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**Corporate Governance and Financial and Non-Financial Performance of  
State-Owned Enterprises In Kenya**



**Doctor of Philosophy**

**October, 2022**

**Corporate Governance and Financial and Non-Financial Performance of  
State-Owned Enterprises In Kenya**

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**Reg. No: 049435**

**Submitted in total fulfilment of the requirements for the Degree of Doctor  
of Philosophy in Accounting at Strathmore University**



**Nairobi, Kenya**

**October, 2022**

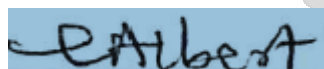
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Date: 29/09/2021

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## ABSTRACT

State-owned enterprises (SOEs) have social and economic objectives whose achievement depends on good corporate governance. As a result, this thesis sought to determine the relationship between corporate governance and financial and non-financial performance of SOEs in Kenya. Multi-theoretical framework is adopted to understand the extent to which corporate governance (CG) provisions, such as board meetings, gender diversity, board skill, board sub-committees, board size, board independence, board chair age and combined corporate governance provisions (CCG) influence financial and non-financial performance of SOEs in Kenya. Explanatory sequential mixed-methods approach was applied in which secondary data was first obtained from the annual financial reports and analyzed using balanced panel data, fixed-effects regression. The result indicates that board meetings, board skill and board gender diversity are the only significant CG provisions in determining financial performance. The result also finds that board skill and CCG are the only CG provisions that determines SOEs non-financial performance. In the second phase, responses of questionnaire survey obtained from the audit committee chairpersons of SOEs in Kenya were analyzed using independent sample t-tests. The results revealed that board skill is the only significant variable that positively influence both financial and non-financial performance. Interviews to SOEs directors unearthed the politicization of board appointments in Kenya. Overall, the findings demonstrate that CG reforms have improved performance, however, some CG provisions require re-considerations in order to attain full potential. The findings of this study have theoretical, practical and policy implications. The results advocate for the multi-theoretical framework in studying the relationship between CG provisions and financial and non-financial performance. State Corporation Advisory Committee, the Office of the Auditor General and the National Treasury that are mandated to overseeing the operations of SOEs in Kenya are called upon to re-evaluate the governance of SOEs to improve their performance. Also, the academic community are encouraged to approach CG studies in SOEs using mix-method approach to gain better understanding of the complex relationships devoid in a single approach. The study makes six important contributions. First, the study contributes by confirming that individual provisions of CG that constitute CCG provision have different impact on performance; Second, study adds to relatively few available literature on CG in SOEs ; Third, the study responds to a call for more CG studies in a developing country context; Fourth, this study shows the link between CG provisions and financial and non-financial performance of SOEs in a single study; Fifth, through mixed-methods research approach, this study uncovered important governance challenges that may have not been possible in purely quantitative analysis. Finally, by showing that CG studies should be approached from multi-theoretical framework. This study is limited by the fact that equal weight in binary coding is used, focus was on disclosures in annual financial reports, impact of moderator and mediating variables were not examined, qualitative data inquiry involved limited number of interviewees and single framework of non-financial performance. Future research may consider assigning weight, consider other information sources like websites, establish the impact of moderator and mediating variables, study other developing countries over time, include more interviewees and use broader measure of non-financial performance.

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## ABBREVIATIONS

<b>ACECA</b>	Anti-Corruption and Economic Crimes Act
<b>CACG</b>	Commonwealth Association for Corporate Governance
<b>CBRR</b>	Capital Budget Realization Ratio
<b>CG</b>	Corporate Governance
<b>CCG</b>	Combined Corporate Governance
<b>CSR</b>	Corporate Social Responsibility
<b>GOK</b>	Government of Kenya
<b>MCCG</b>	Mwongozo Code of Corporate Governance
<b>OECD</b>	Organisation for Economic Co-operation and Development
<b>SOEs</b>	State- Owned Enterprises
<b>SCA</b>	State Corporation Act
<b>SCAC</b>	State Corporation Advisory Committee
<b>UNCTAD</b>	United Nations Conference on Trade and Development



## **ACKNOWLEDGEMENTS**

All thanks go to ALMIGHTY GOD, for his guidance throughout the process of writing this thesis. Special thanks go to my supervisory team, Prof. Venancio Tauringana and Prof. David Wang'ombe whose immense guidance are unmeasurable, without which the completion of this thesis would not have been possible. I would also like to appreciate and give thanks to my colleagues at Strathmore Business School who either directly or indirectly shaped my academic thinking to undertake this study. Finally, I appreciate the support of my family for the sincere care and readiness, which they showed me throughout the process of my academic journey.



# CHAPTER ONE

## BACKGROUND OF THE STUDY

### 1.1 Introduction

State -owned enterprises (SOEs) have significant contributions to the national economies of developed, emerging and developing countries. According to World Bank (2014), SOEs contributes about 20 percent of global investment, 5 percent of employment and upto 40 percent of domestic output in countries around the world. SOEs are also vital for delivery of public services of general economic and social interest (Grossi et al., 2015; OECD, 2015; Royo et al., 2019). However, SOEs face many corporate governance challenges especially in relation to corruption (Apriliyanti & Kristiansen, 2019; Kanyane & Sambo, 2021; Locke & Duppati, 2014) which is manifested through politicisation of board appointments, weak financial reporting, weak managerial accountability and poor leadership.

As a response, many countries have taken measures to increase efficiency and performance of SOEs by strengthening their corporate governance. For instance, Khongmalai and Distanont (2017) document that Thailand government through the Ministry of Finance, restructured SOEs governance around board appointment, duties and responsibilities. Heo (2018) indicate that Republic of South Korea legislated the Act on the Management of Public institutions in 2007. Reddy et al. (2011) point out the corporate governance reforms brought about by the New Zealand Securities Commission in 2004. Among the recommended practices in New Zealand were the establishment of subcommittees for audit and remuneration, and having majority of independent directors on boards.

Corporate governance is a construct that has been defined and interpreted differently in empirical literature (Simpson, 2014). Extant literature conceptualise corporate governance into two main perspectives; shareholders' perspective and stakeholders' perspective. Shareholders' perspective of corporate governance is probably the oldest and it regards the shareholders as the principal, whose wealth must be maximised by the board of directors (agents) (Ellwood & Garcia-

Lacalle, 2016; L'Huillier, 2014; Pham et al., 2011). However, modern enterprises embrace stakeholders' perspective of corporate governance which incorporates a wider stakeholder group as opposed to the narrow view of shareholders' focus (Ellwood & Garcia-Lacalle, 2016; Gnan et al., 2013; Khongmalai et al., 2010; Kim et al., 2019). Liang and Renneboog (2017) demonstrate that entities go beyond profit maximization and participate in activities that improve other stakeholders' welfare, such as investing in environmental friendly production processes, prohibition of child labour, and social investments for people.

Even though most previous studies on the relationship between corporate governance and financial and non-financial performance have been conducted in non-SOEs setting, recent studies have started paying attention to the impact of corporate governance on financial and non-financial performance in SOEs (Heo, 2018; Khongmalai & Distanont, 2017; Shawtari et al., 2016). The increased attention is due to the greater demand for accountability and transparency by the public (Doś, 2019). Yet, theoretical and empirical literature provide contradictory insights about this relationship. Heo (2018) examine the effect of corporate governance and performance of SOEs in the Republic of Korea. The findings show that board size, corporatization, transparency and disclosure are positively related to performance while board independence and CEO duality show negative impact on performance. Khongmalai and Distanont (2017) analysed the relationship between corporate governance practices and performance of SOEs in Thailand through a questionnaire survey and noted a negative relationship between board of directors and performance. Shawtari et al. (2016) investigate the relationship between board characteristics and performance among SOEs in Malaysia. The results reveal that board size, board meetings, CEO duality affect performance negatively while board independence affect performance positively. The conflicting findings could be explained from various viewpoints that serves as the motivation for this thesis.

## **1.2 Research motivation**

### **1.2.1 Measures of corporate governance**

Varying measures have been employed in the assessment of corporate governance where some scholars employ individual provisions of CG such as board meetings (Gupta et al., 2019; Hassan et al., 2017; Shawtari et al., 2016), gender diversity (Gupta et al., 2019; Rakhman, 2019; Tang et al., 2020), board size (Heo, 2018; Gupta et al., 2019; Shawtari et al., 2016) and board independence (Heo, 2018; Gupta et al., 2019; Shawtari et al., 2016) among others. Nevertheless, there is a growing body of literature that advocates for combined corporate governance (CCG) provisions, arguing that the full impact of corporate governance on performance can only be realized when CCG provisions is used as opposed to individual corporate governance provisions (Arora & Bodhanwala, 2018; Brown et al., 2011; Ho, 2005; Mishra et al., 2021; Owusu & Weir, 2016; Tang et al., 2020). For instance, Tang et al. (2020) investigated how multidimensions of corporate governance work in concert to influence CSR activities among listed mining SOEs in China between 2008-2016 and revealed that rather than single corporate governance provision in isolation, CCG provisions lead to high CSR. Despite the call for CCG provisions, evidence suggests that individual provisions of corporate governance that constitute the CCG provisions may have different impact on performance. For example, Owusu and Weir (2016) examined the relationship between CCG and its individual provisions and established a significant positive relationship between CCG and financial performance but failed to find support for some provisions included in the CCG measure such as board structure, financial affairs and auditing. In addition, Mardnly et al. (2018) investigated the impact of CCG and its individual provisions on financial performance of listed firms at Damascus Securities Exchange and established positive but insignificant relationship between CCG and financial performance, and out of the four individual provisions (board of directors, audit, disclosure and ownership structure) that constituted CCG provisions, it was only ownership structure that was significant in explaining variation in financial performance. This revelation calls for more studies to ascertain whether there is any difference in study findings when individual

provisions of corporate governance and CCG provisions are used in the same study.

### **1.2.2 Context of prior studies**

The mainstream literature on the relationship between corporate governance and performance is skewed towards non-SOEs. Comparatively, studies relating corporate governance and financial and non-financial performance of SOEs are very limited (Grossi et al., 2015; Menozzi et al., 2012; Thompson et al. 2018). Grossi et al. (2015) analysed prior literature on corporate governance of SOEs and concluded that despite the relevance of good corporate governance in the public service, empirical research in the field is limited. This is despite a call for more studies especially in developing countries (Menozzi et al., 2012; Simpson, 2014). Menozzi et al. (2012) also confirmed inadequacy of the research interest of corporate governance in SOEs relative to non-SOEs. In addition, Thompson et al. (2018), surveyed various stakeholders in Barbados on corporate governance issues among SOEs boards of directors and established divergent views regarding their performance with some respondents claiming efficient performance while others refuting the acclaimed efficiency. Other group of respondents were of the opinion that there were a lot of government interference, shortcomings in the board appointments, inadequate disclosure, lack of independence, inadequate training and education on corporate governance matters. Generalizability of research findings in non-SOEs to SOEs may be problematic due to theoretical lenses used in non-SOEs' studies. For instance, viewed from agency theory, boards of directors are generally perceived to provide monitoring mechanisms and resources to the organisation that is expected to improve performance of an enterprise. However, when it comes to SOEs, there are some inherent challenges; first, the agent-principal relationships in SOEs are often unclear due to difficulty in determining which principals' interest the agent should serve, citizen or government? (Bruton & Peng, 2015; Kanyane & Sambo, 2021). In this vein, in Kenya, the President is mandated with appointment of SOEs chairperson (World Bank, 2021), which puts the holder in a conflicting role as a representative of the government and as a steward of SOEs resources on behalf of the citizen. In addition, unlike non-SOEs, SOEs' agents pursue broad objectives which are social and economic in nature (Kanyane &

Sambo, 2021; Kim et al., 2019) which requires careful balance. Moreover, SOEs operate under the purview of the government who doubles as the shareholder and the regulator at the same time (Kanyane & Sambo, 2021). In all these situations, the consequence is the doubt as to whether such boards can provide the needed monitoring and oversight role a kin to those provided by their counterparts in non-SOEs setting (Apriliyanti & Kristiansen, 2019; Kuzman et al., 2018; Thompson et al., 2018).

### **1.2.3 Geographical location of prior studies**

Majority of studies linking corporate governance and financial and non-financial performance in SOEs have been dominant in either emerging economies like China (Tang et al., 2020), Brazil (Coletta & Arruda de Souza Lima, 2020) and India (Locke & Duppati, 2014) or developed economies like Italy (Romano & Guerrini, 2014) and New Zealand (Reddy et al., 2011). Using a sample of Brazilian listed SOEs, Coletta and Arruda de Souza Lima (2020) found that board structure is positively associated with financial performance, proxied by ROE, ROA and Tobin's q. The study of Locke and Duppati (2014), examines the impact of corporate governance reforms on the financial performance of Indian SOEs. The authors find evidence that various corporate governance reforms collectively exhibited positive significant impact on ROA. Reddy et al. (2011) conducted a study of corporate governance practices and their effect on financial performance and they found that public sector corporate entities universally adopted the New Zealand Securities Commission recommendations for the establishment of audit and remuneration subcommittees. Their analysis shows a positive relationship between remuneration committee and financial performance measured by ROA, ROE, and OPROA. They also found that public sector organisations perform better compared to private sector organisation due to governance structure that is devoid of government intervention.

Findings of the impact of corporate governance in developed or emerging economies may not be applied in developing countries like Kenya due to differences in corporate governance culture (An et al., 2015; Arora & Sharma, 2016; Brown et al., 2011). For instance, Apriliyanti and Kristiansen (2019) opine that SOEs in developing countries are more prone to bribery than SOEs in

developed countries because of lack of transparency and weak institutions responsible for enforcing accountability and rule of law. Also, Thomas (2012) notes that bribery, fraud, corruption, tender-rigging, and conflict of interest are rampant in South African SOEs in a study to track reported incidences of corporate governance transgressions at five strategic SOEs between 2009 to 2010. There is a need therefore, for more studies from a developing country context like Kenya to either affirm or disapprove previous findings.

#### **1.2.4 Performance evaluation of SOEs in prior studies**

Previous studies linking corporate governance and performance in SOEs have either geared towards economic objectives measured by ROA, ROE, Tobin's q, and earnings per share (EPS) (Bhasa, 2015; Gupta et al., 2019; Reddy et al., 2011) or social objectives (non-financial) (Argento et al., 2019; Garde et al., 2017; Tang et al., 2020) in isolation. Yet, SOEs pursue both economic and social objectives (Bhasa, 2015; Daiser et al., 2017; Kim et al., 2019) which require holistic performance evaluation of both economic and social objectives in a single study that is currently lacking in extant literature. For example, Bhasa (2015) conducted a study on how ownership diversity affect financial performance of listed SOEs and their private counterparts in India and found that listed SOEs performed marginally better than their private counterparts on ROA, equity and sales. Gupta et al. (2019) examined the effect of board diversity and corporate governance structure on operating performance (ROE and market price per share) of Nepalese enterprises between 2011 to 2016. The result revealed that audit committee, board size, and board meeting had positive and significant impact on operating performance while negative relationship was reported between CEO duality, gender diversity and ROE. Moreover, Reddy et al. (2011) examined whether corporate governance practices recommended by the New Zealand Securities Commission in 2004 had affected the financial performance of public sector corporate entities. The result suggested that remuneration and dividend payout committees had an impact on financial performance. Argento et al. (2019) explored the content of Swedish SOEs' sustainability reports and the factors that influence the sustainability disclosed therein. Findings indicated that state ownership negatively affect sustainability reporting. The size of SOE was found to have positive relationship with sustainability disclosures. Other factors

such as activity, state representation, gender diversity and profitability had insignificant impact on sustainability disclosure. Garde et al. (2017) analyzed how various SOEs characteristics influences CSR disclosure practices in Spain. The findings indicated that size, sector of SOEs and manager's CSR responsibilities are the factors that significantly influence CSR disclosure. As a result, following the recommendation of Heo (2018), there is need for both objectives of SOEs ( Financial and non-financial performance) to be assessed in a single study.

