporations erodes the capacity of institutions to meet their accountability goals (mean = 4.012, dev = 1.141). The results showed to a great extent the various policies on resource distribution to corporations by the political leadership impacts the capacity to run state entities efficiently (mean = 3.987). To a moderate extent (mean = 3.162) respondents noted that political oversight of the state corporations leads to effective utilization of public finances. The study exhibited to a moderate extent the political leaders in the country have put in place adequate policies and systems to enhance the financial management of the corporation (mean = 2.875, dev = 1.226).

4.5 Correlation Analysis

The research responses were ordinal in nature which meant the appropriate correlation tests to be used in the study was Spearman rank correlation. The aim of the correlation coefficient is to determine the strength and direction of the relationship between dependent and independent variables.

Table 4.10 Correlation Test

Financial Accountability			Board Diversity	Board Independence	Ethical Practices	Risk Governance	Political Environment	
Spearman's rho	Financial Accountability	Correlation Coefficient	1.000					
		Sig. (2-tailed)	.					
		N	80					
Board Diversity	Board Diversity	Correlation Coefficient	.578**	1.000				
		Sig. (2-tailed)	.000	.				
		N	80	80				
Board Independence	Board Independence	Correlation Coefficient	.436**	.713**	1.000			
		Sig. (2-tailed)	.000	.000	.			
		N	80	80	80			
Ethical Practices	Ethical Practices	Correlation Coefficient	.583**	.718**	.608**	1.000		
		Sig. (2-tailed)	.000	.000	.000	.		
		N	80	80	80	80		
Risk Governance	Risk Governance	Correlation Coefficient	.547**	.681**	.596**	.571**	1.000	
		Sig. (2-tailed)	.000	.000	.000	.000	.	
		N	80	80	80	80	80	
Political Environment	Political Environment	Correlation Coefficient	.266*	.180	.209	.343**	.252*	1.000
		Sig. (2-tailed)	.017	.109	.063	.002	.024	.
		N	80	80	80	80	80	80

** Correlation is significant at the 0.01 level (2-tailed).

* Correlation is significant at the 0.05 level (2-tailed).

Source: Research Data (2023)

The correlation results above affirmed there was a strong positive and significant relation between board diversity and financial accountability in State Owned Enterprises in Kenya ($\rho = .578^{**}$, $\text{sig} = .000$). Findings showed a moderate and positive relation ($\rho = .436^{**}$, $\text{sig} = .000$) between board independence and financial accountability in State Owned Enterprises in Kenya. The study further confirmed a strong positive and significant relation between ethical practices and financial accountability in State Owned Enterprises in Kenya ($\rho = .583^{**}$, $\text{sig} = .000$). The results revealed that political environment had a weak and significant positive effect ($\rho = .266^*$, $\text{sig} = .017$) and financial accountability in State Owned Enterprises in Kenya.

4.6 Regression Analysis

The research adopted regression analysis to assess the relationship between the independent variables and financial accountability. Further, interaction term was introduced in the model to estimate the moderating effect and findings are presented in this section.

4.6.1 Corporate Governance Factors and Financial Accountability

The first regression focused on the relationship between corporate governance factors financial accountability in State Owned Enterprises in Kenya.

Table 4.11 Regression Summary Corporate Governance Factors and Financial Accountability

Model	R	Model S R Square	Summary Adjusted R Square	Std. Error of the Estimate
1	.630 ^a	.397	.365	.56566

a. Predictors: (Constant), Risk Governance, Ethical Practices, Board Independence, Board Diversity

ANOVA^a

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	15.823	4	3.956	12.363	.000 ^b
	Residual	23.998	75	.320		
	Total	39.821	79			

a. Dependent Variable: Financial Accountability

b. Predictors: (Constant), Risk Governance, Ethical Practices, Board Independence, Board Diversity

Coefficients^a

Model		Unstandardized Coefficients		Standardized	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	1.196	.364		3.285	.002
	Board Diversity	.198	.125	.248	1.587	.117
	Board Independence	-.027	.104	-.034	-.259	.796
	Ethical Practices	.215	.099	.241	2.171	.004
	Risk Governance	.288	.141	.257	2.041	.045

a. Dependent Variable: Financial Accountability

Source: Research Data (2023)

The first set of the regression analysis focused yielded a R^2 (.397) which is the coefficient of determination indicating that holding all other factors constant at least 39.7% of the changes in financial accountability of state-owned corporations can be determined by the corporate governance factors. The findings showed that variables not considered in the model account for

60.3% variation in financial accountability. Further analysis of the statistical significance of the model revealed a F -calculated = 12.363, $\text{sig} = .000 < .05$ indicating that statistically there was a positive and significant relationship between corporate governance factors and financial accountability of state-owned firms in Kenya.

The resulting regression model can be plotted as follows.

$$Y = 1.196 + .198X_1 + -.027X_2 + .215X_3 + .288X_4 + .364$$

The findings on board diversity revealed a coefficient .198 with $\text{sig} = .117 > .05$ showing there was a positive and insignificant effect of board diversity on the financial accountability of the state-owned enterprises. The results on the second variable board independence had a coefficient -.027 with $\text{sig} = .796 > .05$ showing there was a negative and insignificant effect of board independence on the financial accountability of the state-owned enterprises.

The research findings on the third variable ethical practices indicated a coefficient .215 with $\text{sig} = .004 < .05$ showing there was a positive and significant effect of ethical practices on the financial accountability of the state-owned enterprises. Thus, changing ethical practices by a unit will significantly lead to better financial accountability by a score of .215 in the firms. The analysis of risk governance practices yielded a coefficient .288, $\text{sig} = .045 < .05$ showing there was a positive and significant effect of risk governance practices on the financial accountability of the state-owned enterprises. Thus, changing risk governance practices by a unit will positively predict the level of financial accountability by a score of .288 in the firms.

4.6.2 Corporate Governance Factors, Political Environment and Financial Accountability

The second regression model was customized to include the interaction term assessing the moderating effect of political environment on the relationship between corporate governance factors and financial accountability of state-owned enterprises.

Table 4.12 Regression Corporate Governance Factors, Political Environment and Financial Accountability

Model	Model S		Summary	Error of the Estimate
	R	R Square	Adjusted R Square	
1	.630 ^a	.397	.365	.56566
2	.631 ^b	.399	.358	.56889

a. Predictors: (Constant), Risk Governance, Ethical Practices, Board Independence, Board Diversity

b. Predictors: (Constant), Risk Governance, Ethical Practices, Board Independence, Board Diversity, Political Environment

ANOVA^a

Model	Sum of Squares	df	Mean Square	F	Sig.	
1	Regression	15.823	4	3.956	12.363	.000 ^b
	Residual	23.998	75	.320		
	Total	39.821	79			
2	Regression	15.872	5	3.174	9.809	.000 ^c
	Residual	23.949	74	.324		
	Total	39.821	79			

a. Dependent Variable: Financial Accountability

a. Predictors: (Constant), Risk Governance, Ethical Practices, Board Independence, Board Diversity

b. Predictors: (Constant), Risk Governance, Ethical Practices, Board Independence, Board Diversity, Political Environment