#### **1.2.5 Application of mixed- method approach**

Relative to mixed-method approach, majority of previous studies on the relationship between corporate governance and performance of SOEs rely on mono method, mostly drawn from quantitative data sources (Romano & Guerrini, 2014; Rakhman, 2019; Shawtari et al., 2016). Very few studies such as Thompson et al. (2018) use mixed method approach (Quantitative and qualitative). The rest of the scholarly work on mixed methods can be traced to non-SOEs such as Assenga et al. (2018) and Mahmood et al. (2018). Mahmood et al. (2018) investigated the impact of corporate governance on social and environmental sustainability performance through an explanatory sequential mixed methods approach, using a sample of 85 listed companies on Pakistan Stock Exchange for the period 2012 to 2015. The result indicated positive relationship between female boards and board size on social and environmental performance. Daiser et al. (2017), Greener (2008), and Grossi et al. (2015) argue that corporate governance research requires broader methodologies such as interviews and questionnaires to provide additional insights and perspectives.

#### **1.2.6 Theoretical perspectives of corporate governance and performance of SOEs**

A range of theories such as agency theory, stakeholder theory, resource dependence theory, stewardship theory and legitimacy theory that have been applied to examine the relationship between corporate governance and financial and non-financial performance in prior studies have mostly been tested in listed SOEs (Bezuidenhout, 2016; Coletta & Arruda de Souza Lima, 2020; Tang et al., 2020) context. Thus, an understanding of these theories in non listed SOEs where there is a serious concern on performance is limited. Besides, theories

such as agency theory tends to be geared towards profit objectives which is a key concern for commercial undertakings. Such a theory may or may not apply to non listed SOEs where there are multiple objectives beyond that of profit maximisation. Nonetheless, due to the adaptation of private sector corporate governance model under the banner of New Public Management (NPM) initiative to the public sector (An et al., 2015; Gnan et al., 2013; Ellwood & Garcia-Lacalle, 2016), agency, stakeholder, resource dependence, stewardship and legitimacy theories may be applicable. Therefore, a need for investigation is inevitable.

### **1.2.7 Corporate Governance challenges of SOEs in Kenya**

Republic of Kenya offers an interesting setting for examining the relationship between corporate governance and financial and non-financial performance of SOEs because of two key factors: corporate governance environment and dearth of empirical literature linking corporate governance and financial and non-financial performance of SOEs in the Kenyan context. First, findings from other jurisdictions may not directly apply to Kenyan context because of different corporate governance environment under which SOEs operates. The institutionalization of corporate governance reforms in SOEs in Kenya is dependent on perennial and cyclic alliances of powerful political patrons who determines board membership of SOEs. Board appointment is thus used by the incumbent president and members of friendly political parties to reward and solidify political power. Therefore, such boards are likely to serve the interests of their political affiliations as opposed to delivery of social objectives of SOEs. For instance, Ireri (2013) laments at the skewed appointment of board of directors of SOEs in Kenya that does not take merits into consideration, but a process that is based on politics, ethnicity and patronage. A clear case of such opaque appointment process is demonstrated when the High Court of Kenya quashed the appointment of 118 SOEs board of directors in 2021 due to lack of fair and competitive recruitment process. This is further illustrated by a newspaper coverage that details how the offer for the appointment of an individual to head one of the parastatal in Kenya was turned down (Daily Nation, 2021). In his response in declining the offer, the appointee stated that he was not consulted about his availability and willingness to take up the job, neither was he aware of any open, fair and competitive reruitment process leading to his appointment.

This episode illustrates just a tip of the iceberg of the rote prevailing in SOEs board appointment and probity in public service in Kenya. Ireri (2013) notes that the country is generally characterised by weak legal system and total disregard to the rule of law and flourishment of culture of corruption. Besides, compared to developed countries such as United States of America and European Union countries where there is mandatory requirements for corporate governance such as the requirement of corporations to improve their board diversity practices and their disclosure (Cucari et al., 2018; Fatma & Chouaibi, 2021; Harjoto et al., 2015; Khaireddine et al. 2020), SOEs in Kenya are subject to a “comply or explain” regime; that is, SOE is required to disclose a reason if it does not comply with any corporate governance recommendation. In view of such a free compliant environment, variation is expected in corporate governance practices of SOEs which may influence financial and non-financial performance differently.

Second, to the best of the researcher’s knowledge, there is dearth of studies on corporate governance and financial and non-financial performance of SOEs in Kenya. Yet, SOEs are powerful tools which the government uses to achieve its development agenda and attract investments (Edoun, 2015; Garde et al., 2017; Kanyane & Sambo, 2021). Given that Kenya occupies a very important strategic location within the East African region as an investment destination (Adewole, 2018), and the fact that SOEs are key drivers for investments (Hassan et al., 2017; Kanyane & Sambo, 2021), the way SOEs are governed has a substantial influence on a country’s business landscape. Moreover, GOK (2013) avers that the achievement of both economic and social performance are dependent on SOEs with sound corporate governance.

### **1.3 Problem statement**

SOEs across the globe have been key instruments within which the governments delivers their social and economic objectives to the citizens (Edoun, 2015; Garde et al., 2017; Khongmalai et al., 2010). For instance, In Kenya, SOEs are relied upon to foster Vision 2030. The Kenya vision 2030 is a long-term development blue print for the country. It aims at transforming Kenya into a newly industrialized, middle income country, providing a high quality of life to all its

citizens in a clean and secure environment (GOK, 2007). Various attempts have been made by the Kenyan government to introduce governance reforms<sup>1</sup> to SOEs since the attainment of independence in 1963 so that their economic and social performance can improve. However, these interventions are yet to have significant outcome.

The Presidential task force report on parastatal reforms (2013) cites poor governance; weak and ineffective boards, multiple reporting, lack of accountability and corruption as a source of dismal performance of SOEs in Kenya, which ultimately hinders the achievements of economic and social objectives to the citizen. Edoun (2015), notes that economic mismanagement and other vices like corruption negatively impact management of public affairs. Presidential task force recommended raft of measures to remedy the identified problems. Principal among them was the adoption of Mwongozo code of corporate governance (MCCG) (Swahili word for guidelines) (GOK, 2015) for all public sector institutions, which details clear procedures for board appointment among other corporate governance provisions.

Previous studies demonstrate that corporate governance arrangements of SOEs such as board appointments are politically motivated rather than performance induced (Kuzman et al., 2018; Thompson et al., 2018). Besides, there is doubt as to whether voluntary compliance code like MCCG can improve performance (Albu & Gîrbină, 2015; Arcot et al. 2010; Ntim & Soobaroyen, 2013). Moreover, Guney et al. (2020) argue that effectiveness of corporate governance practices may not be universal due to fundamental differences in the environment in which entities operate. This means that corporate governance recommendations in MCCG that were borrowed from other governance codes like OECD may not have the intended impact in Kenya due to the differences in legal framework and operating environment. There is therefore a need to empirically examine the relationship between recommended corporate governance provisions in MCCG and financial and non-financial performance of SOEs in Kenya to ascertain their effectiveness.

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<sup>1</sup> Further details are explained in section 2.2 in chapter 2

The generalizability of previous study findings to SOEs in Kenya may not be applicable due to several reasons. First, there are few studies that relates corporate governance and financial and non-financial performance of SOEs in general. The available literature on such studies at the global arena focus on listed SOEs with emphasis on either financial performance (Gupta et al., 2019; Hassan et al., 2017; Reddy et al., 2011) or non-financial (Argento et al., 2019; Garde et al., 2017; Tang et al., 2020) in isolation as opposed to both financial and non-financial performance measures. This means that non-listed and non-commercial SOEs that forms the bulk of the entities involved in the provision of social services to the citizen (Chen, 2016; Kim et al., 2019; Mashamaite & Raseala, 2019) remain untapped. Second, there is dearth of studies linking corporate governance and financial and non-financial performance of SOEs in Kenya. The available studies in the field of corporate governance and financial and non-financial performance tend to focus their attention into the banking sector (Barako & Brown, 2008; Nyamongo & Temesgen, 2013) or listed companies (Guney et al., 2020; Outa & Waweru, 2016). Third, it is doubtful whether individual corporate governance provisions and combined corporate governance provisions can influence financial or non-financial performance in the same way (Arora & Bodhanwala, 2018; Brown et al., 2011; Ho, 2005; Mishra et al., 2021; Owusu & Weir, 2016). Therefore, there is a need for both provisions to be examined in a single study. Fourth, many existing studies are either from developed (Romano & Guerrini, 2014; Reddy et al., 2011) or emerging economies (Coletta & Arruda de Souza Lima, 2020; Locke & Duppati, 2014; Tang et al., 2020) whose findings may not be applicable due to institutional differences, hence the need for more studies in a developing country context. Fifth, very few studies employ mixed-methods research approach in understanding corporate governance-performance relationships in SOEs (Thompson et al., 2018), yet such an approach is key to gaining further insight (Daiser et al., 2017; Greener, 2008; Grossi et al., 2015). Finally, theories that have tested the relationship between corporate governance and financial and non-financial performance have mostly been tested in listed SOEs (Bezuidenhout, 2016; Coletta & Arruda de Souza Lima, 2020; Tang et al., 2020) context. As opposed to non-listed and non-commercial enterprises. There is need to examine the effectiveness of

corporate governance provisions anchored on such theories in non-listed and non-commercial SOEs.

## **1.4 Research objectives**

### **1.4.1 General objective**

To establish the relationship between corporate governance and financial and non-financial performance of SOEs in Kenya.

### **1.4.2 Specific objectives**

1. To determine the relationship between individual provisions of corporate governance and financial and non-financial performance of SOEs in Kenya;
2. To determine the relationship between combined corporate governance provisions and financial and non-financial performance of SOEs in Kenya;
3. To investigate the perceptions of SOEs audit committee chairpersons whether corporate governance provisions influence financial and non-financial performance of SOEs in Kenya;
4. To explore the perception of board of directors through the interviews how various corporate governance provisions influence financial and non-financial performance of SOEs in Kenya.

## **1.5 Research Questions**

The following research questions were formulated in this study:

### **General Research Question**

What is the relationship between corporate governance and financial and non-financial performance of SOEs in Kenya?

### **Specific Research Questions**

1. To what extent is there a relationship between individual provisions of corporate governance and financial and non-financial performance of SOEs in Kenya?

2. Is there a significant association between combined corporate governance provisions and financial and non-financial performance of SOEs in Kenya?
3. What is the perception of SOEs audit committee chairpersons on the influence of corporate governance provisions on financial and non-financial performance of SOEs in Kenya?
4. What is the perception of board of directors on the impact of various corporate governance provisions on financial and non-financial performance of SOEs in Kenya?

## **1.6 Significance of the study**

The study findings may be beneficial to the following groups of people:

### **1.6.1 Policy makers**

This study provides benefit to policy makers such as State Corporation Advisory Committee, the Office of the Auditor General and the National Treasury that are mandated to overseeing the operations of SOEs in Kenya. The findings of the study relating to the impact of various corporate governance provisions on financial and non-financial performance of SOEs in Kenya are expected to assist the policy makers in the formulation of policies governing the operations of SOEs in Kenya especially on boards appointment. Specifically, findings suggest that MCCG provisions should pay more attention to the frequency of board meetings, gender equality in SOEs boards, and board skill due to their positive impact on financial performance of SOEs in Kenya. Moreover, there should be a prescribed age bracket of SOEs chairpersons since the results suggest that older chairpersons negatively impact the financial and non-financial performance. Also, policy makers with responsibility over SOEs should re-evaluate why other corporate governance provisions appear not to have an impact on financial and non-financial performance with a view of making the necessary changes.

### **1.6.2 Academic community**

The academics will use the findings of the current study as a foundation of future studies through various lenses. First, academics will be able to extend this study using relatively larger sample to ascertain the impact of individual and combined corporate governance provisions on financial and non-financial performance of SOEs in other developing countries. Second, the study adds to the dearth of literature on corporate governance and performance in SOEs generally, and specifically to developing country context like Kenya. Third, the study offers insight to the applicability of private based- theoretical underpinnings to SOEs context and a case for multi-theoretical framework in studying the relationship between corporate governance and performance of SOEs. Additionally, through the mixed method approach, the study offers new insights that would shape the academic growth. Finally, the study is novel in its application of capital budget realization ratio (CBRR) in studying corporate governance and financial performance relationship thereby creating new avenue for future research of SOEs in other jurisdiction in other developing countries.

### **1.6.3 Taxpayers**

SOEs are funded by the exchequer, therefore taxpayers especially the citizen would find the results of this study suitable to gauge whether various governance reforms pertaining to SOEs have a meaningful relationship with financial and non-financial performance with a view to exerting pressure to their elected leaders to enact suitable legislation to improve social services provisions by SOEs.

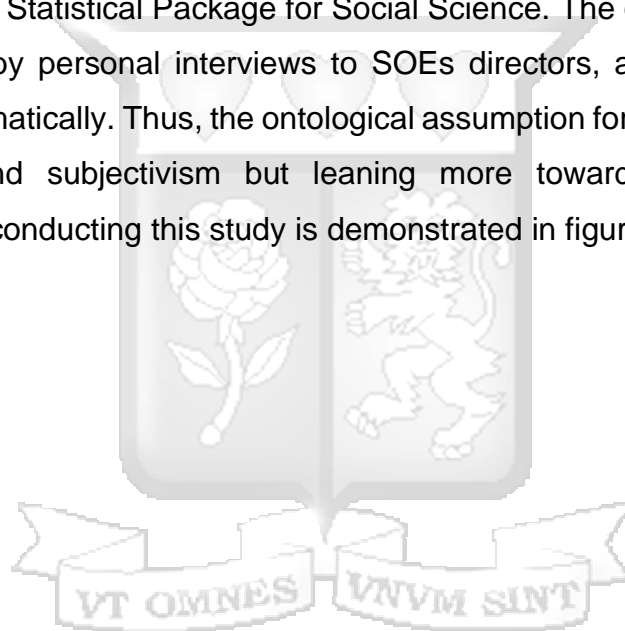
### **1.7 Scope of the study**

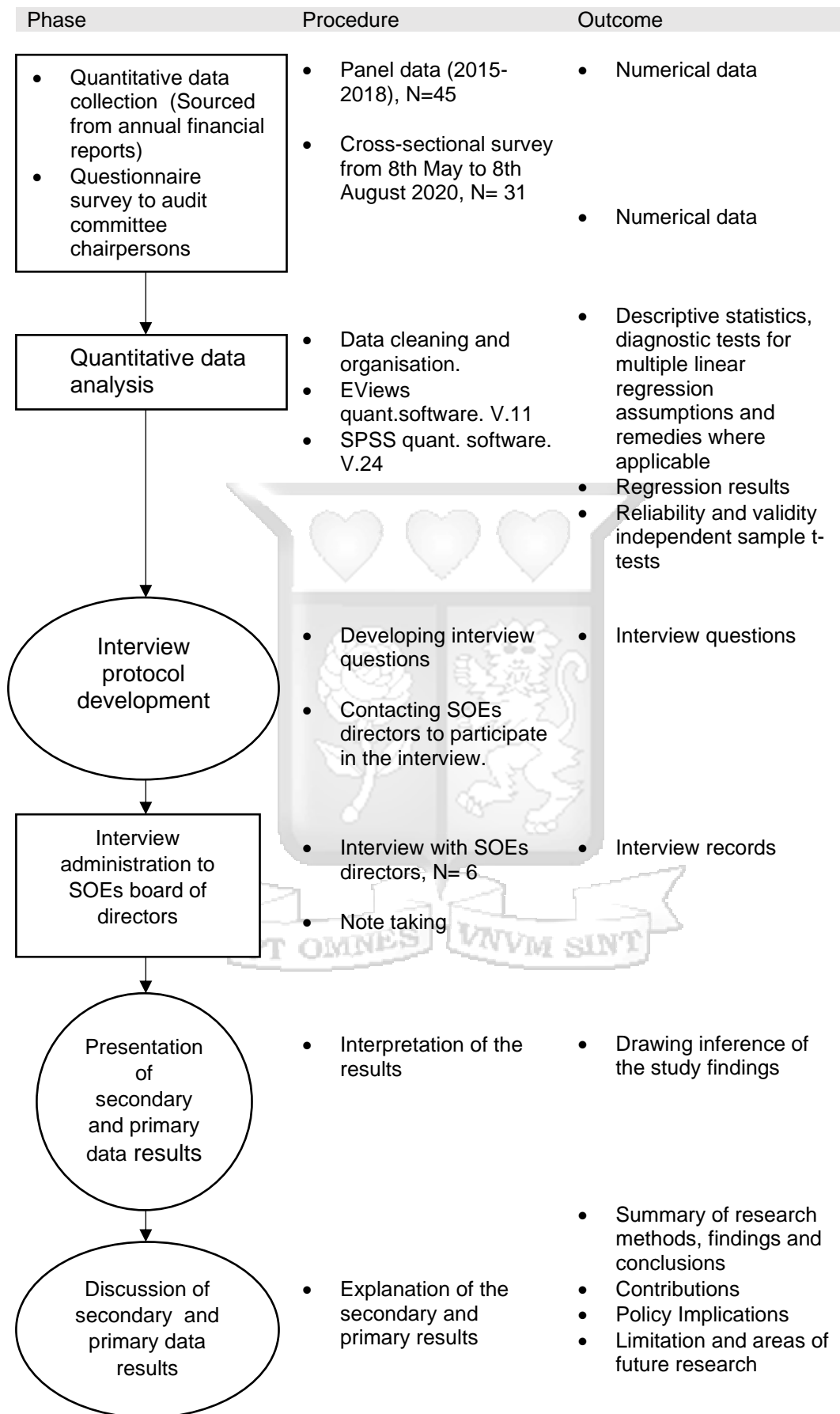
The study targeted a sample of 45 non-commercial SOEs in Kenya which had continuous data over the period 2015-2018. The unit of analysis was SOEs in Kenya that applies IPSAS accrual method of accounting. The study assessed seven key CG provisions namely board meetings, gender diversity, board skills, board sub-committees, board size, board independence, and board chair age and three control variables (AGE, FMSIZE and LEV).

## 1.8 Research purpose and Approach

The overall purpose of this thesis was to establish the relationship between CG and financial and non-financial performance of SOEs in Kenya. The purpose was achieved through explanatory sequential mixed-methods approach in which secondary data was first sought from the annual financial reports and analyzed.

In the second phase, primary data was collected from closed questionnaire survey designed on a five-point Likert scale which was sent out to the audit committee chairpersons of SOEs in Kenya. The survey results were collapsed into “top-two and bottom-two boxes” approach and then subjected to a two-way t-test using the Statistical Package for Social Science. The questionnaire survey was followed by personal interviews to SOEs directors, and the results were presented thematically. Thus, the ontological assumption for this research is both objectivism and subjectivism but leaning more towards objectivism. The procedure for conducting this study is demonstrated in figure 1.1 below.





**Figure 1.1: Representation of research procedure**

## **1.9 Outline of the Research**

This thesis consist of nine chapters organised as follows: chapter one covers the background to the study, research motivation and why there is a need for the current study in Kenya. The chapter then proceeds to problem statement, objectives, research questions, scope of the study, significance of the study, a summary of research methodology and approach and research outline.

Chapter two provides overview of state-owned enterprises in Kenya and the regulatory environment in which they operate. The chapter also highlights corporate governance reforms in Kenya. The chapter concludes with a summary.

Chapter three discusses theoretical review. The aim of the theoretical review was to identify theories that may be relevant in explaining the relationship between corporate governance and financial and non-financial performance of SOEs. The chapter discusses Agency theory, stakeholder theory, Resource dependency theory, stewardship theory, and legitimacy theory. The chapter ends with a summary.

Chapter four covers empirical literature review. The aim of the review was to identify what existing studies had covered so far and to identify areas that required further studies. In order to achieve this goal, the chapter explains the systematic literature review procedure carried out to identify relevant research articles to include in the study. The chapter discusses frequency of board meetings, gender diversity, board skill, board sub-committees, board size, board independence, CCG provisions, control variables, summary of literature review and finally, the chapter summary.

Chapter five covers hypotheses development in respect to the objective of the study. The chapter discusses each independent variable and offers a justification for the hypothesized relationships. The chapter also discusses control variables, and conceptual framework. The chapter summary is provided at the end.

Chapter six presents the methodology used in this study. The chapter covers philosophical assumptions, ontology, epistemology, research purpose, research

design, target population and data collection methods, research components, questionnaire construction, interview construction and administration, research reliability, research validity, data analysis, diagnostic testing, selection of appropriate estimation model, concerns for endogeneity, ethical consideration and finally, the chapter summary is provided at the end.

Chapter seven is the presentation of research findings. The chapter covers the results of the impact of corporate governance provisions on financial and non-financial performance based on secondary data, the results of the primary data on the impact of corporate governance provisions on financial and non-financial performance, joint display of results from secondary data and primary data (questionnaires) on the relationship between corporate governance provisions and financial and non-financial performance, the Interview results of the perception of directors on the role of corporate governance on both financial and non-financial performance. The chapter concludes with the summary.

Chapter eight discusses the research findings. The chapter covers the discussion of the relationship between corporate governance provisions and financial and non-financial performance based on secondary data, the relationship between corporate governance provisions and financial and non-financial performance based on primary data. The chapter ends with a summary.

Chapter nine covers summary of research objectives and methods, followed by research findings and conclusions, contributions of the study, implications of the research findings and conclusions, limitations of the study and finally, suggestions for future research directions.

# **CHAPTER TWO**

## **CORPORATE GOVERNANCE OF STATE- OWNED ENTERPRISES IN KENYA**

### **2.1 Introduction**

The objective of this chapter is to discuss corporate governance of SOEs in Kenya. The chapter is organized into the following sections: Section 2.2 provides overview of state-owned enterprises in Kenya. Section 2.3 discusses the regulatory environment of SOEs in Kenya. Section 2.4 corporate governance reform initiatives in Kenya. The chapter concludes with a summary in section 2.5.

### **2.2 State-owned enterprises in Kenya**

There is international diversity in reference to the agencies which the state or government have control. Different terms are used such as state- owned enterprises (SOEs) (Andoh et al., 2019; Daiser et al., 2017; Li et al., 2014), municipal -owned enterprises (Saputra & Muda, 2017), public enterprises (Krambia-Kapardis et al., 2016; Previtali et al., 2018), Local government corporations (Brusca & Montesinos, 2016), government business enterprises (Grossi et al., 2015), government- sponsored enterprises, government corporation, mixed- enterprises and indirect or direct holdings of the government (Grossi et al., 2015; Previtali et al., 2018). However, the most common term among scholars and practitioners is SOEs (Bruton & Peng, 2015; Peng et al., 2016; OECD, 2015; Thenmozhi & Sasidharan, 2020).

SOEs are defined as firms that are wholly or partially owned and controlled by the State (OECD, 2015; Peng et al., 2016). SOEs play important role in the provision and development of utilities and infrastructure industries such as energy, transport, and telecommunications (Chen, 2016; Mashamaite & Raseala, 2019; OECD, 2015). Besides, it is estimated that SOEs contribute about 10 per cent of the world GDP (Bruton & Peng, 2015; Peng et al., 2016). In addition, the performance of other segments of the business depend on these agencies (OECD, 2015). This means that SOEs are important instruments for socio -

economic development. However, the survival of SOEs is faced with challenges of poor governance (Mashamaite & Raseala, 2019; Simpson, 2014; Wong, 2004) which hinders their performances.

SOEs in Kenya were first established by the colonial government pre-independent to provide services that were not provided by the private sector (K Mwaura, 2007). However, as discussed by Government of Kenya (1965) in Sessional Paper No.10, African Socialism and its Application to planning in Kenya, and echoed by Oyugi (1982), Africans did not enjoy the benefits of SOEs under colonial rule due to marginalization. After the attainment of independence in 1963, several reforms were instituted among SOEs with new entities being formed and others get reorganized for proper service delivery (Ireru, 2013). The first notable effort was the adoption of philosophy of governance centred on Sessional Paper No.10 of 1965 (GOK, 1965) that detailed several principles on how to govern SOEs such as efficiency in their operations, financial solvency, nurturing of economic growth and development in other sectors of the economy, political equality, and humanity. From the onset, the economy looked promising but later on things took different path and what was intended was never achieved. Luke (2014) document that from 1963 to 1970 there was a general economic growth of 5 per cent and at 8 per cent between 1970 to 1980. Afterward, political interference in the appointment of boards and general stagnation of economic growth and development ensued (GOK, 2013; Luke, 2014), a challenge that is still being observed (Ireru, 2013).

### **2.3 Regulatory framework of SOEs in Kenya**

The Constitution of Kenya serves as the principal legal instrument for ethics and integrity in Kenya (Republic of Kenya (RoK), 2010). Chapter six of the constitution prescribes the leadership and integrity of state officers. The constitution also lays emphasis that appointment of board members of SOEs shall be made in line with the requirement of article 27 of the constitution which provides for equality and freedom from discrimination. Although, Deacon (2018) argue that the success of the Kenyan constitution depends on how it is interpreted and implemented. Moreover, SOEs in Kenya operates under Companies Act chapter 486 laws of

Kenya as revised in 2015 if they are commercial undertakings (GOK, 2013; Guney et al., 2020) or through State Corporation Act, 1986 chapter 446 , if they are established for the purposes of public service delivery (Non-commercial) (GOK, 2013). State Corporation Act specify the basic structure and primary rules for SOEs' operations and establishes the position of directors and their roles. The Act makes provisions for the establishment of SOEs, their administration, management, control, and regulation. Part II section 3 of the Act empowers the president to establish SOE as a body corporate to perform the functions stipulated in the order. Section 4 of the Act require the President to assign a ministerial responsibility for any SOE to the Vice- President and the several ministers as she/ he may direct in writing. Section 6 provides for the board composition with express responsibility of appointing the chairman bestowed on the President. Section 7 sub-section 3 gives the president absolute power to revoke the appointment of any board member at any time notwithstanding the provisions of any other written law or articles of associations establishing and governing a board and empowers the president to nominate a board member to serve for the remaining period.

The Acts are complimented by other provisions of Public Financial Management (PFM) Act 2012 and the Public Financial Regulation of 2015 which ensures that public institutions spend public resources efficiently and in transparent manner so as to improve service delivery. The Public Audit Act, No. 34 of 2015 part II, provides for the establishment of the office of the Auditor General. All SOEs are required to submit their financial statements to the Auditor General within three months of the end of the corresponding financial year. The Auditor General is then required to audit the financial statements submitted within six months after the end of each financial year as specified by Article 229 of the constitution. The Auditor General will then submit the audit report together with the audited financial statements to Parliament and the Public Investment Committee (PIC) for review and appropriate action.

Public Procurement and Asset Disposal Act, No.33 of 2015 give effect to Article 227 of the Constitution to provide procedures for efficient public procurement and for assets disposal by SOEs. Anti-Corruption and Economic Crimes Act (ACECA) (2003) that details various offenses that constitute corruption, the investigation, and penalties for the offenses. Public Officer Ethics Act (2003) provides for general code of conduct for public officer and all the board of directors of public institutions are required to abide by this ethical code (Onyango, 2021).

#### **2.4 Corporate governance reform initiatives in Kenya.**

The effort to strength corporate governance was witnessed when Private Sector Corporate Governance Trust (PSCGT) was established in conjunction with the Commonwealth Association for Corporate Governance (CACG) in June 2000 (Waweru, 2014). PSCGT later changed its name to Centre for CG in 2002. The objective of the centre was to promote the implementation of good governance principles in all the sector of the economy in Kenya, conduct research studies on CG with a view of replicating the best practices and provision of trainings on CG. Other recommendations were the establishment of audit committees composed of independent directors in the public sector in 2005 through the Treasury circular no 18/2005 (Waweru, 2014). In May 2002, Capital Market Authority (CMA) issued a guideline for corporate governance practices by listed public companies in Kenya (CMA, 2002). The guidelines incorporated the suggestions of good CG practices of best international corporate governance frameworks such as OECD, CACG on effective directorship, shareholders, role of chairman and chief executive officer, accountability and audit, and public disclosure. The guidelines also borrowed heavily from the UK Cadbury Report of 1992 and the South Africa King Report of 1994 (Waweru, 2014). The guideline recommended that the board should be composed of a balance of executive directors and independent directors, with at least one third of directors comprising of independent boards all of whom should possess diverse skills or expertise. However, the guideline did not specify the total number of directors required in the boards. The guideline also provided for clear separation of power between the chairman and chief executive officer among other provisions.

In 2007, Kenyan Government established vision 2030 which is a long-term development project that aims at turning the country into industrialized middle income by providing a high quality of life to its citizen in a clean and secure environment (GOK, 2007). Besides, it laid emphasis on institutional reforms and governance framework for its achievement. In 2013, Presidential Taskforce on Parastatals Reforms was established to align the objectives of SOEs towards realisation of Kenya Vision 2030 (GOK, 2013). The report identified several challenges relating to absence of a clear framework for recruitment, selection, appointment, induction of boards of SOEs, lack of proper skills mix and bloated boards, flawed process of CEOs appointment, fusing of the CEO and board secretary roles. In addition, the Presidential Task Force on Parastatal Reforms recommended merger and reduction of these agencies to align their activities to avoid duplication of roles and were re-classified under different categories such as Commercial State Corporation, Commercial State Corporation with Strategic Function, Executive Agencies, Independent Regulatory Agencies, Research Institutions, Public Universities, and Tertiary Education and Training Institutions. Other reforms included creation of State Corporation Advisory Committee (SCAC), adoption of International Public Sector Accounting Standards (IPSAS) in 2014. All these reforms were meant to achieve transparency and accountability in the management of public resources so as to achieve good performance. Finally, In 2015, Kenyan Government adopted the Mwongozo code of corporate governance to address weak governance structures and poor financial performance among SOEs as identified in the Presidential Taskforce report on Parastatal Reforms of 2013.