Coefficients^a

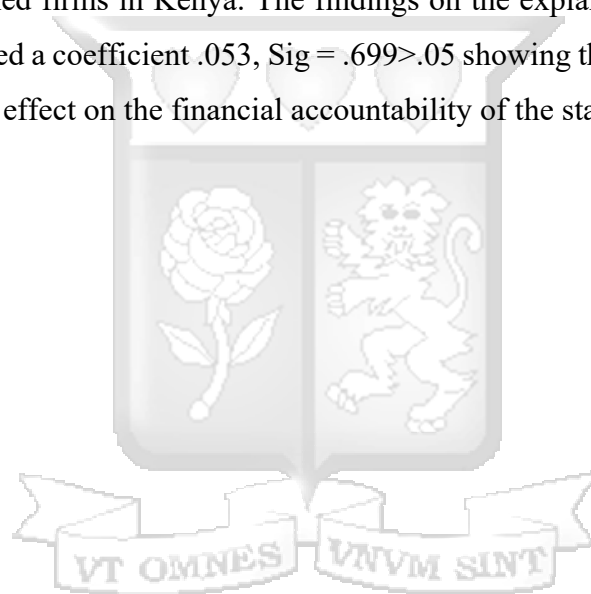
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error			
1	(Constant)	1.062	.504		2.108	.038
	Board Diversity	.203	.126	.254	1.607	.112
	Board Independence	-.029	.105	-.036	-.272	.786
	Ethical Practices	.205	.122	.230	1.680	.097
	Risk Governance	.279	.144	.248	1.937	.057
	Political Environment	.053	.136	.038	.388	.699

a. Dependent Variable: Financial Accountability

Source: Research Data (2023)

The second regression model results showed an improvement in the R^2 (.399) which is the coefficient of determination indicating that holding all other factors constant at least 39.9% of the changes in financial accountability of state-owned corporations can be determined by the corporate governance factors and the political environment. This indicates political environment does positively improve the moderate the relationship between corporate governance factors and the financial accountability of state-owned firms.

Further ANOVA analysis of the statistical significance of the model revealed a F -calculated = 9.809, $\text{sig} = .000 < .05$ indicating that statistically there was a positive and significant moderating effect of political environment on the relationship between corporate governance factors and financial accountability of state-owned firms in Kenya. The findings on the explanatory effect of the variable political environment yielded a coefficient .053, $\text{Sig} = .699 > .05$ showing that political environment has a positive and insignificant effect on the financial accountability of the state-owned enterprises.



CHAPTER FIVE

DISCUSSION, CONCLUSION AND RECOMMENDATION

5.1 Introduction

This is the study's final chapter, and it focuses on the study's summary, the conclusions that were drawn from the study's findings and the recommendations that can be suggested to improve corporate governance and financial accountability among state firms. The study also makes recommendations that future scholars should explore.

5.2 Summary

State corporations have been instrumental to the development of society, serving as the main avenue for governments to deliver public services. They have been instrumental in the delivery of health, education, transport and other critical services and they continue to account for a significant portion of economic activity. Due to their influence, inefficient or poorly managed state corporations pose significant economic and financial risks and can be costly when they have to be granted subsidies, loans, or capital injections. Containing such risks requires effective financial supervision and oversight. This research focused on examining whether corporate governance structures have any significant impact on the financial accountability of state-owned corporations in Kenya. The study was based on the agency and stakeholder theories and was anchored on a descriptive research design.

The study targeted 138 executives drawn from the state corporations in Kenya, obtaining a 78% response rate. Majority of the respondents were aware of the Mwongozo code which governs state owned enterprises in Kenya, with the analysis revealing that most of the respondents were governance and finance departments. Of these, only 39 percent held senior positions, indicating a high degree of autonomy within the institutions. Most of the firms have been in existence for more than 21 years, indicating longevity in the operations of state corporations in Kenya and experience with policies instituted by different ruling regimes. The analysis further revealed that most of the state firms relied on government funding, with some using other strategies to source funding.

The study used the Spearman rank correlation in analysis with the results affirming that there is a significant correlation between corporate governance factors, political environment, and the operational performance of state corporations in Kenya. The first regression set relied on regression analysis which revealed that corporate governance factors (board diversity, board

independence, ethical practices, risk governance practices) can predict changes in the financial accountability in State Owned Enterprises in Kenya. The second regression model incorporated the political environment as a moderating factor on the relationship between corporate governance factors and financial accountability of state-owned enterprises and the results revealed that jointly, corporate governance factors and the political environment contributed to 39.9 percent of variations in state firms' financial accountability. The regression results revealed that while the political environment, board diversity as well as the board independence factors had insignificant impacts on the state firms' financial accountability, ethical practices and risk governance factors have positive and significant effect on the state firms' financial accountability.

5.3 Discussion

5.3.1 Board Diversity and Financial Accountability

The results of the analysis pointed to the conclusion that within state corporations, board diversity does not have a significant effect on financial accountability. The implication of this finding is that as constituted, the board diversity practices adopted by state corporations in terms of gender diversity, age diversity and professionalisms and education qualifications do not have a significant association with financial accountability. These observations had been made by Carter, et al., (2010) which found no significant association between the degree of gender or ethnic diversity of the board, or important board committees, and financial performance among major firms in the US. This finding is contrary to Jensen and Meckling (1976) in their assertions which suggested that diverse boards are more disciplined and can be the key to minimizing the agency problems between managers and shareholders. Furthermore, according to Sarhan, Ntim, and Al Najjar (2018), in North Africa, gender diversity has significant influences on organizational remuneration which is a key factor of organizational expenses. The researchers also add that diversity in terms of age has significant impacts on the firms' ability to access government finances or carry out fundraising.

The respondents indicated that to a large degree, the corporation board is constituted with individuals with varying technical skills which has positive impacts on financial accountability. Abang'a et al., (2021) had also reported that professional diversity has positive effects on firm performance in terms of responsiveness and compliance. The researchers were of the opinion that Mwongozo Code of Corporate Governance provisions should call for an increase in the number of women representatives on board as well as the number of directors with doctoral qualifications.

There was also agreement among the researchers that to a moderate extent, the corporations' boards have members with diverse education as well as regional backgrounds as a means of increasing diversity. This kind of diversity, according to Nwezoku and Egbunike (2020), who added age diversity has significant influences on manufacturing firms' tax aggressiveness and compliance.

The respondents were also in agreement that the corporation's board is constituted of members of different gender demographics. The researchers Beji et al., (2021) had revealed that while diversity in terms of experience improves corporate responsibility, gender diversity had positive effects on human rights dimensions while national diversity enhanced environmental performance as well as community involvement. However, in South Africa, Vilakazi's (2021) review found no significant influence of increasing the number of female executives on state firms' ability to meet their non-financial goals. Pakistan's Khan and Abdul Subhan (2019) had earlier determined that while having females on boards enhances performance, their number does not significantly influence performance outcomes.

5.3.2 Board Independence and Financial Accountability

The research also concluded that board independence within state corporations does not have significant effect on the corporation's financial accountability. This implies that increasing the size of independent committee members and committees, setting board tenure limits, and ensuring that the positions of non-executive director are secure does not guarantee that the state corporations will remain financially accountable. This finding is contrary to those of Agency theorists who consider the board to have oversight over the firm's CEO and ensure the CEO act in the best interests of the firms' shareholders. These theorists argue that having an independent board would better monitor managers but that large boards would increase the agency cost and reduce financial performance.