#### **2.4.1 Mwongozo code of corporate Governance (MCCG)**

MCCG is a policy document by the government of Kenya that seeks to incorporate corporate governance practices in the management of public sector institutions in Kenya. The code is an outcome of the report of Presidential Taskforce on Parastatal reforms (GOK, 2013). The code draws from the global best practices such as the South African King III code, (2009), Malaysian Code of corporate governance, (2012), and OECD Guidelines on Corporate Governance of SOEs (2005). In the academic realm, the mostly cited corporate

governance codes in the extant literature are the OECD (1999) with subsequent revision in 2004 and 2015, CACG and either first, second, third or fourth King Report on corporate governance for South Africa and UNCTAD (Bedicks & Arruda, 2005). Many provisions in the code address the challenges of SOEs as identified in the Presidential Taskforce report of 2013 such as lack of proper skill mix and bloated boards, lack of board independence, shortcomings in the process of appointment of boards and CEOs, among others.

In theory, MCCG share some salient features of International best practices. The code document well defined appointment criteria for boards with sufficient expertise to perform role. These requirements are also addressed in other corporate governance codes such as King II code of governance (King Committee on Corporate Governance in South Africa, 2002) and King IV (King Committee on Corporate Governance in South Africa, 2016) as well as the CACG (1999). There is also a requirement for gazette of all board members by name, proper mix and size of the Board. Specifically, the code specifies that the size of the board should be between 7-9. However, unlike MCCG, CACG (1999) differs in terms of board membership as it prescribes the board membership of between 10 to 16 as ideal. MCCG also outlines responsibilities of the boards, chairpersons and CEOs, the position of company secretary in all boards, tenure limit for board members and CEOs; where boards can serve six years cumulative or two terms of three years each, maximum number of boards any one person can serve in which is currently capped at not more than two SOEs. In addition, there is a guideline on board committees which MCCG allows the formation of board sub-committees for effectiveness in monitoring activities, but such committees are not allowed to exceed four, but which must include audit committee. This requirement is however different with the King II code which does not specify the number of board sub-committees and leaves it open to the industry and company's specific requirements but as a minimum, it recommends audit and remuneration committees (King Committee on Corporate Governance in South Africa, 2002). Board induction and evaluation mechanisms are also addressed, succession planning and strategies, regulation of ethical conduct of Boards, and requirement for Governance audits. On the issue of frequency of Board meetings, MCCG recommends that not less than four meetings should

be held within a calendar year to allow the board to discuss affairs of the entity. This means that board members have the liberty to schedule more meetings as they deem fit. Besides, transparency and disclosure are also addressed in MCCG. Disclosure is required in the annual financial report on the governance structure including the board composition, size, board sub- committees, academic qualifications, dates of the appointment, other board membership and board evaluation results. The disclosure is also required on the code of ethics and whistle blowing policy as well as risk management practices which are similar to the requirement of UNCTAD (2011) code of governance. However, unlike King's report IV, that recommends formation of social and ethics committee and UNCTAD (2011) code of governance that recommends existence of a senior ethics officer with responsibility attached to his or her position, MCCG does not explain the enforcement mechanisms of code of ethics. More importantly, despite the requirement of SOEs to disclose policy on CSR and investment, the requirement on CSR disclosure falls short of providing explanation of the nature of CSR activities that entities need to provide. It is doubtful whether governance code that is based on "comply or explain" policy can affect CSR activities (Albu & Gîrbină, 2015; Arcot et al. 2010). Timely preparation of accurate financial statements that goes through internal and external audit process is also expected to be disclosed. Although timely access of audited financial statements of SOEs in Kenya still remains a challenge (World Bank, 2021). Besides, World Bank (2021) indicates that financial performance challenges are still facing SOEs in Kenya which has been compounded by COVID-19 pandemic. The report also document that there is only a partial implementation of reforms recommended by Presidential Taskforce report of 2013 and that majority of reforms remain to be implemented. For instance, it is revealed in the report that Kenya's SOEs still face challenges of performance monitoring, low transparency, internal and external audits functions and fragmentation and implementation gaps of the legal framework.

## 2.5 Chapter summary

The objective of this chapter was to discuss corporate governance of SOEs in Kenya. The chapter has provided overview of SOEs in Kenya and their regulatory environment. The chapter has also discussed various corporate governance reforms, providing detailed discussion of Mwongozo Code of Corporate Governance and its provisions, clearly indicating how it compares with other International codes of best practice.



## **CHAPTER THREE**

### **THEORETICAL FRAMEWORK**

#### **3.1 Introduction**

Bryman and Bell (2015) defines theory as a way of explaining observed regularities. This means that theory is a set of statements or principles devised to explain a group of facts or phenomenon especially those that have been repeatedly tested or widely accepted and can be used to make predictions about phenomenon. The relationship between corporate governance and financial and non-financial performance has been explained and analyzed from different theoretical perspectives. Following prior studies of Bhat et al. (2018), Khairredine et al. (2020), Mishra et al. (2021), and Orazalin (2019), this study employed diversified theoretical approach. These theories include agency theory, stakeholder theory, resource dependence theory, stewardship theory, and legitimacy theory. The choice of embracing mixed theoretical approach is based on the fact that there is no single theory that is rich enough to explain corporate governance and financial and non-financial performance of SOEs in totality (Abraham & Shrives, 2014; Ahmed, 2014; L'Huillier, 2014), since each theory can only explain part of such a relationship.

The five aforementioned theories are applied in this study on the basis that they have dominated previous research as demonstrated in table 4.1 in chapter four and also due to the fact that their propositions on the impact of corporate governance provisions and financial and non-financial performance remain inconclusive. Therefore, the purpose of this chapter is to explore these theories in detail so as to identify corporate governance provisions that is supported by each of them in the financial and non-financial performance relationship. The rest of the chapter is organized as follows: Section 3.2 discusses Agency theory, section 3.3 stakeholder theory, section 3.4 resource dependency theory, section 3.5 stewardship theory, section 3.6 legitimacy theory. Finally, section 3.7 provides a summary of the chapter.

### 3.2. Agency theory

Agency theory was advanced by Fama and Jensen (1983) and Jensen and Meckling (1976) as a mechanism to deal with agency problem resulting from conflict of interest between the agent and the principal due to separation of ownership and control (Bozec, 2005). The theory assumes that the interests of the agent and the principal is at odd (Moral hazard) as a result of separation of ownership and management, hence the need for monitoring mechanisms to act as checks against the excesses of the agent. The main focus of agency theory is to ensure accountability of managers who may take opportunistic behaviour due to information asymmetry (Eisenhardt, 1989). In this perspective, board of directors are regarded as the primary control mechanism in reducing information asymmetry by ensuring timely disclosure of information.

Within the context of SOEs, the agent is the board of directors appointed by the relevant government official such as line cabinet secretary, and the principal is the citizen with the state being the principal shareholder. However, unlike private sector, the citizens do not have direct relationship with the board of directors of SOEs because the board report directly to the line cabinet secretary/ minister or to the parliament. The removal of non-performing directors are made by the cabinet secretary/ minister responsible or the President. For instance, in the Republic of Kenya which is under presidential system of governance, citizens elect the president and member of parliament (Republic of Kenya , 2010), and the party whose contender for presidency garners more than half of the votes casted, assumes the office as the president, being the head of state as well as the head of government (Republic of Kenya , 2010). The president then appoints his cabinet secretaries who has the mandate to appoint and dismiss the board of SOEs based on evaluation results as required by chapter two, section 2.4 (b) of MCCG.

Board characteristics that are frequently studied in the extant literature as a remedy to deal with agency conflict include board meetings (Hassan et al., 2017; Gupta et al., 2019; Shawtari et al., 2016), gender diversity (Gupta et al., 2019; Reddy et al., 2011; Romano & Guerrini, 2014), board sub-committees (Gupta et al., 2019; Reddy et al., 2011; Shawtari et al., 2016), board size (Gupta et al.,

2019; Heo, 2018; Shawtari et al., 2016), board independence (Hassan et al., 2017; Heo, 2018; Shawtari et al., 2016 ), and CEO duality (Gupta et al., 2019; Heo, 2018; Shawtari et al., 2016). However, contradiction exists in empirical findings between these CG provisions and performance. For instance, Gupta et al. (2019), Hassan et al. (2017) and Heo (2018) found positive significant relationship between board size and performance. On the contrary, Locke and Duppati (2014), Menozzi et al. (2012) and Shawtari et al.(2016) established negative and significant relationship between board size and financial performance.

Going beyond the role of board, auditing is another mechanism that is key in dealing with agency conflict (Blue Ribbon Committee's report, 1999; Hassan et al., 2017; Mardnly et al., 2018). Section 48 of the Kenyan Public Audit Act, 2015 and Article 229 (7) and (8) of the Kenyan Constitution empowers the Auditor General to carry out statutory audit of all public sector institutions including those of SOEs and submit its report to the Parliament for appropriate action. The audited annual report of SOE has a section that provides for a follow up of auditor recommendations of the prior year audit reports that ought to be signed both by the CEO and the board chairperson that the recommendations have been addressed.

The theory has been criticised by previous researchers on its assumption that corporate managers are individualistic on their goals and interest (Donaldson & Davis, 1991; Van Slyke, 2007). Moreover, SOEs board of director have multiple constituents to report to such as legislators, civil servants, and ministers (Locke & Duppati, 2014) which makes the agency relationship more complex. Consequently, board of directors can be motivated to take decisions based on other interests other than for the general public due to this complex relationship (Royo et al., 2019). Besides, there is doubt as to whether SOEs' directors appointed by the politicians can act in the best interest of the citizen and whether there is actual autonomy of the SOEs directors to perform their work without political interference (Simpson, 2014). Finally, agency theory takes a narrow focus of accountability by focusing on financial information at the expense of non-financial information (Royo et al., 2019). It is thus necessary to establish whether

the recommended board related governance practices supported by agency theory such as gender diversity, board meetings, board sub-committees, board size and board independence influences financial and non-financial performance of SOEs in Kenya.

### **3.3 Stakeholder theory**

Stakeholder theory can be traced to Freeman (1984). According to Freeman, stakeholder is any group or individual who can affect or is affected by the achievement of organization's objectives. Stakeholder theory contend that there should be a balance of interest of all stakeholders involved in the firm (Afolabi & Sy, 2016; Jackson, 2005). The concern of stakeholder theory is the management of relationships between the entity and its key stakeholders as opposed to society at large. SOEs have several stakeholders such as electorates and the general public such as customers, suppliers, employees, financiers, communities and managers (Grossi et al., 2015; Li, 2014; Parmar et al., 2010). To hold SOE accountable, stakeholders need timely information that disclose activities undertaken by various state agencies such as publication of annual reports for parliament to adjudicate its oversight role and also to enable electorates to gauge the level of government performance in utilization of state resources. Besides, the financiers of government, both internal (citizen) and external (International Monetary Fund, World Bank and other donor partners) are interested in disclosure of government performance to promote confidence among citizens and external development partners (Martani & Fitriyani, 2014). Moreover, the wider society where government agencies operate are conscious about the effect of corporation activities on the environment and its social role in promoting social cohesion such as employment opportunities to the local community, poverty eradication, environmental conservation and other social initiatives. By providing information that affect each stakeholders, SOEs may be judged favourably in terms of meeting its stakeholder expectations of good governance (OCDE, 1999).

Stakeholder theory can be separated into descriptive/empirical, normative, and instrumental categories (Donaldson & Preston, 1995). Descriptive stakeholder

theory describes and explain specific corporate characteristics and behaviour in relation to performance (Donaldson & Preston, 1995). The normative stakeholder theory holds that all stakeholders have intrinsic value and no stakeholder has a priority of interests over others (Donaldson & Preston, 1995). Further, they assert that Instrumental stakeholder theory assess the extent to which stakeholders management helps the corporation achieve their traditional objectives such as capital budget realization and growth. Most studies tend to focus on instrumental stakeholder as a basis of evaluating efficiency of corporate governance.

The importance of stakeholder involvement has been highlighted in various corporate governance guidelines such as King Report (2016), OECD (2015) and UNCTAD (2011) and other academic literature (Fitzpatrick, 2008; Garde et al. 2017; Locke & Duppati, 2014; Ormazábal 2018; Parmar et al., 2010). The guidelines require the governments and SOEs to recognise and respect stakeholders' rights as established by law or mutual agreements and also report their relationships with such stakeholders (Gnan et al., 2013).

Ormazábal (2018) identifies some of the mechanisms that can be used by different stakeholders' group to ensure corporate governance achieve its purpose. Such mechanisms may include employee unions to put pressure on non-performing managers, dissemination of useful information about the management practices through the media, and enactment of necessary legislations through parliament to safeguard against excesses of management. On the latter, one of the most debatable issue in Kenya, is gender diversity in public bodies. Under article 81 (b) of the Constitution of Kenya, there is a requirement that not more than two-thirds of the members of elective public bodies shall be of the same gender (Republic of Kenya, 2010). Gender representation is aimed at achieving balanced stakeholders' interest is incorporated in the decision making process of the SOE concerned.

Stakeholder theory proposes several governance provisions to ensure accountability to a larger stakeholders groups such as board gender diversity (Gupta et al., 2019; Reddy et al., 2011; Romano & Guerrini, 2014) and board independence (Hassan et al., 2017; Heo, 2018; Shawtari et al., 2016) which often

presents mix findings from extant literature. For instance, while Romano and Guerrini (2014) find no effect between female board membership and performance, Gupta et al. (2019) find significant negative relationship between female board membership and financial performance. Also, Bhat et al. (2018) established a conflicting results between board independence and financial performance among state-and non-state-owned enterprises in Pakistan for the period 2010-2014 where positive significant link was observed between board independence and Tobin's q among SOEs while positive but insignificant relationship was reported between board independence and Tobin's q in non-SOEs.

Stakeholder theory has been condemned for providing avenue that management uses to exercise their self interests by claiming a larger group for which their actions are required to benefit (Jensen, 2000; Parmar et al., 2010). Such a claim would be reduced if shareholder theory were to be the sole purpose of the management's actions (Parmar et al., 2010). Moreover, while the stakeholder theory recognizes diverse group of interest in the entity, it is practically difficult to assess all stakeholders who may be affected or affect performance of the entity (Parmar et al., 2010). This means that accountability themes may only target the most important and instrumental stakeholders (Ntim et al., 2017). This may provide explanation why SOEs are keen to provide disclosure of financial information that is mandatory and fails to provide adequate disclosure for non-financial information that is generally voluntary. Therefore, the ability of SOEs to disclose non-financial information depend on the power of the concerned stakeholder to demand for transparency and accountability. Again, stakeholder theory is viewed as overly morally based (Simpson, 2014), which may conflict with the objectives of other stakeholders that do not believe in morality. Finally, stakeholder theory have some overlap with legitimacy theory since, the former targets relatively more powerful stakeholders while the latter targets the whole society (Ullah et al., 2019). This means that the concerns of the so-called powerful stakeholders may as well be addressed by legitimacy theorists. Thus, this study examined the applicability of stakeholder oriented governance

provisions of gender diversity and board independence on their impact on financial and non-financial performance of SOEs in Kenya.

### **3.4. Resource dependence theory**

Resource dependence theory was advanced by Pfeffer and Salancik (1978). The central tenet of this theory is that organization behaves according to its resource requirements (Hillman et al., 2009). It posits that the survival of organization is dependent on external environment (Fitzpatrick, 2008). The survival and resource acquisitions of SOEs may be dependent on its political connections (Aldhamari et al., 2020). Board member with political connections is regarded as vital resource in accessing resources for SOEs (Wang et al., 2019) as well as a source of funds for political activities (Lioukas et al., 1993). Wang et al. (2019) define director with political connections as director with political affiliations, a former government official, and a current or former member of parliament. Since SOEs depend on financial resources and board appointment from the government (Lioukas et al., 1993; Wang et al., 2019), their performance may be influenced by the objective set by the government. If the government wants to exercise proper use of power, SOEs will toe the line and act accordingly. However, if the government is corrupt, SOEs may use financial resources allocation to achieve that objective. Since the directors of SOEs are appointed by cabinet secretaries under whose docket SOEs falls, they can influence the corporate behaviour either negatively or positively. Lioukas et al. (1993), suggest that if management goes against the political force in power, then resource allocation will be used as a punishment in order for them to align their activities to the required objectives. The board of directors can also use their skills, expertise and useful connections to help the enterprise achieve good performance (Afrifa & Tauringana, 2015).

Resource dependence theory has been used in the prior literature on the relationship between corporate governance and financial and non-financial performance (Afrifa & Tauringana, 2015; Assenga et al., 2018; Bezuidenhout, 2016; Fitzpatrick, 2008; Masud et al., 2018; Orazalin, 2019). The theory explains entities' financial and non-financial performance from a broad corporate

governance provisions encompassing gender diversity (Assenga et al., 2018; Katmon et al., 2019; Orazalin, 2019), board skill (Assenga et al., 2018; Katmon et al., 2019; Ujunwa, 2012), board size (Afrifa & Tauringana, 2015; Ghazali, 2010; Orazalin, 2019), and board age (Hafsi & Turgut, 2013; Fahad & Rahman, 2020; Khan et al., 2019).

Theoretically, findings of corporate governance provisions supported by resource dependence theory on their impact on performance remains inconclusive. For instance, while Al-Matari (2019) find positive significant relationship between board size and financial performance, Afrifa and Tauringana (2015) find negative significant association between board size and financial performance. Along the same line of argument, Ujunwa (2012) established significant positive association between board skill and financial performance, yet, Ehikioya (2009) provided mix results on the relationship between board skill and financial performance; whereas negative but insignificant relationship was reported between board skill and ROA and Tobin's Q, positive but insignificant association was reported with ROE and PE. Besides, Assenga et al. (2018) found positive but insignificant relationship between board skill and ROA and ROE.

Major limitation to this theory is its assumption that organizational behaviour and structures are primarily shaped by materialistic forces. It fails to recognise the influence of cultural orientation, ideological and institutional forces (Johnson, 1995). Hillman et al. (2009) argue that by applying multiple strategies, the firm is able to combat the contingencies and minimise uncertainty and independence on its environment. While Hillman et al. (2009) argument could be valid from non-SOEs setting, it is questionable among SOEs that depends entirely on the state for its survival. In this study, resource dependence theory is applied in determining how gender diversity, board size, and board skill may or may not influence financial and non-financial performance of SOEs in Kenya.

### **3.5 Stewardship theory**

Stewardship theory assert that managers are not driven by their self interest and work deligently to achieve the goals and objectives of their principals (Donaldson & Davis, 1991; Keay, 2017). The theory proposes that inside directors should be

more compared to outside independent directors in order to realize superior performance because of their familiarity with the organisation (Kagzi & Guha, 2018). This theory recognizes a range of non-financial incentives for managers to perform their task such as the need of achievement and recognition, intrinsic satisfaction, respect for authority and work ethic (Muth & Donaldson, 1998). It therefore implies that SOEs' directors will always act in a manner that maximizes social benefits to stakeholders (Parliamentarians, citizens & regulatory bodies), desist from conflict of interest in the performance of their duties, adjudicate for fairness, accountability, transparency and responsibility. Accordingly, stewardship theory does not advocate for the separation of the duties from the CEO and chairperson (Fitzpatrick, 2008; Muth & Donaldson, 1998). The theory appears to offer a contradiction to the recommendation of OECD (2015) that encourages separation of roles between the chairperson and CEO.

Despite the claim of stewardship theory, the findings from the literature has been inconsistent. Khongmalai and Distanont (2017) found a negative relationship between board of directors and performance of Thai SOEs. Besides, Magang and Kube (2018) found less compliance with the requirement of integrated sustainability reporting among SOEs in Botswana. Moreover, Mahadeo and Soobaroyen (2012), found substantial non-implementation of the code among SOEs in Mauritius. Nevertheless, Van Slyke (2007) observed that executive directors of government non-profit in USA established partnership based on trust, expertise and mission statement of their organizations.

The theory is criticised on a number of grounds. First, it is challenged on the basis that it gives the board of directors freedom to act as they wish when it comes to exercising their discretion (Keay, 2017). Secondly, the theory is regarded as being not independent theory, but rather a special case of agency theory (Albanese et al., 1997), for example, "trust" is viewed as a characteristic of stewardship theory but which is also accommodated in agency theory in a principal-agent contract. Finally, stewardship theory portrays behaviour of human being as static, whereas Chrisman (2019), argue that individual behaviour can be influenced by organisational environment for good or ill motives.

In this study, the application of stewardship theory is useful to ascertain how age of the chairperson can impact on financial and non-financial performance of SOEs in Kenya. CEO duality is irrelevant in this study since the chairperson of SOEs in Kenya is appointed by the President while the appointment of CEO is made by the boards of the concerned SOE (GOK, 2015). This means that the roles are separated in accordance to the requirement of agency theory and as stipulated in the State Corporation Act, 1986 chapter 446.

### **3.6 Legitimacy theory**

This theory originates from the idea of organisational legitimacy (Ofoegbu et al., 2018). Legitimacy is defined as generalised perception or assumption that actions of entity are desirable, proper, or appropriate within some socially constructed system of norm, values, belief, and definition (Suchman, 1995). This implies that the survival of SOEs can only be possible if their activities and objectives are supported by society and are perceived as legitimate.

Suchman (1995), makes a distinction between three types of legitimacy; pragmatic, moral, and cognitive legitimacy. Pragmatic legitimacy is about the organisation conforming to the demands of its constituents, co-opting them, and building reputation. Pragmatic legitimacy can be maintained through consultation of opinion leaders if conflict arises between the organisation and the society. Such conflict may be repaired through denial of actions that have affected the society or formation of monitors to check on the impasse of its activities with the aim of regaining trust. In such cases, the organisation may be regarded as trustworthy, honest and decent. In moral legitimacy, unlike, pragmatic legitimacy, does not rely on the judgement of evaluators, instead, they conform to the ideals, produce proper outcome, and moral ideals are properly embedded in the institutions culture. Moral legitimacy can be maintained through ethical monitoring and consultation of professionals. The actions taken is justified and may disassociate from immoral actions and may, if needed, replace personnel, revise practice, or reconfigure their operations. Cognitive legitimacy exhibits desirability and acceptance by developing methods, concepts, and ideas that are commonly accepted and considered useful and desirable by professionals and experts in its surrounding environment. An enterprise is considered to display cognitive

legitimacy when its activities are carried out in the best possible way to mimic existing standards. This type of legitimacy is knowledge-based rather than interest or judgment-based

Legitimacy theory conceives a social contract between the firm and the society on the expectation that organisational survival is dependent on adherence to the societal values. To fulfil this contractual obligation, entities legitimize their actions through social reporting (Monfardini et al., 2013) which may be through CSR disclosure (Ofoegbu et al., 2018). Ethics, health and safety, environment, and social investment disclosures in the reporting media are some of the disclosures that can be provided by SOEs as a form of gaining legitimacy and being accountable to the community. However, such disclosure does not take place homogeneously across all the entities; various corporate governance factors influence their dissemination.

A growing body of literature have examined the application of legitimacy theory in the examination of the link between board independence (Khairredine et al., 2020; Orazalin, 2019; Ullah et al., 2019), SOE managers' age (Garde et al., 2017) and CSR performance albeit with conflicting findings. Khairredine et al. (2020) and Ullah et al. (2019) reported that board independence has significant positive relationship with CSR performance. On the contrary, Orazalin (2019) found no impact between board independence and CSR performance. Garde et al. (2017) found an inverse relationship between SOE managers' age and CSR performance.

Legitimacy theory appears to have some shortcomings. It is documented that societal demands broadens quite often (Al Maeeni et al., 2022), which means that at some point in time, the organisation may not keep fulfilling every societal demand and conflict become inevitable.

### **3.7 Chapter summary**

The five theories discussed above have many conceptual similarities although appears competing against each other. Each theory advocates for different theme, tenets and application. Agency theory advocates for goal congruence

between the agent and the principal. Its principal tenet is to seek goal alignment through incentives and sanctions. It is best applied when there is a threat of information asymmetry. Stakeholder theory is premised on value creation by all stakeholders. It argues that stakeholders can take active roles towards achievement of organization goals. Thus, representation of key stakeholders in the board is one way of value creation. Resource dependence theory is anchored on the need for provision of vital resources for the organization to achieve its goals. Therefore, withdrawal or provision of the needed resources has a repercussion of an entity's progress. To achieve such goal alignment, resources provision may be enhanced by having larger board membership, gender diversity in the board and independent board of directors. Stewardship theory's argument is completely opposite that of agency theory; it views agents and management as having mutual goal alignment. As such, employees needs empowerment through responsibility, autonomy, trust as well as shared culture and norms. The proponent of stewardship theory believes that achievement of organization's goal is based on trust, autonomy, non-monetary rewards, encouragement and responsibility. Lastly, legitimacy theory conceives a social contract between the firm and the society on the expectation that organisational survival is dependent on adherence to the societal values and beliefs.

The choice of the five theories were based on a number of considerations. First, the choice was based on the recognition of their prominence in the extant literature in general on the relationship between corporate governance and financial and non-financial performance. Second, while theories such as agency theory (Coletta, & de Souza Lima, 2020; Shawtari et al., 2016; Tang et al., 2020), stakeholder theory (Tang et al., 2020), stewardship theory (Bezuidenhout, 2016), resource dependence theory (Bezuidenhout, 2016) and legitimacy theory (Masoud & Vij, 2021) have been applied in empirical literature on SOEs context, their application have been on listed commercial SOEs, which means that their applications on non-listed and non commercial enterprises largely remain unknown. Third, there is theoretical inconsistencies in findings on the impact of corporate governance provisions on financial and non-financial performance. Finally, because there is no single theory that is rich enough that can explicitly explain governance-performance relationship, multi-theoretical approach is

preferred to any single theory (Abraham & Shrives, 2014; Ahmed, 2014; L'Huillier, 2014).



## **CHAPTER FOUR**

### **REVIEW OF EMPIRICAL LITERATURE BETWEEN CG PROVISIONS AND FINANCIAL AND NON-FINANCIAL PERFORMANCE**

#### **4.1 Introduction**

The purpose of this chapter is to review existing literature relating to the objectives of the study. The basis of the literature review is to establish consistency in findings and identify the gaps in the literature to permit further studies. A systematic literature review was therefore conducted. The process began by identification of suitable keywords such as: “Corporate Governance”, “Corporate Social Responsibility”, “Kenya”, “Mwongozo Code of Corporate Governance”, “performance”, and “state-owned enterprises” as well as combination of these words to identify and select relevant articles in Google Scholar (published in English), being one of the largest databases of academic articles (Drees & Heugens, 2013; Farah et al., 2021; Nerantzidis & Tsamis, 2017; Pucheta-Martínez et al., 2018). The researcher employed Boolean operators to improve the search. Only articles published starting 2007 onwards are examined to identify current approaches in corporate governance-performance relationship. The rationale for selecting 2007 to start review is to ensure reviewing most of the related literature due to the increased importance of corporate governance implementation especially after 2007-2008 financial crisis. Literature on the relationship between corporate governance provisions and financial and non-financial performance comprised a lot of papers. However, not all of them were selected, selection was limited to most relevant papers by examining the article title and reading their abstract. A total of 500 potentially relevant English language publications could initially be identified. Out of this, 300 articles were excluded because they were related to external corporate governance variables. A further 150 articles were excluded due to inaccessibility. This process led to an interim result of 50 articles. Further, the researcher also conducted forward and backward citation searches on the interim result of the 50 articles from the first stage to ensure all relevant articles were included for review. This procedure produced additional 21 research articles. A final list of 71 research articles were found relevant for review. To compile all journal articles, summary table of

literature reviewed was created with one row dedicated to every article and columns listing name (s) of the author (s) and the year of publication; measures of corporate governance; measures of performance; data analysis technique (s); theory (s) used; nature and source of data, study period, and study findings. The 71 articles were considered comprehensive for review because there was no new information obtained by additional articles beyond what had already been reviewed.

Mixed findings have been reported in the extant literature linking various corporate governance provisions on both financial and non-financial performance. The most common variables used in prior studies as indicative of CG are: Board meetings (Abatecola & Poggese, 2010; Gupta et al., 2019; Hassan et al., 2017), gender diversity (Gupta et al., 2019; Rakhman, 2019; Romano & Guerrini, 2014), board skill (Assenga et al., 2018; Ehikioya, 2009; Ujunwa, 2012; Romano & Guerrini, 2014), board sub-committees (Abatecola & Poggese, 2010; Gupta et al., 2019; Reddy et al., 2011), board size (Gupta et al., 2019; Hassan et al., 2017; Heo, 2018), board independence (Hassan et al., 2017; Heo, 2018; Shawtari et al., 2016) board age (Cheng, Chan, and Leung, 2010; Hafsi & Turgut, 2013; Roitto, 2013), board ethnicity (Masud et al., 2018; Simpson, 2014; Ntim, 2013; Ujunwa, 2012), CEO duality/separation (Gupta et al., 2019; Heo, 2018; Shawtari et al., 2016) and ownership structure (Ciftci et al., 2019; Fatma & Chouaibi, 2021; Puni & Anlesinya, 2020; Romano & Guerrini, 2014).

The researcher contends that corporate governance provisions included in any empirical study must be relevant to the study setting and relevant data for the study must be available. While corporate governance consists of internal (Board of director characteristics) and external provisions (Legal system) (Ciftci et al., 2019 ; Masud et al., 2018; Simpson 2014), this thesis considers seven internal CG provisions (Board meetings, gender diversity, board skill, board sub-committees, board size, board independence & board chair age). This is due to the fact that board of directors are the foundation block for any organisation's performance (Al-Matari, 2019; Darko et al., 2016; Mulyadi, 2017). These governance provisions are also relevant for SOEs in Kenya based on their recommendations in governance codes such as MCCG, OECD, UNCTAD, and

CACG as well as availability of data. CEO- duality is not considered as a relevant variable for this study since roles of the CEO and the chairperson are separated as stipulated in State Corporation Act and MCCG (2015, p.14), while disclosure of board ethnicity is not provided in the annual reports of SOEs in Kenya and ownership variable is not applicable in current study because non-listed and non-commercial SOEs which is the focus of current study are wholly owned by the state. The rest of the chapter is organized as follows: Section 4.2 discusses corporate governance and performance research in SOEs, section 4.3 frequency of board meetings, section 4.4 board gender diversity, section 4.5 board skill, section 4.6 board sub-committees, section 4.7 board size, section 4.8 board independence, section 4.9 combined corporate governance provisions, section 4.11 control variables, 4.12 research gaps, section 4.13 provides a summary of the chapter.