There was agreement among respondents that the corporations' boards have included outside directors within the board to enhance the level of board independence. The researchers Al-Gamrh, Al-Dhamari, Jalan, and Jahanshahi (2020) had also ascertained that outside independent board members play an important role in monitoring the activities of Arab owners which would otherwise result in negative socio-economic performance. Al Amosh and Khatib (2021) also revealed that the board's independence moderates the quality of disclosures and reduces the

influence of block holder owners in disclosure decisions. The study revealed that having independent board members improve the quality of financial disclosures released by listed firms.

In Ghana, Amartey, Yu, and Chukwu-lobelu (2019) opined that banks have a heavy reliance on quality audit committees as well as internal and external auditors to enhance accountability. This observation was made in the current research whereby respondents revealed that the firms have indeed increased the number of non-executive members within the board. However, findings from Kaawaase, Nairuba and Akankunda (2021) revealed that despite the number of expert board members increasing the quality of reporting in Uganda's financial sector, the composition of independent executives had insignificant effects. The study called on state firms to ensure they have board members with doctorate degrees. In addition, it was revealed that in the state firms, the board's tenure is enshrined in the bylaws and guidelines of the firm which minimizes any undue interference from external members. However, Nwezoku and Egbunike (2020) reported that tenure and non-executive diversity factors had negative effects on fraud control and prevention.

The respondents also showed that the board has a high number of non-executive members in the team. Wachira's (2019) analysis on listed firms revealed that boards characterized by dispersed ownership, a higher percentage of non-executive directors and foreign owners, and a reasonable number of women are more transparent about risks facing the firm. However, this study did not examine how being more transparent on these risks can impact the firms' financial accountability. Malaysia's Yusoff, Ahman, and Darus (2019) was also of similar opinion. In the study, among listed firms, board size was revealed as the only aspect of governance that improves the quality of reporting, transparency, and accountability. On the other hand, stipulations on board independence, board meetings and diversity did not significantly influence the firms' degree of accountability.

5.3.3 Ethical Practices and Financial Accountability

The research findings also led to the conclusion that ethical practices have positive and significant effects on the financial accountability of state corporations suggesting that corporate state firms which promote ethical behaviours will realize a high degree of financial accountability. The finding thus suggests that the firms should make sure they have ethical leaders, engage in ethical training, promote ethical practices through ethical codes of conduct and enforce an ethical recruitment process to improve the degree of financial accountability. Freeman's (1984)

stakeholder theory promotes an efficient, effective, and ethical approach in leadership management, calling on all management decisions to incorporate an ethical component, arguing that this is key to improved firm performance. Freeman (1984) avers that firms can expect employees to reciprocate the treatment they receive and calls on leaders to adopt an ethical approach in recruitment, remuneration and stakeholder engagement. According to Kang (2019), managers' ethics rubs off on employees, asserting that the leader-follower distance has a positive influence on employees' perceived salience of the firm's ethics.

There was agreement among respondents that the corporations ensure that they recruit leaders who exhibit ethical leadership qualities. In the literature review by Turyakira (2018), involvement in unethical practices such as illegal funds transfer, financial misallocation, and unethical accounting by employees as well as top executives is one of the main causes of business failure. The study revealed that to increase the management's commitment to an ethical code of conduct, the corporations have instituted a strict ethical code of conduct that all employees are expected to adhere to. Turyakira (2018) called on businesses to provide an ethical framework that would compel the top management to remain committed to the terms of the code of conduct. Furthermore, Anyim, Ufodiama, and Olusanya (2018) argued that government agencies and parastatals lack a comprehensive ethics framework that forms the foundation of the guiding principles that executives follow. In the study by Kim and Thapa (2018), anti-corruption policies and initiatives to punish corrupt executives led to a significant increase in the net profit margin of listed firms in Singapore.

The respondents further revealed that the state firms undertake ethical recruitment to ensure the personnel team recruited is open and ethical. According to Kwakye, Yusheng, and Gyau (2021), firms with ethics committees are more likely to recruit employees based on their competency, rather than on connections or corruption, which in turn improves competitiveness and operational performance. According to Shafique, Kalyar, and Ahmad (2018), ethical leadership practices have positive influences on employees' job satisfaction and performance. The respondents also agreed that the corporation routinely undertakes ethical retaining of employees to ensure compliance to all corporate guidelines, a practice which according to Nginyo, Ngui, and Ntale (2018) has had significant positive impacts on the performance of KenolKobil Company. The researchers opined that the company's ethics framework had improved consumer perception of the firm's accountability which resulted in a large number of committed consumers.

5.3.4 Risk Governance Practices and Financial Accountability

The study finally concludes that risk governance has a positive and significant effect on the financial accountability of state-owned enterprises in Kenya. This finding implies that corporate firms which have instituted risk management frameworks, risk assessment committees and a control environment are financially accountable. Proponents of the agency theory ascertain that the way in which managements respond to challenges and emerging issues, as well as manage risks has significant impacts on organizational performance. Risk averse managements will adopt appropriate risk mitigation techniques that would shield shareholders from risks they know or maynot be aware of. Furthermore, Andreas, Christine and Diana (2021) argued that having risk averse managements increases firms' ability to identify, assess and manage the business, operational, market, liquidity, as well as credit risks.

The study analysis revealed that the corporation has clear rules on assignment of authority and responsibility which has improved internal coordination. Furthermore, there was agreement that the corporation has developed a clear set of standards and processes to support the internal controlactions in the firm. Uganda's Olwol, Mpora, Kayongo, and Tukundane (2022) research on internalcontrol systems revealed that risk management committees that determine risk metrics, among other functions provide a strategic direction for firms in terms of risk identification and control. The researchers revealed that appropriate internal control enhances transparency, responsiveness,and compliance. In India, however, Al-ahdal et al., (2020) revealed that firms with policies on independence of the audit committees as well as board accountability are more profitable and lessexposed to financial risks.

The respondents were also in agreement that the board of directors at the state firms regularly collaborate with the audit committee to help in internal risk analysis and that risk assessment teamsthat actively engage industry experts in monitoring and managing firm risks have been constituted. This, according to Kigen and Ndegwa (2021) is one of the roles of the governance committees which sets the rules and structures to identify and manage internal and external risks. The researchers Eton, Fabian, and Benard (2022) also singled out the control environment andmonitoring controls as the most influential factors determining local governments' financial

accountability. Adeyemi and Olarewaju (2018) complemented these assertions in their analysis which revealed that the organization's internal control systems have significant impacts on compliance, effectiveness, and efficiency of state firms' financial operations.

5.3.5 Political Environment and Financial Accountability

The study findings also lead to the conclusion that the political environment does not have significant effect on the financial accountability of state-owned corporations. This shows that the political environment has a moderating effect on the relationship between the state-owned firms' corporate governance structures and their degree of financial accountability. The agency theory asserts that the government is the agent of the people and has to create a conducive environment as well as offer the support that state corporations need in order to deliver their mandate. However, the theory also acknowledges that politicians can act in self-interest and take advantage of public goods and services. As per the study's findings, the political class may not be adequately representing the needs of members of the public and can do more to create a competitive operating environment. Indeed, according to Balqis, Raharjo and Supratiwi (2022), political connectedness enhances firms' access to incentives, lower tax rates and cost of borrowing which has positive influences on corporate performance. Malaysia's Najaf and Najaf (2021) also found a positive influence of efficient political systems on firms, record of corporate performance.