## **4.2 Corporate governance and performance research in SOEs**

Research interest in SOEs relating to corporate governance and performance is considerably low compared to non-SOEs. The review of literature as summarised in Table 4.1 demonstrate that out of the 71 articles reviewed, only 18 articles discusses corporate governance and performance of SOEs. The examination of the 18 articles reveals that the most frequent measure of corporate governance is the use of individual corporate governance provisions that accounts for 16 research articles compared to 2 research articles that investigate combined corporate governance provisions (Coletta & de Souza Lima, 2020; Tang et al., 2020). Further analysis also shows that the financial performance is the dominant measure which accounts for 16 articles with only 2 research articles on non-financial performance (Heo, 2018; Tang et al., 2020). Moreover, majority of studies tend to focus outside Africa with exception of Bezuidenhout (2016) in South Africa. The rest of studies are scattered around China, Brazil, Indonesia, Australia, Nepal, Korea, Malaysia, Lithuania, India, Italy, New Zealand and Norway. In addition, the mainstream literature focus on quantitative research (16 articles), with only 2 articles on qualitative research-case study approach (Abatecola & Poggesi, 2010; Fitzpatrick, 2008), an indication that none of the reviewed literature in SOEs apply mixed methods research. Finally, examination

of the identified research articles indicate that agency theory dominates research field as a theory used to explain corporate governance and performance relationships, appearing eleven times. The second most popular theories are stakeholder and stewardship theories (Three times each), followed by resource dependence theory (Two times), public choice theory (Two times), upper echelon theory (Once), political budget circle theory (Once), transaction cost theory (Once), and managerial hegemony theory (Once). Six research articles makes no mention of any theory.

### **4.3 Board meetings**

It is observed that board meetings is among the corporate governance provisions that have been documented as having impact on entity's financial and non-financial performance. The empirical literature examining this relationship has either been listed SOEs (Gupta et al., 2019; Hassan et al., 2017) or both non-SOEs and SOEs (Bhat et al., 2018) or non-SOEs (Al-Matari, 2019; Fahad & Rahman, 2020; Khaireddine et al., 2020). Gupta et al. (2019) investigated the relationship between frequency of board meetings and ROE of Nepalese enterprises between 2011-2016 and found a positive association between frequency of board meetings and ROE. Al-Matari (2019) examined the relationship between frequency of board meetings and Tobin's Q of Omani listed firms between 2011-2017 and observed significant positive association.

While positive relationship between frequency of board meetings and financial performance have been observed, negative relationship has also been reported. Bhat et al. (2018) investigated the impact of frequency of board meetings and firm value among state-and non-state-owned enterprises in Pakistan for the period 2010-2014 and found negative but insignificant link between frequency of board meetings and Tobin's q. Hassan et al.(2017) investigated the impact of frequency of board meetings on different measures of financial performance of 32 listed Malaysian Government linked companies between 2008 to 2013. The findings revealed negative but insignificant association with ROA, ROE and EPS.

On the relationship between frequency of board meetings and non-financial performance, Khaireddine et al. (2020) explored the influence of frequency of

board meetings and environmental and ethics performance among a sample of 82 listed companies in France between 2012-2017. The results showed positive significant relationship between the frequency of board meetings and ethics and environmental performance. In the same vein, Hussain and Rigoni (2018) investigated the relationship between frequency of board meetings and sustainability performance as defined by the GRI framework on the US based companies between 2007 to 2011 and found positive and significant relationship between frequency of board meetings and sustainability performance. On the contrary, Ofoegbu et al. (2018) examined the influence of frequency of board meetings and environmental disclosures among 90 listed companies in Nigeria Stock Exchange and 213 listed companies in Johannesburg Stock Exchange (South Africa) for the year 2015. The findings revealed positive but insignificant relationship between frequency of board meeting and environmental disclosures in both countries. Equally, Fahad and Rahman (2020) reported positive but insignificant relationship between frequency of board meetings and CSR performance among 386 listed companies in BSE 500 index in India from 2007 to 2016. Though the findings of these studies regarding the impact of frequency of board meetings on the financial and non-financial performance have been quite divergent, they have been important to a greater extent in informing different stakeholders about the importance of frequency of meeting in promoting corporate governance and performance.

#### **4.4 Gender diversity**

There is theoretical inconsistency of agency, stakeholder and resource dependence theories regarding the impact of gender diversity on financial and non-financial performance. Arguing from resource dependence theory, Assenga et al. (2018) investigated the impact of board gender diversity on the financial performance of ten listed Tanzania firms in DSE from 2006 to 2013 and found a positive significant relationship between gender diversity, ROA, and ROE. In addition, while applying agency and resource dependence theory, Berezinets et al. (2017) reported a positive relationship between Tobin's q and presence of women directors on board among 207 listed companies in Russian stock exchange during the period 2007 to 2011. Similarly, Darko et al. (2016) examined the relationship between female board on the basis of agency and resource

dependency theories and financial performance of 20 listed Ghanaian companies between 2008 to 2012 and reported a positive relationship between female representation on the board and various measures of financial performance (ROA and Net profit margin) when the total number of females were greater than two.

Divergent results have been documented regarding the impact of gender diversity and financial performance. From agency and stakeholder theories, Rose (2007) sought to determine whether female representation on board influence firm's financial performance using a sample of Danish firms for the period 1998 to 2001 and revealed negative relationship between percentage of female directors on board and Tobin's q. Similarly, from agency theory point of view, Adams and Ferreira (2009) documented that on average, female board representation is negatively associated with financial performance (Tobin's q & ROA) using a sample of 1939 firms in US between 1998 to 2001. Gupta et al. (2019) also found a negative relationship between presence of women on board and market price per share. Yet, Rakhman (2019) found no statistical significant relationship between gender diversity and the level of capital budget realization among local governments in Indonesia. Equally, Romano and Guerrini (2014) find no statistical significant relationship between gender diversity and financial performance.

The role of gender diversity has equally produced contrasting results on non-financial performance. Ibrahim and Hanefah (2016) investigated through the lenses of agency and resource dependency theory, the impact of female representation on Board and the level of CSR performance using a sample of 117 companies listed in Amman Stock Exchange, Jordan between 2007 to 2011 and established positive significant relationship between the two variables. Similarly, Orazalin (2019) explored the extent to which the percentage of women directors on the board influenced CSR reporting practices in all the commercial banks listed in Kazakhstan Stock Exchange for the period 2010-2016 while employing resource dependency theory. The result demonstrated positive significant association between the percentage of women representation on board and the level of CSR performance. In addition, drawing from agency and

stakeholder theories, Pucheta-Martínez and Gallego- Alvarez (2019) conducted a study on the relationship between gender diversity and CSR performance among international firms in 39 countries between 2004 to 2015, finding positive significant relationship between gender diversity and CSR performance. Moreover, Ullah et al.(2019) reported positive and significant association between board gender diversity and the extent of CSR performance among 277 listed Insurance companies in Bangladesh from the point of view of legitimacy theory.

However, there is contrary evidence from stakeholder, resource dependency and legitimacy theory on the relationship between gender diversity and non-financial performance from studies such as Cucari et al. (2018) and Fahad and Rahman (2020) who observed negative and significant association between gender diversity and CSR performance. Cucari et al. (2018) investigated the association between gender diversity and environmental, social and governance (ESG) performance for more than 54 Italian listed companies and found negative significant relationship. Fahad and Rahman (2020) observed negative and significant association between gender diversity and CSR performance.

#### **4.5 Board skill**

There are quite few studies that have examined the relationship between board skill and financial and non-financial performance using mixed-methods approach with exception of Assenga et al. (2018) and Pribadi et al. (2020). Most existing studies employ secondary data source in their analysis. Pribadi et al. (2020) reported a significant positive relationship between competency of human resources and capital budget realization in Indonesia using both primary and secondary data. Ujunwa (2012) explored the impact of board skill and financial performance of 122 listed firms in Nigeria between 1991 and 2008 using secondary data sources from the Nigerian Stock Exchange Factbook and annual reports and the result showed positive significant association. Hassan et al.(2017) investigated the impact of board skill and the financial performance of 32 listed Malaysian Government linked companies using secondary data extracted from annual reports between 2008 to 2013. The findings showed

conflicting results with different financial performance measures; positive association was reported in respect to ROE and EPS while negative relationship was observed with ROA. Romano and Guerrini (2014) find that board skill affect financial performance in terms of ROA and ROS in a negative way. In addition, Ehikioya (2009) examined the link between board skills and firm's financial performance on a sample of 107 firms quoted on the Nigerian Stock Exchange between 1996 to 2002 using secondary data from annual financial reports. The findings provided mix results with different financial performance measures; negative but insignificant relationship was reported between board skill and ROA and Tobin's q while positive but insignificant association was reported with ROE and PE. Assenga et al. (2018) investigated the impact of board skill on the financial performance of 18 Tanzania's listed firms using both primary and secondary data sources between 2006 and 2013 and found a positive but insignificant relationship with ROA and ROE.

On the non-financial measure, using secondary data from the annual financial reports, Katmon et al. (2019) provides evidence of positive significant relationship between educational level diversity and quality of CSR performance of 200 listed companies in Bursa, Malaysia between 2009 to 2013. In the same vain, Harjoto et al. (2015) observed positive significant connection between board member educational level and CSR performance in a study involving 1,489 U.S firms from 1999 to 2011 employing several secondary data bases involving Risk Metrics Directors, MSCI ESG (KLD), Compustat and the Centre of Research in Security Prices.

Quite the reverse, Subramanian et al. (2016) assert that there is a negative significant association between education level and innovation performance in a study that was conducted in Singapore using 366 firms from questionnaire servey from 2004 to 2008. Also, Khan et al. (2019) examined the relationship between educational level diversity on the quality of CSR performance using secondary data sources across 57 listed firms in the Pakistan Stock Exchange from 2010 to 2017 and established positive but insignicant association between the variables.

#### 4.6 Board sub-committees

Literature on the impact of board sub-committees on financial and non-financial performance is inconclusive. Although various studies have been conducted on the impact of board sub-committees on performance, the focus has been on the specific board sub-committee in isolation. Very few studies collectively examine the impact of such board committees together. For instance, on the financial performance, Dato et al., 2018 investigated the influence of different board sub-committees on financial performance in 23 microfinance institutions in Ethiopia over a period of 2006 to 2011 and established significant positive impact of monitoring and advisory committees on financial performance (Operational self sufficiency and operating expense ratio). Additionally, after empirical analysis of 38 listed companies from 2006 to 2018 on the Ghanaian Stock Exchange, Puni and Anlesinya (2020) found that remuneration committee had significant positive impact on EPS. In contrast, the same study revealed that remuneration committee had negative significant association with ROA and audit committee had negative significant impact on ROE, as well as significant negative relationship between nomination committee and EPS. However, Berezinets et al. (2017) found a negative but insignificant association between nomination, audit, and strategic committee on Tobin's q among a sample of 207 public companies trading in Russian stock exchange between years 2007 and 2011. Reddy et al., (2011) found positive but insignificant relationship between audit and remuneration committee on ROA among SOEs in New Zealand.

With regard to non-financial performance, Mahmood et. (2018) investigated the impact of CSR committee on environmental sustainability performance and social sustainability performance of 85 companies listed on Pakistan Stock Exchange for the period 2012 to 2015 and revealed positive significant association. Also, Pucheta-Martínez and Gallego- Alvarez (2019) conducted a study on the relationship between CSR board committee and CSR performance among international firms in multiple countries between 2004 to 2015 observed positive and significant relation between the two variables. In contrast, Masud et al. (2018) reported a positive but insignificant link between CSR and environmental committees and environmental sustainability reporting performance in South

Asian countries (Bangladesh, India and Pakistan) using a sample of 88 listed organizations' sustainability reports during the years 2009 to 2016.

#### **4.7 Board size**

The size of board of directors is one of the mostly investigated corporate governance provision on its impact to performance. The question of the optimality of the board size that can result into good performance is highly debated (Guney et al., 2020; Reddy et al., 2011). Ehikioya (2009) examined the link between board size and firm's financial performance on a sample of 107 firms quoted on the Nigerian Stock Exchange between 1996 to 2002. The findings revealed that board size exerted significant positive relationship with ROA, PE, and Tobin's q. Similarly, Al-Matari (2019) observed positive significant relationship between board size and Tobin's Q. Conversely, Ghazali (2010) reported a positive but insignificant relationship between board size and Tobin's q using data from the year 2001 annual reports of 87 non-financial listed companies in Bursa, Malaysia. Similarly, Heo (2018) find positive but insignificant impact between board size and ROA among 320 SOEs in the Republic of Korea in 2015. Also, Locke and Duppati (2014) explored the impact of board size on the financial performance of 84 Indian state-owned enterprises for the period 2003 to 2011. The findings suggested negative significant relationship between board size and ROA. Guney et al. (2020) examined the effects of board size on the financial performance of 47 non-financial firms (33, 9 and 4 from Kenya, Tanzania, and Uganda Stock markets respectively) listed on East African frontier markets (Kenya, Tanzania, and Uganda) during 2000-2013. Result suggested that board size has negative significant relationship with ROA. Other researchers like Assenga et al. (2018) revealed negative but insignificant relationship between board size and ROA. Furthermore, Darko et al. (2016) established a negative but insignificant relationship between board size and ROA in a sample of 20 listed companies on the Ghanaian Stock Exchange across five-year period ranging between 2008 to 2012.

Turning to non-financial performance, Masud et al. (2018) examined the link between board size and CSR performance and observed positive significant relationship. Also, Pucheta-Martínez and Gallego- Alvarez (2019) analysed the

association between board size and CSR performance and revealed a positive significant relationship between board size and CSR performance. In contrast, Khairredine et al. (2020) revealed a conflicting results when exploring how board size influenced ethics and environmental performance among a sample of 82 companies in France between 2012-2017. Findings indicated that board size positively but insignificantly affect ethics performance yet, in the same study, a positive significant relationship was observed between board size and environmental performance. Even though the findings of these studies are contradictory, much of the studies tend to link board size and financial and non-financial performance in non-SOEs context. The few studies that link board size and financial performance in SOEs such as Locke and Duppati (2014), Gupta et al. (2019) and Hassan et al. (2017) focus on traditional financial performance such as return on assets, return on equity and market price per share that might not be ideal for SOEs that are involved in social service provisions. This means that there is dearth of studies linking board size and non-financial performance in SOEs.

#### **4.8 Board independence**

Board independence is a significant part of good corporate governance that ensures effective monitoring of the organisation to achieve better performance. However, the empirical evidence on the relationship between board independence and performance is varied. Whereas Al-Matari (2019) find a positive significant relationship between board independence and Tobin's q in Omani listed companies, Assenga et al. (2018) observe a positive but insignificant relationship between board independence and ROA and ROE in Tanzania. Yet, Bhat et al. (2018) reveal a conflicting results between board independence and financial performance among state-and non-state-owned enterprises in Pakistan for the period 2010-2014. Although a positive significant link is observed in their study between board independence and Tobin's q among SOEs, positive but insignificant relationship is reported between board independence and Tobin's q in non-state-owned enterprises. In contrast, Darko et al. (2016) finds a negative significant relationship between board independence and ROA in Ghana. In addition, Afrifa and Tauringana (2015)

revealed a negative but insignificant relationship between board independence and Tobin's q for medium firms in UK.