The respondents agreed that to a great extent continuous political pressure creates external influences on the independence of the state corporations. Furthermore, the respondents agreed that the recruitment of political cronies within state corporations erodes their capacity to meet their accountability goals. These observations had been made in Southeast Europe by Bartlett (2021) who revealed that 'business capture' as a concept is a result of increased interference in appointments or firm ownership by politicians to state firms. This research also concluded that a high degree of political interference is harmful to financial accountability as well as compliance to tax laws. There was a high degree of agreement that the various policies on resource distribution by politicians impacts state firms' capacity to operate effectively. Similarly, Pakistan's, Arslan and Alqatan (2020) also revealed that while state firms relied on political connections for resources, firms with a high degree of appointees chosen out of political favor were less effective and exhibited a low degree of professionalism.

The respondents also revealed that the political leadership has significant influences on policies and processes that can result in bureaucracies that limit organizational effectiveness. Specifically, the respondents agreed that the government's taxation policies are not conducive for financial accountability. The researchers Haladu and Bin-Nashwan (2022) had ascertained that the political class can advance ineffective policies that in turn impact accountability factors within state firms. The researchers Oluoch, K'Aol and Kosha (2021), for instance, revealed that in Kenya, the regulations instituted to manage NGO boards is not conclusive and does not compel the firms to be more financially accountable.

There was also minimal agreement among respondents that political oversight of state corporations leads to effective utilization of public finances. Mustapha (2019) had also asserted that the presence of ex-ante legislative budgetary institutions, better oversight institutions and more programmatic political party systems do not enhance the handling of public finances. Instead, the researcher called on firms to slowly change their culture, policies, and processes to reduce the internal resistance to change that has plagued commercial state firms.

5.4 Conclusions

The findings of the study led to the conclusion that corporate governance factors (board diversity, board independence, ethical practices, risk governance practices) have positive and significant effects on the financial accountability of State-Owned Enterprises in Kenya. This shows that the state firms can increase their financial accountability through the application of proper corporate governance practices. The study findings also lead to the conclusion that the political environment does not have significant effect on the financial accountability of state-owned corporations. However, corporate governance factors and the political environment jointly have positive effect on the state-owned firms' financial accountability. This shows that the political environment has a moderating effect on the relationship between the state-owned firms' corporate governance factors and their degree of financial accountability.

The results of the analysis pointed to the conclusion that within state corporations, board diversity does not have a significant effect on financial accountability. The implication of this finding is that as constituted, the board diversity practices adopted by state corporations in terms of gender diversity, age diversity and professionalisms and education qualifications do not have a significant association with financial accountability. The research also concluded that board independence

within state corporations does not have significant effect on the corporation's financial accountability. This finding leads to the implication that increasing the size of independent committee members and committees, setting board tenure limits, and ensuring that the positions of non-executive director are secure does not guarantee that the state corporations will remain financially accountable.

The research findings also led to the conclusion that ethical practices have positive and significant effects on the financial accountability of state corporations suggesting that corporate state firms which promote ethical behaviours will realize a high degree of financial accountability. The finding thus suggests that the firms should make sure they have ethical leaders, engage in ethical training, promote ethical practices through ethical codes of conduct and enforce an ethical recruitment process to improve the degree of financial accountability. The study finally concludes that risk governance has a positive and significant effect on the financial accountability of state-owned enterprises in Kenya. This finding implies that corporate firms which have instituted risk management frameworks, risk assessment committees and a control environment are financially accountable.

Overall, the findings found out that political factors do have a positive moderating effect on the relationship between corporate governance factors and financial accountability of State-Owned Enterprises in Kenya. This showed through improved political support, limited political interference and better policies can lead to improved financial accountability of State-Owned Enterprises in Kenya.

5.5 Recommendations

The results revealed that when well constituted and implemented, corporate governance factors have significant effects on the degree of financial accountability of state-owned enterprises in Kenya. However, board diversity and board independence had insignificant effects while ethical practices and risk governance practices had significant positive effects on the firms' financial accountability. Therefore, for state firms to increase the degree of financial accountability, the study recommends that they embrace the best governance practices and ensure that these practices specifically address how to properly manage shareholders' assets, provide adequate risk management and that the codes of conduct and standards of operation are enforced in day-to-day operations and not just put in writing. The study also calls on the government of Kenya to

encourage the state firms to implement corporate governance practices through enacting rules and regulations on risk management and resource control, while at the same time limiting the states' direct involvement in state firms' decision making and board appointments.

As instituted, the study concluded that board diversity does not have significant influences on the financial accountability of state corporations. The study recommends that the code governing state firms prioritizes diversity in terms of technical skills and professional competencies, as well as age rather than gender. This is because while professional and technical skills influence organizational decision making, and age diversity influences the degree of innovation and fund raising which are both essential to organizational competitiveness. The study also recommends that the firms encourage ethnic diversity since the stakeholders, as well as consumers, are from various ethnic groups and a more inclusive board signals inclusion and representation. Finally, the study recommends that young directors be included into the board since this would form a critical element of the firms' succession planning.

The study also concluded that board independence indicators do not significantly affect the firms' financial accountability and recommendations are for the state firms to ensure that while they have stipulations for independent board members, these should be matched with a similar number to non-independent board members. This is because political interference was increasingly having an influence on the firms' appointment of board members. The study recommends that the state firms adopt a unitary board system which increases the degree of board independence and improves the speed of decision making. This system would also increase the clarity of roles and responsibilities within the organizations. Furthermore, the study recommends that the firms re-examine their selection criteria to ensure their board members are more independent. The study also calls on the firms to ensure they have a high proportion of outside executives who are not involved in the day-to-day operations of the corporation.

Ethical practices were determined to have positive and significant effects on the firms' financial accountability and recommendations are for the firms to develop training programmes for their managers as well as board members to cultivate a culture of responsibility and ethical practices as a determinant factor. The study also recommends that the state firms create provisions for an ethics committee whose role would be to promote ethical and responsible behaviours within the organization as well as ethics and compliance systems.

The analysis of risk governance practices revealed that they have a positive and significant effect on financial accountability of the state-owned enterprises and recommendations are for the state firms to ensure they have properly vetted, ethical and independent audit committees which would increase the board's ability to properly carry out its oversight and monitoring role. The study also calls on the firms to ensure that among the board members are some with accounting skills as this would increase their understanding of corporate risks, detection mechanisms and risk management protocols. The study further calls on the government to develop sector specific governance frameworks that would complement the guidelines from the Mwongozo code of governance. Finally, the study calls on the government to enact legislations that makes the provisions of the Mwongozo code mandatory and not just mere suggestions.

5.6 Limitations of the Study

This study was limited to exploring the stipulations contained in the Mwongozo code of governance. This code was only introduced in 2018 and has not yet been fully implemented in all the state firms. Further, the research determined that some of the new board members are not aware of the code and its stipulations. The study was also limited to firms which have been asked to adhere to the stipulations in the code of governance. This study calls on a more inclusive exploration that would incorporate opinions on corporate governance from firms not tied to the Mwongozo code. This includes those recommended in OECD's corporate governance code.

The study also faced challenges in data collection, acknowledging that some of the respondents were not available or were working from home. This challenge was mitigated by providing the respondents with adequate time to respond to the research questions. Where the executives were not accessible physically, google forms were utilized. The study also limited itself to disclosed proxy data which may not be the actual representation of the corporate governance practices adopted by the state firms.

5.7 Areas for Further Research

The study calls on more analysis into how corporate governance practices not stipulated in the Mwongozo code impacts firm accountability. Further, the study recognizes that corporate governance is not adopted to enhance only financial outcomes and calls on more exploration into the association between corporate governance and non-financial performance among state firms. In the same breath, the study also calls on examination into how non-state firms respond to corporate governance policies and practices. The study also calls into further exploration into the

individual effects of CG factors such as board diversity on state firms' financial decisions and accountability.



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APPENDICES

Appendix I: Ethical Review Committee Approval



13th April 2023

Ms Muyonga Truphena,
truphena.muyonga@strathmore.edu

Dear Ms Muyonga,

**RE: Examining the Nexus between Corporate Governance and Financial
Accountability: A Case of State-Owned Enterprises in Kenya**


This is to inform you that SU-ISERC has reviewed and **approved** your above **SU- master's** research proposal. Your application reference number is **SU-ISERC1662/23**. The approval period is from **13th April 2023 to 12th April 2024**.

This approval is subject to compliance with the following requirements:

- i. Only approved documents including (informed consents, study instruments, and MTA) will be used
- ii. All changes including (amendments, deviations, and violations) are submitted for review and approval by SU-ISERC.
- iii. Death and life-threatening problems and serious adverse events or unexpected adverse events whether related or unrelated to the study must be reported to SU-ISERC within 48 hours of notification
- iv. Any changes, anticipated or otherwise, that may increase the risks or affect the safety or welfare of study participants and others or affect the integrity of the research must be reported to SU-ISERC within 48 hours
- v. Clearance for the export of biological specimens must be obtained from relevant institutions.
- vi. Submission of a request for renewal of approval at least 60 days prior to the expiry of the approval period. Attach a comprehensive progress report to support the renewal.
- vii. Submission of an executive summary report within 90 days of completion of the study to SU-ISERC.

Before commencing your study, you will be expected to obtain a research license from National Commission for Science, Technology, and Innovation (NACOSTI) <https://research-portal.nacosti.go.ke/> and obtain other clearances needed.

Yours sincerely,


for: **Dr Ben Ngoye,**
Secretary; SU-ISERC

Cc: Mr Ambrose Rachier,
Chairperson; SU-ISERC



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Thursday, 13 April 2023

To Whom It May Concern,

RE: FACILITATION OF RESEARCH – TRUPHENA MUYONGA

This is to introduce Truphena Muyonga who is a **Master's in Public Policy and Management (MPPM)** student at Strathmore University Business School, admission number MPPM 137506. As part of our MPPM Program, Truphena is expected to do applied research and undertake a project. This is in partial fulfilment of the requirements of the MPPM course. To this effect, she would like to request for appropriate data from your organization.

Truphena is undertaking a research paper on "**Examining the Nexus Between Corporate Governance and Financial Accountability in State-Owned Enterprises in Kenya.**" The information obtained from your organization shall be treated confidentially and shall be used for academic purposes only.

Our MPPM Program seeks to establish links with industry, and one of these ways is by directing our research to areas that would be of direct use to industry. We would be glad to share our findings with you after the research, and we trust that you will find them of great interest and of practical value to your organization.

We appreciate your support and shall be willing to provide any further information if required.

Yours Faithfully,

A handwritten signature in black ink, appearing to read "Njoki Kiagiri".

Njoki Kiagiri.
Manager – Graduate Programs.
Strathmore University Business School



Appendix II: Participant Consent Form

Participant Information and Consent Form Title of the Proposed Study:

An Analysis of Corporate Governance Issues Influencing Financial Accountability in State Owned Enterprises in Kenya.

Section I:

Investigator:

Truphena Muyonga

Institutional Affiliation: **Strathmore Business School (SBS)**

Section II: Information Sheet–The Study

: Why is this study being carried out?

The research is being undertaken as a partial requirement for the academic award of Masters of Business Administration Degree. The intent of the research was purely for the academic purposes and no research data sought was utilized beyond that parameter.

: Do I have to take part?

No, your participation in the study was upon your own willingness. Even upon consent to take part in the study, the respondent can decline to take part in the study at any point within the course of the exercise. The study will ensure that all participants are aware of their rights to cease their participation at any point of the research.

: Who is eligible to take part in this study?

The study will only be open to the selected executive management personnel drawn from the selected state corporations in Kenya.

: Who is not eligible to take part in this study?

The research will not consider responses from any firm or officials not from State Corporations in Kenya.

: What will taking part in this study involve for me?

The researcher will only seek your opinion in filling up selected items on **An Analysis of Corporate Governance Issues Influencing Financial Accountability in State Owned Enterprises in Kenya.**

The researcher will require you to go through the items in the questionnaire and respond to them to the best of your knowledge and without bias.

: Are there any risks or dangers in taking part in this study?

The study poses no risk whatsoever to the respondents. The participation in this study was beneficial to all the state corporations in addressing financial accountability and how to improve their corporate governance.

: Are there any benefits of taking part in this study?

The findings of this study were beneficial to various stakeholders within the public sector in improving the financial accountability and the management of corporate governance issues and the political environment.

: What will happen to me if I refuse to take part in this study?

There is no risk to non-participants whatsoever. Participation in the study is entirely voluntary.

: Who will have access to my information during this research?

All the accessed research data was treated with utmost confidentiality and will not be disclosed to any person who is not party to the research process. If required, the findings of the research can be communicated to your office through a formal request to the institution or me. The study will also provide the participating institutions with a copy of the findings of this research upon request to support any practical implications they may harness from the results.

: Who can I contact in case I have further questions?

Any query can be directed to me Truphena Muyonga. *Any further information can be sought from my Research Supervisor **Dr. Bernadette Wanjala** through Strathmore Business School*

If you want to ask someone independent anything about this research, please contact:

The Secretary–Strathmore University Institutional Ethics Review Board, P. O. BOX 59857, 00200, Nairobi, email ethicsreview@strathmore.edu Tel number: +254 703 034 375

I, _____, have had the study explained to me. I have understood all that I have read and have had explained to me and had my questions answered satisfactorily. I understand that I can change my mind at any stage.

Please tick the boxes that apply to you.

Participation in the research study

I AGREE to be part of the research ()

I DO NOT AGREE to be part of the research ()

Storage of information on the completed questionnaire

I AGREE to have my completed questionnaire stored for future data analysis () I DO NOT AGREE to have my completed questionnaire stored for future data analysis ()

Participants Name:

Participants Signature: Date:

I, _____ (Name of person taking consent) certify that I have followed the SOP for this study and have explained the study information to the study participant named above, and that s/he has understood the nature and the purpose of the study and consents to the participation in the study.

Signature: Date:

Name: Truphena Muyonga

Appendix III: Research Questionnaire

Greetings,

I'm Truphena Muyonga a student at Strathmore University currently pursuing a Masters degree in Public Policy and Management. I'm conducting a survey on analysis of corporate governance issues influencing financial accountability in State Owned Enterprises in Kenya and suggest policyoptions.

Kindly assist in filling the attached questionnaire and all information being sought in thisquestionnaire was purely for academic purposes. Thanks in advance.

Researcher.

Part A: Background Information

Which department do you work within the state-owned enterprise in Kenya?

Finance department ()

Governance department ()

Compliance departments ()

What position do you hold within the state-owned enterprise in Kenya?