Locally in the Kenyan context, Outa and Waweru (2016) examined the impact of board independent on financial performance using 52 companies listed on the Nairobi Securities Exchange during the period 2002 to 2014. The results revealed positive but insignificant link of between board independent and ROA. Similarly, Nyamongo and Temesgen (2013) demonstrate that board independence positively and significantly influence return on assets on a sample of 37 commercial banks in Kenya between 2005-2009.

With respect to non-financial performance studies, Barako and Brown (2008) revealed positive significant relationship between board independence and CSR performance among Kenyan banks. Kaymak and Bektas (2017) in their study found that CSR performance (Anti-corruption programme) among 80 Multinational corporations is associated with higher proportion of board independence using the data set of 2010. Moreover, Ashfaq and Rui (2019) observed a positive significant relationship between independent chairperson and CSR performance in Pakistan between 2013-2015. Furthermore, Khairredine et al. (2020) established positive and significant relationship between board independence on both ethics and environmental performance in France. Conversely, Pucheta-Martínez and Gallego- Alvarez (2019) reported negative significant relationship between board independence and CSR performance among international firms in multiple countries.

#### **4.9 Board Chair age**

There is scarcity of empirical literature linking chair age and performance in general. On the financial performance, Cheng et al. (2010) established positive significant relationship between board chairperson age and financial performance (ROA, cumulative stock return and cumulative abnormal return) using data from 5339 listed firms from China Stock Market and Accounting Research and the Taiwan Economic Journal Databases between 1999 to 2005. In other related studies the focus tend to link either CEO age and financial performance (Afrifa & Taurigana, 2015) or age of directors in general (Hafsi &

Turgut, 2013; Roitto, 2013). Afrifa and Tauringana (2015) revealed a positive significant relationship between CEO age and Tobin's q. Hafsi and Turgut (2013) studied the relationship between directors' age and CSR performance using sample of 95 firms listed in S&P 500 index in the year 2005 and discovered a negative significant relationship between directors' age and CSR performance. Similarly, Roitto (2013) studied the relationship between directors' age and CSR performance of 31 Finnish listed companies for the period 2012 and established significant negative association between board directors' age and CSR performance.

#### **4.10 Combined corporate governance provisions**

The academic works that study both individual corporate governance and CCG provisions in a single study are very scarce in SOEs (Tang et al., 2020). There are only a few exemption in non-SOEs such as Abdallah and Ismail (2017), Mardnly et al. (2018), Ntim and Soobaroyen (2013) and Owusu and Weir (2016). Using a sample of 214 firm-year listed mining SOEs in China between 2008 to 2016, Tang et al. (2020) explored the impact of corporate governance dimensions in different CSR performance. The results indicate that rather than single corporate governance provision in isolation, CCG provisions lead to high CSR performance. Abdallah and Ismail (2017) investigated the effects of CCG provisions and each of its individual provisions; disclosure, corporate communication and trading history on financial performance among Gulf Co-operative Council countries (581 companies) between 2008 and 2012 and established a positive significant relationship of combined CG provisions and individual provisions of disclosure and corporate communication on each of the financial performance measures (Tobin's 'q, ROA, and ROE). Similarly, Mardnly et al. (2018) sought to determine the impact of combined CG provisions and individual CG provisions on firm financial performance on all firms listed at Damascus Securities Exchange (DSE), Syria between 2011 to 2015. The results established that CCG provisions as well as ownership structure provision had positive and significant impact on EPS. Moreover, Owusu and Weir (2016) examined the relationship between CCG provisions and its individual provisions on financial performance (Tobin's q, ROA and ROE) using a sample of 35 listed

firms in Ghana from 2005 to 2010 and revealed a significant positive relationship of CCG provisions and financial performance measures but failed to find support for board structure and financial affairs and auditing sub-indices. These findings demonstrate that not all governance provisions that make up the CCG provisions may have the same impact on performance.

In other related studies, Ntim and Soobaroyen (2013), investigated the relationship between CCG provision as well as its individual provisions of boards of directors, ownership, accounting and auditing, risk management, internal audit and control, compliance and enforcement on both CSR and financial performance of South Africa's 169 non-financial listed firms at the Johannesburg Stock Exchange for the period 2002-2009. The findings revealed that combined CG provisions plus its individual provisions had a positive significant relationship both with CSR and financial performance (Tobin's q, ROA, and total share return).

#### **4.11 Control variables**

The review of literature also included some key entity specific characteristics. These variables include SOE age, SOE size and leverage.

##### **4.11.1 SOE AGE**

Empirical findings shows that age of an enterprise plays central role to its performance. Afrifa and Tauringana (2015) found a significant positive relationship between company's age and financial performance (Tobin's q) among SMEs in UK. Relatedly, Kim et al. (2019), studied the relationship between firm age and financial performance (asset utilization) of 31 Korean's SOEs between 2002 to 2015 and found a positive relationship between SOEs and asset utilization. In the same breadth, Ullah et al. (2019) studied the association between firm age and Tobin's q using a sample of 337 listed SOEs and non-state-owned enterprises on the Pakistan Stock Exchange (PSX) during the period 2010 to 2017. The findings suggested positive significant impact between firm age and Tobin's q. Moreover, Arora and Bodhanwala (2018) conducted a study to determine the influence of firm age and financial

performance of 407 listed Indian companies in Bombay Stock Exchange (BSE), covering over 2009 to 2014. The results disclosed contradictory findings; while negative but insignificant relationship was observed between firm age and both measures of financial performance (return on net worth and ROA), positive but insignificant association was reported with EPS. In contrast, Assenga et al. (2018) documented a negative but insignificant relationship between firm age and ROA and ROE.

On the non-financial performance, Khaireddine et al. (2020) observed positive and significant relationship between firm age and environmental and ethics performance. Also, Orazalin (2019) observed positive significant relationship between AGE and CSR performance. On the contrary, Garas and ElMassah (2018) investigated the impact of age of the firm and CSR performance of 147 listed companies drawn from six GCC countries (Bahrain, Kuwait, Oman, Qatar, KSA, and UAE) from 2007 to 2013. The results uncovered positive but insignificant relationship between age of the firm and CSR performance among GCC countries.

#### **4.11.2 SOE SIZE**

Also, extant literature demonstrate that size of the entity is a significant determinant of performance. Mardnly et al. (2018) showed that firm size have positive significant impact on EPS. Moreover, Gupta et al. (2019) found a positive relationship between size of SOE and ROE. Conversely, Ntim (2013), investigated the relationship between firm size and Tobin's q using a sample of 169 South African listed corporations between 2002 and 2007. The findings showed negative significant association between firm size and Tobin's q. Similarly, Ghazali (2010) documented negative significant relationship between firm size and Tobin's q. Moreover, Assenga et al. (2018) documented negative significant relationship between firm size and ROA and ROE.

Furthermore, Ashfaq and Rui (2019), Fahad and Rahman (2020) and Orazalin (2019) found positive significant relationship between firm size and CSR performance. In the same vein, Khaireddine et al. (2020) detected positive

significant relationship between firm size and ethical performance while at the same time reported negative but insignificant relationship between firm size and environmental performance.

#### **4.11.3 Leverage**

Regarding leverage, Ullah et al. (2019) reported positive significant relationship between leverage and Tobin's q for both SOEs and non-SOEs firms. Furthermore, Gupta et al. (2019) observed a positive relationship between leverage and ROE. Arora and Bodhanwala (2018) discovered contradictory findings between leverage and various financial performance measures; while negative significant relationship was observed between leverage and return on net worth as well as ROA, negative but insignificant association was reported with EPS. In the meantime, Al-Matari (2019) examined the relationship between leverage and financial performance of Omani's 24 listed firms between 2011-2017 and observed positive insignificant association between leverage and Tobin's q. Also, Campbell and Mínguez-Vera (2008) observed a negative relationship with Tobin's q. Similarly, Assenga et al. (2018) found negative relationship between financial leverage and ROA and ROE.

Moving on to non-financial performance, Ullah et al. (2019) revealed positive significant association between leverage and CSR performance. In contrast, Khan, Muttakin, and Siddiqui (2013) studied the link between leverage and CSR performance of 116 listed firms in Dhaka Stock Exchange (DSE) in Bangladesh from 2005 to 2009 and observed negative significant association between leverage and CSR performance. However, Pucheta-Martínez and Gallego-Álvarez (2019) found that leverage do not have any influence on CSR performance. Similarly, Fatma and Chouaibi (2021) tested the influence of leverage on CSR performance of 115 European financial institutions between 2007 and 2017. The results indicated negative but insignificant relationship.

#### **4.12 Research gaps**

In general, the review of literature identifies six key gaps. First, there is a methodological gap in the way corporate governance has been measured. This stems from the fact that most studies concentrate on individual provisions of corporate governance (Abatecola & Poggesi, 2010; Goldeng et al., 2008; Gupta et al., 2019; Hassan et al., 2017; Mabasa, 2018; Rose, 2007) and relatively few studies focus on CCG provisions with exception of Coletta and de Souza Lima (2020) and Tang et al. (2020). There is dearth of studies within SOEs that study both individual and CCG provisions together. This is in contrast to a few studies in non-SOEs that examines both provisions of CG (Mardnly et al., 2018; Owusu & Weir, 2016; Ntim & Soobaroyen, 2013). Brown et al. (2011) and Ho (2005) argue that evaluating a single provision of corporate governance may not reveal full impact of corporate governance compared to when several provisions of corporate governance is used in the evaluation of performance. Despite the call for broader dimension of corporate governance in assessing performance, evidence suggests that individual corporate governance provisions that constitutes CCG provisions may have different impact on performance (Mardnly et al., 2018; Owusu & Weir, 2016). Therefore, due to paucity of literature that incorporate both aspects of governance in SOEs settings, there is a need for more studies that explores both individual and CCG provisions in the same study to buttress the argument.

Second, review of literature reveals that relative to SOEs, majority of existing literature linking corporate governance and financial and non-financial performance are on non-SOEs (Adams & Ferreira, 2009; Hussain & Rigoni, 2018; Khairredine et al., 2020). The generalizability of research findings from non-SOEs to SOEs may be challenged due to different objectives that each pursue. While non-state-owned enterprises like private enterprises may lay emphasis on profit maximization, SOEs are not driven by profit maximization objective. The main responsibility of SOEs is to fulfil government agenda of social-economic objectives (Bhasa, 2015; Daiser et al., 2017; Kim et al., 2019). Therefore, there is a need for more studies to be conducted in SOEs.

Third, many existing studies are either from developed economies like Italy (Abatecola & Poggesi, 2010; Menozzi et al., 2012; Romano & Guerrini, 2014), New Zealand (Reddy et al., 2011) and Norway (Goldeng et al., 2008) or emerging economies such as India (Bhasa, 2015; Locke & Duppati, 2014), China (Tang et al., 2020) and Brazil (Coletta & de Souza Lima, 2020). Such research findings may not be applicable in SOEs in a developing country like Kenya whose corporate governance systems are still at embryonic stages of development.

Fourth, previous studies linking corporate governance and performance in SOEs have either geared towards accounting and market based measures like ROA, ROE, return on investment, and Tobin's q (Bezuidenhout, 2016; Gupta et al., 2019; Reddy et al., 2011) or non-financial measures (Argento et al., 2019; Garde et al., 2017) separately in different studies. Few studies such as Romano and Guerrini (2014) focus on both measures. SOEs have dual objectives of economic and social welfare, thus, there is a need for both measures to be assessed in a single study.

Fifth, preponderance of prior studies have relied on a single source of data, mostly drawn from quantitative data sources (Curi et al., 2016; Gupta et al., 2019; Locke & Duppati, 2014). Mixed-methods approach is very scarce among SOEs studies that look at corporate governance and performance relationships and even fewer in non-SOEs context (Assenga et al., 2018; Mahmood et al., 2018). Reliance on only one source of data may not provide a full picture of phenomena being examined. Greener (2008) suggests mixed methods approach to confirm and enrich phenomenon under investigation. Therefore, there is a need to bridge the gap by conducting more studies using a mixed method approach.

Lastly, theories that have tested the relationship between corporate governance and performance have mostly been applied in listed commercial SOEs context (Abatecola & Poggesi, 2010; Locke & Duppati, 2014; Reddy et al., 2011) or non-SOEs (Ashfaq & Rui, 2019; Assenga et al., 2018; Darko et al., 2016). This means that applicability of these theories in SOEs which are not listed and which are non-commercial is not known. There is a need therefore, for more studies to examine the applicability of these theories in such kind of enterprises



**Table 4.1: Summary of prior research on the relationship between CG and financial and non-financial performance**

Article No.	Author (s) and year	Country of the study	Measures of CG	Measures of performance	Data analysis technique	Theory (s) used	Nature and source of data as well as study period	Findings	
								Variables confirmed as positive and significantly related	Variables not confirmed as positive and significantly related
1.	Mishra et al. (2021).	India.	CCG ( Board size, board meetings, board independence, promotor ownership, institutional ownership, non-promotor ownership, external busyness of directors, internal participation of directors.	ROA, return on net worth and Tobin's q.	System GMM dynamic panel.	Agency theory and stewardship theory.	Secondary data (Prowess database).	CGI.	N/A
2.	Aldhamari et al. (2020).	Malaysia.	Risk committee and political connection of board members.	ROA and Tobin's q.	OLS and 2SLS.	Agency theory, resource dependence theory, and grabbing hand theory.	Secondary data from data stream database and annual financial reports.	Risk Committees and politically connected board.	N/A.
3.	Tang, Yang, and Yang (2020).	China (SOEs)	CEO duality, board independence, board diversity, controlling shareholding, and institutional ownership, bundles of CG	CSR	Fuzzy set/qualitative comparative analysis.	Agency theory and stakeholder theory.	Secondary data from CSR reports (2008-2016).	Bundles of CG	CEO duality, board independence, board diversity, controlling shareholding, and institutional ownership