Senior Management ()

Middle Management ()

Junior Management ()

Other position

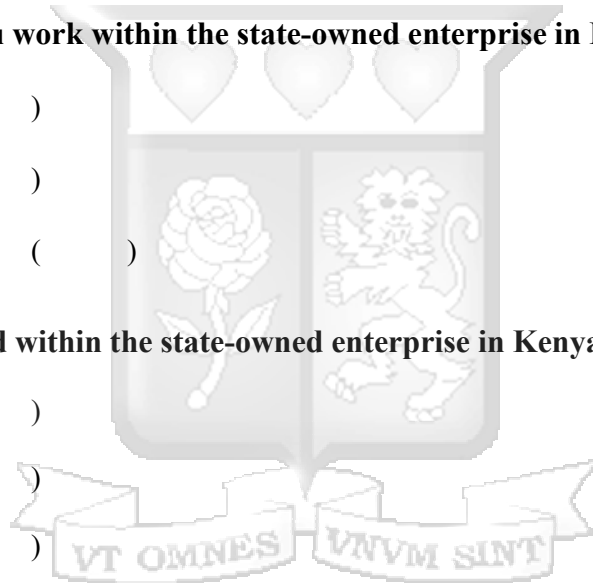
How long have you been employed in your current position?

.....

What is your highest education attainment?

Bachelor degree()

Master's degree ()



Other.....

How long has the state-owned enterprise been in existence?

Less than 3 years ()

4-6 years ()

7-10 years ()

11-15 years ()

16-20 years ()

Over 21 years ()

In which industry does the state-owned enterprise operate within?

Agriculture ()

Energy ()

Education ()

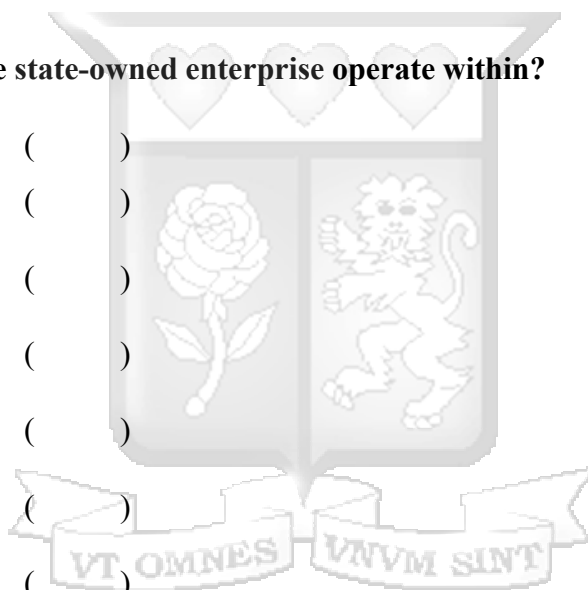
Transport ()

Telecommunication ()

Finance ()

Health ()

Water and Sanitation ()



Other.....

How is the state – owned enterprise funded?

Through government funding ()

Through internally generated revenue () Through a combination of government funding and internally generated revenue () Other

Are you familiar with the Mwongozo Code of Governance for State Owned Enterprises in Kenya?

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

To what extent has the SOE incorporated the guidelines from the Mwongozo code of Governance in your operations?

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

In your opinion, are the guidelines in Mwongozo Code of Governance sufficient for promoting financial accountability in state corporations in Kenya?

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

Can you name any gaps or emerging issues you have noticed in the implementation of the Mwongozo Code of Governance? Or instances of non-compliance with this framework?

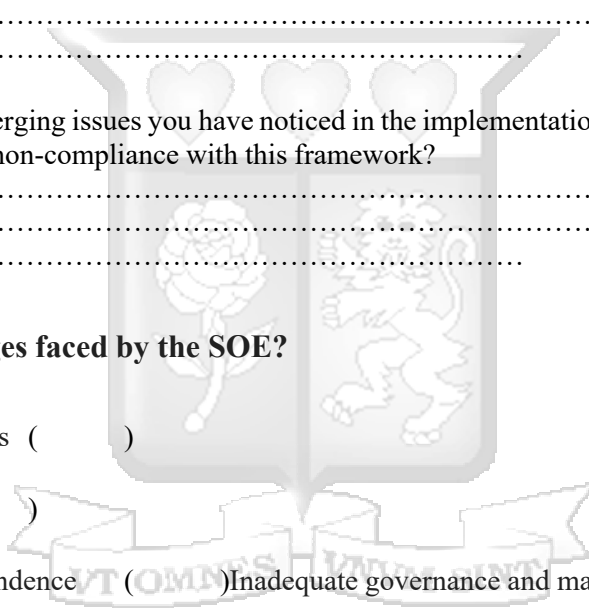
.....
.....
.....

What are the key challenges faced by the SOE?

Limited Funding and resources ()

Political interference ()

Lack of autonomy and independence () Inadequate governance and management structures ()



Corruption and unethical behaviour ()

Other (please specify)

How does the SOE ensure financial accountability and transparency in its operations?

Timely and accurate financial reporting ()

Robust internal controls and audit processes () Disclosures of conflicts of interest and related party transactions () Compliance with regulatory requirements ()

Other (please specify).....

What policy solutions or suggestions can you provide to the corporations in using corporate governance frameworks to address financial accountability?

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

PART B: ANALYSIS OF CORPORATE GOVERNANCE ISSUES INFLUENCING FINANCIAL ACCOUNTABILITY IN STATE OWNED ENTERPRISES IN KENYA

Kindly indicate your extent of agreement with the following statements using the shown scale below.

1= Not extent at all, 2= To little extent, 3 = To a moderate extent, 4= To a great extent and 5 =To a very great extent.

Financial Accountability		1	2	3	4	5
1.	The corporation has instituted policies to enhance the provision of accountable financial reporting					
2.	The corporation has invested in systems to ensure that credible reporting is provided to various agencies and the public					

3.	The corporation maintains rules to improve on transparency in the financial disclosures					
4.	The corporation has systems in place to ensure there is free flow of financial information					
5.	The corporation supports open information disclosure to enhance accountability among the public					
6.	The corporation has put in place advanced internal control systems and procedures to enhance quality of financial reporting					

Kindly indicate your extent of agreement with the following statements using the shown scale below.

1= Not extent at all, 2= To little extent, 3 = To a moderate extent, 4= To a great extent and 5 =To a very great extent.

Board Diversity		1	2	3	4	5
1.	The corporation ensures that the board is constituted with professionals of diverse age levels					
2.	The corporation has ensured there is regional balance/diversity within the board members					
3.	The corporation board is constituted of members of different gender demographics to improve diversity					
4.	The corporation board is constituted with individuals with varying technical skills to improve the professionalism					
5.	The corporation board has members with diverse education backgrounds to enhance the diversity level					

6. Can you give any specific examples of how a diverse board has positively impacted financial accountability in your corporation?

.....

Kindly indicate your extent of agreement with the following statements using the shown scale below.
 1= Not extent at all, 2= To little extent, 3 = To a moderate extent, 4= To a great extent and 5 =To a very great extent.

Board Independence		1	2	3	4	5
1.	The corporation board has non-executive members within the team to improve independence					
2.	The corporation board ensures the selection of executive members is independent to improve on the performance of duties					
3.	The corporation board has included outside directors within the team to enhance the independence level					
4.	The corporation board ensures that selection of new members is transparent to maintain the independence of the team					
5.	The corporation board tenure is entrenched in the bylaws and guidelines of the firm to minimize any undue interference from external members					

6. Can you give any specific examples of how an independent board has positively impacted financial accountability in your corporation?

.....

Kindly indicate your extent of agreement with the following statements using the shown scale below.
 1= Not extent at all, 2= To little extent, 3 = To a moderate extent, 4= To a great extent and 5 =To a very great extent.

Ethical Practices		1	2	3	4	5
1.	The corporation ensures that recruited leadership team exhibits ethical leadership					
2.	The corporation routinely undertakes ethical retaining for employees to ensure compliance to all corporate guidelines					

3.	The corporation has instituted a strict ethical code of conduct that all employees are expected to adhere to					
4.	The corporation undertakes ethical recruitment to ensure the personnel team recruited is above board					
5.	The corporation routinely reviews the ethical guidelines to ensure they are consistent with standard laws/regulations.					

Can you give any specific examples of how ethical practices have positively impacted financial accountability in your corporation?

.....

Kindly indicate your extent of agreement with the following statements using the shown scale below.

1= Not extent at all, 2= To little extent, 3 = To a moderate extent, 4= To a great extent and 5 =To a very great extent.

	Risk Governance Practices	1	2	3	4	5
1.	The corporation maintains a risk monitoring system to ensure no inherent risks expose the firm to losses					
2.	The corporation regularly reviews the risk management framework to help manage any potential risks					
3.	The corporation has constituted a risk assessment team that actively engages industry experts to monitor and manage any risks to the firm					
4.	The corporation has developed clear set of standards, processes to support the internal control actions in the firm					
5.	The corporation has clear rules on assignment of authority and responsibility to ensure there is coordination in the team					
6.	The corporation board of directors regularly collaborates with the audit committee to help improve our internal risk analysis processes					

Can you give examples of how a robust risk governance practices have positively impacted financial accountability in your corporation?

.....

Kindly indicate your extent of agreement with the following statements using the shown scale below.
 1= Not extent at all, 2= To little extent, 3 = To a moderate extent, 4= To a great extent and 5 = To a very great extent.

	Political environment	1	2	3	4	5
1.	The political oversight of the state corporations leads to effective utilization of public finances					
2.	The political leaders in the country have put in place adequate policies and systems to enhance the financial management of the corporation					
3.	The review of the corporation activities by political leadership creates bureaucracies that limit the effectiveness of the corporations					
4.	The recruitment of political cronies within state corporations erodes the capacity of institutions to meet their accountability goals					
5.	The continuous political pressure creates external influences on the independence of the state corporations					
6.	The current taxation policies advanced by the political leadership negatively impact the financial accountability of the corporations					
7.	The various policies on resource distribution to corporations by the political leadership impacts the capacity to run state entities efficiently					

In what other ways has the political environment in Kenya affected the financial accountability of the state corporations?

.....

Thank you

Appendix IV: Diagnostic Tests Autocorrelation

Model	Durbin-Watson
1	
2	1.505

Predictors: (Constant), Risk Governance, Ethical Practices, Board Independence, Board Diversity

Predictors: (Constant), Risk Governance, Ethical Practices, Board Independence, Board Diversity, Political Environment

Dependent Variable: Financial Accountability

Collinearity

Model		Collinearity Statistics	
		Tolerance	VIF
1	(Constant)		
	Board Diversity	.329	3.037
	Board Independence	.473	2.116
	Ethical Practices	.453	2.209
	Risk Governance	.508	1.968
2	(Constant)		
	Board Diversity	.326	3.064
	Board Independence	.472	2.119
	Ethical Practices	.433	2.309
	Risk Governance	.494	2.024
	Political Environment	.855	1.170

a. Dependent Variable: Financial Accountability

Normality

Tests of Normality						
Kolmogorov-Smirnov ^a			Shapiro-Wilk			
Statistic	df	Sig.	Statistic	df	Sig.	
Financial Accountability	.102	80	.038	.983	80	.363
Board Diversity	.148	80	.022	.936	80	.051
Board Independence	.084	80	.200 [*]	.976	80	.129
Ethical Practices	.116	80	.049	.971	80	.264
Risk Governance	.134	80	.021	.968	80	.071
Political Environment	.119	80	.037	.964	80	.323

*. This is a lower bound of the true significance.

a. Lilliefors Significance Correction

THE SCIENCE, TECHNOLOGY AND INNOVATION ACT, 2013 (Rev. 2014)
Legal Notice No. 108: The Science, Technology and Innovation (Research Licensing) Regulations, 2014

The National Commission for Science, Technology and Innovation, hereafter referred to as the Commission, was established under the Science, Technology and Innovation Act 2013 (Revised 2014) herein after referred to as the Act. The objective of the Commission shall be to regulate and assure quality in the science, technology and innovation sector and advise the Government in matters related thereto.

CONDITIONS OF THE RESEARCH LICENSE

1. The License is granted subject to provisions of the Constitution of Kenya, the Science, Technology and Innovation Act, and other relevant laws, policies and regulations. Accordingly, the licensee shall adhere to such procedures, standards, code of ethics and guidelines as may be prescribed by regulations made under the Act, or prescribed by provisions of International treaties of which Kenya is a signatory to
2. The research and its related activities as well as outcomes shall be beneficial to the country and shall not in any way;
 - i. Endanger national security
 - ii. Adversely affect the lives of Kenyans
 - iii. Be in contravention of Kenya's international obligations including Biological Weapons Convention (BWC), Comprehensive Nuclear-Test-Ban Treaty Organization (CTBTO), Chemical, Biological, Radiological and Nuclear (CBRN).
 - iv. Result in exploitation of intellectual property rights of communities in Kenya
 - v. Adversely affect the environment
 - vi. Adversely affect the rights of communities
 - vii. Endanger public safety and national cohesion
 - viii. Plagiarize someone else's work
3. The License is valid for the proposed research, location and specified period.
4. The license any rights thereunder are non-transferable
5. The Commission reserves the right to cancel the research at any time during the research period if in the opinion of the Commission the research is not implemented in conformity with the provisions of the Act or any other written law.
6. The Licensee shall inform the relevant County Director of Education, County Commissioner and County Governor before commencement of the research.
7. Excavation, filming, movement, and collection of specimens are subject to further necessary clearance from relevant Government Agencies.
8. The License does not give authority to transfer research materials.
9. The Commission may monitor and evaluate the licensed research project for the purpose of assessing and evaluating compliance with the conditions of the License.
10. The Licensee shall submit one hard copy, and upload a soft copy of their final report (thesis) onto a platform designated by the Commission within one year of completion of the research.
11. The Commission reserves the right to modify the conditions of the License including cancellation without prior notice.
12. Research, findings and information regarding research systems shall be stored or disseminated, utilized or applied in such a manner as may be prescribed by the Commission from time to time.
13. The Licensee shall disclose to the Commission, the relevant Institutional Scientific and Ethical Review Committee, and the relevant national agencies any inventions and discoveries that are of National strategic importance.
14. The Commission shall have powers to acquire from any person the right in, or to, any scientific innovation, invention or patent of strategic importance to the country.
15. Relevant Institutional Scientific and Ethical Review Committee shall monitor and evaluate the research periodically, and make a report of its findings to the Commission for necessary action.

National Commission for Science, Technology and
Innovation(NACOSTI),
Off Waiyaki Way, Upper Kabete,
P. O. Box 30623 - 00100 Nairobi, KENYA
Telephone: 020 4007000, 0713788787, 0735404245
E-mail: dg@nacosti.go.ke
Website: www.nacosti.go.ke

Appendix VI: List of State-Owned Enterprises

1. [Kenya Investment Authority](#)
2. [IDB capital](#)
3. [Agricultural Finance Corporation](#)
4. [Consolidated Bank](#)
5. [Deposit Protection Fund Board](#)
6. [Industrial and Commercial Development Corporation](#)
7. [Industrial Development Bank](#)
8. [Kenya Industrial Estates](#)
9. [Kenya National Assurance Co.](#)
10. [Kenya Post Office Savings Bank](#)
11. [Kenya Re-Insurance Corporation](#)
12. [Kenya Revenue Authority](#)
13. [Kenya Roads Board](#)
14. [Kenya Tourist Development Corporation](#)
15. [National Bank of Kenya](#)

16. [National Hospital Insurance Fund](#)
17. [National Social Security Fund](#)
18. [Agro-Chemicals and Food Company](#)
19. [Chemelil Sugar Company](#)
20. [East African Portland Cement Company](#)
21. [Gilgil Telecommunications Industries](#)
22. [Jomo Kenyatta Foundation](#)
23. [Kenya Airports Authority](#)
24. [Kenya Broadcasting Corporation](#)
25. [Kenya Electricity Generating Company](#)
26. [Kenya Literature Bureau](#)
27. [Kenya Ordinance Factories Corporation](#)
28. [Kenya Pipeline Company](#)
29. [Kenya Ports Authority](#)
30. [Kenya Power and Lighting Company](#)

31. [Kenya Railways Corporation](#)
32. [Kenya Civil Aviation Authority](#)
33. [Kenya Safari Lodges and Hotels](#)
34. [Kenya Seed Company Limited](#)
35. [Kenya Wine Agencies](#)
36. [Kenyatta International Convention Center](#)
37. [National Cereals and Produce Board](#)
38. [National Housing Corporation](#)
39. [National Oil Corporation of Kenya](#)
40. [National Water Conservation and Pipeline Corporation](#)
41. [Numerical Machining Complex](#)
42. [Nzoia Sugar Company](#)
43. [Postal Corporation of Kenya](#)
44. [Pyrethrum Board of Kenya](#)
45. [School Equipment Production Unit](#)

46. [South Nyanza Sugar Company](#)
47. [Telkom Kenya Limited](#)
48. [University of Nairobi Enterprises and Services Limited](#)
49. [New Kenya Co-operative Creameries Ltd](#)
50. [Kenya Electricity Transmission Company](#)
51. [University of Embu](#)
52. [Egerton University](#)
53. [Jomo Kenyatta University of Agriculture and Technology](#)
54. [Kenyatta University](#)
55. [Western University College of Science and Technology](#)
56. [Maseno University](#)
57. [Moi University](#)
58. [University of Nairobi](#)
59. [Kenya Universities and Colleges Central Placement Service](#)
60. [Coffee Research Foundation](#)

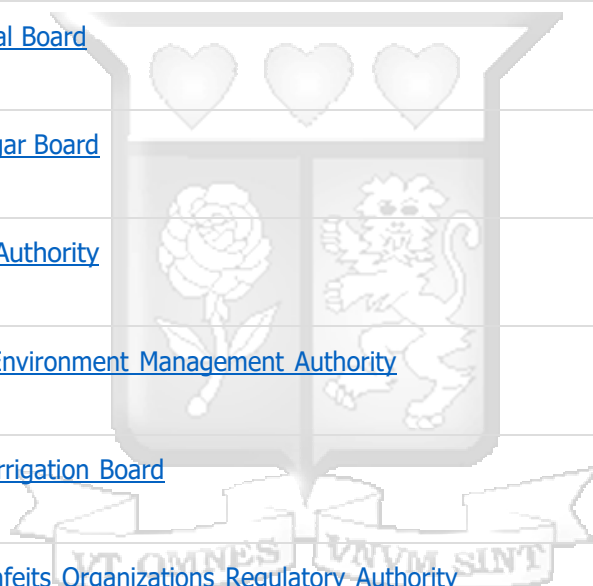
61. [Kenya Agricultural Research Institute](#)
62. [Kenya Forestry Research Institute](#)
63. [Kenya Industrial Research and Development Institute](#)
64. [Kenya Institute of Administration](#)
65. [Kenya Institute of Public Policy Research and Analysis](#)
66. [Kenya Marine and Fisheries Research Institute](#)
67. [Kenya Medical Research Institute](#)
68. [Kenya Sugar Research Foundation](#)
69. [National Museums of Kenya](#)
70. [Tea Research Foundation](#)
71. [Kenya Institute of Education](#)
72. [Kenya Education Staff Institute](#)
73. [Agricultural Development Corporation](#)
74. [Bomas of Kenya](#)
75. [Central Water Services Board](#)

76. [Coast Water Services Board](#)
77. [Higher Education Loans Board](#)
78. [Kenya Accountants and Secretaries National Examination Board](#)
79. [Kenya Ferry Services](#)
80. [Kenya National Library Services](#)
81. [Kenya Tourist Board](#)
82. [Kenya Wildlife Service](#)
83. [Kenyatta National Hospital](#)
84. [Lake Victoria North Water Services Board](#)
85. [Local Authorities Provident Fund](#)
86. [Moi Teaching and Referral Hospital](#)
87. [Nairobi Water Services Board](#)
88. [National Aids Control Council](#)
89. [National Council for Law Reporting](#)
90. [National Sports Stadia Management Board](#)

- | | |
|------|--|
| 91. | Northern Water Services Board |
| 92. | Rift Valley Water Services Board |
| 93. | Water Resources Management Authority |
| 94. | Water Services Trust Fund |
| 95. | Lake Victoria South Water Services Board |
| 96. | National Authority for the Campaign Against Alcohol and Drug Abuse |
| 97. | Athi Water Services Board |
| 98. | Kenya National Examination Council |
| 99. | Coast Development Authority |
| 100. | Ewaso Ng'iro North Development Authority |
| 101. | Ewaso Ng'iro South Development Authority |
| 102. | Kerio Valley Development Authority |
| 103. | Lake Basin Development Authority |
| 104. | Tana and Athi Rivers Development |
| 105. | Cooperative College of Kenya |

106.	Kenya College of Communications Technology
107.	Kenya Medical Training College
108.	Kenya Utalii College
109.	Kenya Water Institute
110.	Kenya Veterinary Board
111.	Kenya Leather Development Council
112.	Unclaimed Financial Assets Authority
113.	Capital Markets Authority
114.	Catering and Tourism Development Levy Trustee
115.	Coffee Board of Kenya
116.	Commission for University Education
117.	Communication authority
118.	Council for Legal Education
119.	Energy Regulatory Commission
120.	Export Promotion Council

121.	Horticultural Crops Development Authority
122.	Kenya Bureau of Standards
123.	Kenya Dairy Board
124.	Kenya Industrial Property Institute
125.	Kenya Plant Health Inspectorate Services
126.	Kenya Sisal Board
127.	Kenya Sugar Board
128.	Maritime Authority
129.	National Environment Management Authority
130.	National Irrigation Board
131.	Public Benefits Organizations Regulatory Authority
132.	Tea Board of Kenya
133.	Water Services Regulatory Board
134.	Transport Licensing Board
135.	Catering Training & Tourism Development Levy Trustees



136. [Export Promotion Council](#)

137. [Export Processing Zones Authority](#)

138. [Kenya Bureau of Standards](#)