4.	Coletta and de Souza Lima (2020)	Brazil (SOEs)	Board structure index	ROE, ROA and Tobin's q.	Unbalanced panel designed on RE and FE regressions.	Agency theory	Secondary data from bylaws, reference forms, annual informative (2002-2008).	Board structure index	N/A
5.	Puni and Anlesinya (2020).	Ghana.	Board size, inside directors, independent directors, audit, nomination, remuneration committees, CEO duality, and ownership concentration.	ROA, ROE, earning per share and Tobin's q.	Panel regression-Random effects	Agency theory and stewardship.	Secondary data ( Annual financial report and websites) and primary data (Questionnaire).	Board size, Inside directors, independent directors and board meetings and shareholders concentration.	Audit, Nomination, and remuneration committees and CEO duality.
6.	Pribadi et al.(2020).	Indonesia.	Synergy, human resource competency and organizational commitment.	Budget absorption.	Linear regression.	Public sector budget theory , public finance theory and organizational behaviour theory.	Questionnaire survey.	Synergy and human resource competency.	organizational commitment.
7.	Khaireddine et al. (2020).	France.	Board size, board independence, gender diversity, duality, and frequency of meeting.	CSR disclosures.	Generalized Least Squares method.	Agency theory, Stakeholder theory, and legitimacy theory.	Secondary data from Thomson Reuters-ASSET 4 and Thomson One Banker and Data stream databases (2012-2017).	Board size, Board independence, gender diversity and board meetings.	CEO duality
8.	Fahad and Rahman (2020).	India.	Board age, board meetings, CSR trainings, CEO duality, independent board directors meeting, board independence, sustainability committee, audit	CSR disclosures.	Panel data regression.	Agency theory and stakeholder theory.	Secondary data from annual financial reports, social report, company website, and Bloomberg survey	CEO duality, board independence, sustainability committee	Board age, board meeting, CSR trainings, independent board directors meeting, size of audit committee and

			committee, and women on board.						women on board.
9.	Zahid et al. (2020).	Malaysia	Board gender diversity	Corporate Sustainability Disclosures (CSD).	Ordinary Least Square (OLS).	Stakeholder theory and gender socialization theory.	Secondary data from annual financial reports downloaded from websites.	Board gender diversity	N/A
10.	Guney et al. (2020).	Kenya, Tanzania, and Uganda.	Board size, foreign board membership, civil servants or politician on board, and BOD with MSc and PhD degrees.	ROA.	RE-2SLS-IV	Agency theory, resource dependence theory and Institutional theory.	Secondary data from annual financial reports (2003-2013) and African Financials website.	Foreign board membership, civil servants, or politician on board and BOD with MSc and PhD degrees.	Board size
11.	Ullah et al. (2019).	Bangladesh	Board independence, female directors, managerial ownership, and institutional ownership.	CSR disclosures.	Ordinary Least Square (OLS).	Agency theory, stakeholder theory, and legitimacy theory.	Secondary data from annual financial reports (2008-2014)	Board independent, gender diversity.	Managerial ownership and institutional ownership.
12.	Orazalin (2019).	Kazakhstan	Board size, board independence and board gender diversity.	CSR disclosures.	Panel Fixed-Effect model	Resource dependence theory, stakeholder, and legitimacy theories.	Secondary data from annual financial reports downloaded from websites and webpages.	Board gender diversity.	Board size and board independence.
13.	Rakhman (2019).	Indonesia (Local governments).	Mayors' term, tenure, mayors' age, and gender.	Budget realization ratio and capital budget realization ratio.	Fixed-Effects	Upper Echelon theory, political budget circles and agency theory.	Secondary data from annual financial reports (2008-2011).	Tenure	Mayors' term, gender diversity and mayors' age
14.	Gupta et al. (2019).	Nepal (SOEs)	Board diversity, board size, audit committee, board meeting, CEO duality and block shareholders	ROE and MPS.	Ordinary regression analysis	N/A	Secondary data from annual reports (2011-2015).	Board size, size of Audit committee and board meeting.	board diversity, block shareholders, CEO duality

15.	Ashfaq and Rui (2019).	Pakistan.	CEO duality, non-executive director as chairman, foreigner on board, audit committee chairman and CSR committee and ownership structure.	CSR disclosures.	Multiple regression	Stakeholder theory.	Secondary data from annual reports (2013-2015).	Non-executive director, foreign nationals, foreign ownership, audit committee chair, CSR committee.	CEO duality, institutional ownership, government ownership,
16.	Pucheta-Martínez and Gallego-Álvarez (2019).	Multiple countries.	Board independence, board size, board gender diversity, CEO duality, CSR board committee	CSR disclosures.	Panel regression	Agency theory and stakeholder theory.	Secondary data from Thomson Reuters Eikon database (2004-2015).	board size, board gender diversity, CEO duality and CSR board committees are positively associated with CSR reporting	Board independence has a negative impact on CSR disclosure.
17.	Al-Matari (2019).	Oman.	Board size, board independence, board meeting, professional certificate of TEM, general experience of TEM and Accounting experience of TEM.	Tobin's q.	FGLS regression.	Agency theory and resource dependence theory.	Secondary data from annual financial reports (2011-2017).	Board size, board independence, general experience, and accounting experience.	Board meeting, professional certificate of TEM
18.	Katmon et al. (2019).	Malaysia.	Gender, education level, education background, board members age diversity, board members ethnicity diversity, board tenure diversity, board nationality.	CSR disclosures.	OLS and 2SLS.	Agency theory and resource dependence theory.	Secondary data from annual financial reports (2009-2013).	Education level diversity, board tenure and gender.	Age diversity and board nationality diversity, education background and ethnicity diversity.

19.	Khan et al. (2019).	Pakistan	Board age, nationality, ethnicity, education level, education background, and tenure.	CSR disclosures.	Panel Random Effects.	Resource dependence theory.	Secondary data from sustainability reports (2010-2017).	Nationality and gender.	Board age, ethnicity, education level, education background, and tenure.
20.	Cucari et al. (2018).	Italy.	Gender diversity, CSR committees, board age, board independence	ESG / CSR disclosures.	Panel data, random effects.	Stakeholder theory and resource dependence theory.	Secondary data from Bloomberg data base and corporate governance annual reports (2011-2014).	Board independence and CSR committees.	Gender diversity.
21.	Heo (2018)	Korea (SOEs).	CEO duality, board size, board independence, and disclosure practices.	ROA, Debt ratio, performance evaluation results and customer satisfaction survey scores.	OLS regression.	None.	Data obtained from the ALIO system (2015).	Disclosure practices.	CEO duality, board size, board independence,
22.	Ofoegbu et al. (2018).	South Africa and Nigeria.	Board independence, board size, audit committee independence, board meetings, environmental committee.	Environmental disclosures.	OLS regression.	Legitimacy theory and stakeholder theory.	Secondary data from annual financial reports (2013).	Board size, board independence, audit committee independence, and environmental committee.	Board meetings.
23.	Masud et al. (2018).	Bangladesh, India, and Pakistan.	Board independence, board size, gender diversity and environmental committee.	Environmental sustainability disclosures.	Ordinary Least Squares (OLS).	Agency theory, resource dependence theory, stakeholder theory, and	Secondary data from annual financial reports downloaded from the websites (2006-2016).	Board independence and board size.	Gender diversity and environmental committee.

						political cost theory.			
24.	Garas and ElMassah (2018).	Gulf Cooperative Council countries	Management ownership, ownership concentration, board independence, duality of CEO and chairperson, existence of audit committee,	CSR disclosures.	Panel data.	Legitimacy theory, agency theory and stakeholder theory.	Secondary data from ESG index developed by Hawkamah (Institute of CG), annual financial reports (2007-2012) and websites.	Ownership concentration, managerial ownership, board independence, CEO and chairman independence, independent audit committee	N/a
25.	Mardnly et al. (2018).	Syria.	Board of directors, audit, disclosure, and ownership structure	EPS and ROA.	Multiple linear regression model.	Agency theory and stakeholder theory.	Secondary data from CG report, code of good practices and annual financial report (2011-2015)	The aggregate index of CG and Ownership structure	Boards, audit and disclosure.
26.	Assenga et al. (2018).	Tanzania.	Outside directors, board size, CEO duality, gender diversity, board skills.	ROA and ROE.	Panel data regression.	Agency theory and resource dependence theory.	Secondary data from annual reports and primary data from semi-structured interview (2006-2013).	Gender diversity.	Board size, PhD qualification, foreign directors, board skills, outside directors.
27.	Arora and Bodhanwala (2018).	India.	Corporate governance index.	ROA, EPS, and RONW.	Panel data, random effect model.	N/A	Secondary data from proweess data base (2009-2014).	Corporate governance index.	
28.	Dato et al.(2018).	Ethiopia.	Number of board committees, advisory committees, and monitoring committees.	ROA, operating self-sufficiency (OSS), operating expense ratio (OER), active	GLS random effects panel regressions with standard errors.	Agency theory and resource dependence theory.	Secondary data from National Bank of Ethiopia, Association of Ethiopian Microfinance Institutions, and	Advisory and monitoring committees.	Number of board committees.

				borrowers, and average loan size.			MIX Market platform. Primary data was collected from survey and semi-structured telephone interviews.		
29.	Hussain and Rigoni (2018).	United States of America.	Board size, board independence, CEO duality, women on board, board activity and sustainability committee.	Sustainability performance (GRI).	Fixed Effect and Random Effect regression.	Agency theory and stakeholder theory.	Secondary data from sustainability report (2007-2011).	Board independence, sustainability committee, women on board, board activity.	CEO duality, interaction variable CEO duality and Board independence, Board size, women on board.
30.	Mahmood et al. (2018).	Pakistan.	Board size, board independence, board diversity, CSR committee.	CSR disclosures.	Panel data regression.	Stakeholder theory.	Mixed methods research: Annual financial reports (2012-2015) and interviews.	Board size, board diversity, and CSR committee.	Board independence.
31.	Bhat et al. (2018).	Pakistan: state and non-state-owned firms.	Board size, board independence, and board meetings.	Tobin's q.	Panel Least square with fixed effects.	Stewardship theory and agency theory.	Secondary data from Bloomberg and annual financial reports (2010-2014).	Board independence with SOEs.	Board size, board independence (non-SOEs), and board meetings.
32.	Kaymak and Bektas (2017).	Multiple countries.	Proportion of independent directors, board size, CEO duality.	CSR disclosures.	Multivariate ordinary least square.	Agency theory and stakeholder theory.	Secondary data from Bloomberg's businessweek.com and primary data from the questionnaire survey.	Independent board and board size,	CEO duality.
33.	Abdallah and Ismail (2017).	Gulf Cooperative Council countries	Aggregate index: Trading history, corporate communication, and disclosure.	Tobin's q, ROA and ROE.	GMM fixed effects regressions.	Agency theory.	Primary and Secondary data from National investor's report,	CG index and ownership concentration in Singapore, Vietnam,	Ownership concentration.

							The Institute of CG (2008-2012).	transparency, and disclosure.	
34.	Hassan et al. (2017).	Malaysia (SOEs).	Board size, board structure, board independence, board competency, board meeting and director's ownership.	ROA, ROE and EPS.	Multiple regression.	None.	Secondary data from annual report (2008-2013).	Board size have a relationship with ROA whilst board structure, board independence and board competence indicate a positive relationship with ROE. Board competence also shows a positive relationship with EPS.	board independence and director's equity ownership and frequency of board meeting.
35.	Berezinets et al. (2017).	Russia.	Board size, board independence, gender diversity, and board committees.	Tobin's q.	Panel data (Fixed-effects).	Resource dependence theory, agency theory, and stewardship theory.	Secondary data from SKRIN database (2007-2011).	Gender diversity, board size.	Board independence and board committees.
36.	Ibrahim and Hanefah (2016).	Jordan.	Board independence, gender diversity, board age, board nationality.	CSR disclosures.	Panel data, fixed effects.	Agency theory and resource dependence theory.	Secondary data from annual financial reports (2007-2011).	Gender diversity, board independence, board age and board nationality,	N/A

37.	Arora and Sharma (2016).	India.	Board size, board independence, board meetings, CEO duality, and Institutional ownership.	ROA, ROE, Tobin's q, NPM and Stock Return.	Panel fixed-effect and Sys-GMM.	Agency theory, stewardship theory, and stakeholder theory.	Secondary data from prowess, annual and corporate governance reports.	Board meetings and Stock Return.	CG variables not significant with both ROA and ROE. Board size is insignificant with NPS and Stock Return. CEO duality for all performance measures.
38.	Owusu and Weir (2016).	Ghana.	Governance index.	ROA, ROE and Tobin's q.	Panel data, fixed-effects regression.	Agency theory, stewardship theory, and resource dependence theory.	Secondary data from annual financial reports, Ghanaian Stock Exchange, and Fact books.	Governance index	N/A
39.	Subramanian et al. (2016).	Singapore.	Education level diversity.	Innovation.	Unbalanced panel.	Resource dependence theory.	Secondary data from National R&D survey, from 2004-2008.	N/A	Education level diversity.
40	Shawtari et al. (2016).	Malaysia (SOEs).	Board independence, board size, CEO duality, board meetings, multiple directorships, and audit committee independence.	EBIT	Quantile regression.	Agency theory.	Secondary data from annual reports and Bloomberg database ( 2002-2011).	Board independence	Board size, board meetings, multiple directorship, CEO duality,
41.	Darko et al. (2016).	Ghana.	Non-executive directors, board size, female board, block holder ownership, state ownership and audit committee size and audit committee meetings.	ROE, ROA, Net profit margin and Tobin's q.	Pool panel regression and ANOVA.	Agency theory and resource dependence theory.	Secondary data from annual financial reports (2008-2012).	Ownership concentration and female representation on board have positive relationship.	Board size, audit, state ownership, committee size, audit committee meetings and NED

42.	Curi et al. (2016).	Lithuania (SOEs).	Aggregated index and individual elements comprising of: Quality of transparency, quality of boards and quality of strategic planning, strategic implementation, and controls.	Technical efficiency.	Univariate and multivariate regression.	None.	Secondary data from annual financial statement (2012-2013).	Composite CG index and transparency.	Board Index Strategic and Planning Index.
43.	Bezuidenhout (2016).	South Africa (SOEs).	CEO remuneration.	Turnover, operating profit, net profit/loss, current ratio, solvency ratio, return on capital employed, Return on equity, audit opinion and expenditure usage.	Multiple regression.	Agency theory, public choice theory, stewardship theory, and resource dependence theory.	Secondary data from annual financial statement (2006-2014).	N/A	Inverse relationship between CEO and company performance.
44.	Outa and Waweru (2016).	Kenya.	Aggregate index comprising of: Board evaluation, disclosure, board balance.	ROA and Tobin's q.	GLS regression models.	Agency theory and stakeholder theory.	Secondary data from annual financial statement (2005-2014).	CG index as well as board evaluation and disclosure.	Board balance.
45.	Bhasa (2015).	India (SOEs).	Ownership diversity.	ROA, ROE and return on sales.	Ordinary Least Square.	None.	Secondary data from annual financial report, Bombay Stock Exchange database and Tomson One financial database (1974-1989).	Positive relationship between ownership and ROE.	Negative relationship between concentration and ROA and ROS.

46.	Afrifa and Tauringana (2015).	United Kingdom.	Board size, CEO age, CEO tenure, proportion of NEDs, Remuneration of directors.	Tobin's q ratio.	Panel data regression.	Resource dependence theory, life cycle theory, market learning theory and agency theory.	Secondary data from AMADEUS database (2004-2013).	Chief executive officer (CEO) age and tenure have positive impact on performance.	CEO tenure and proportion of NED, Board size and remuneration.
47.	Harjoto et al. (2015).	United States of America.	Gender diversity, race, age, outside directorship, tenure power and expertise.	CSR disclosures.	2SLS.	Stakeholder theory.	secondary data bases involving Risk Metrics Directors, MSCI ESG (KLD), Compustat and the Centre of Research in Security Prices (1999-2011).	Board diversity, tenure, and expertise.	Race, age, outside directorship, and power.
48.	Locke and Duppati (2014).	India (SOEs)	Board size and executive compensation.	ROA.	Pooled OLS regression.	Agency theory, stakeholder theory, public choice theory and transaction cost theory.	Secondary data from department of Public Enterprises, Ministry of heavy industries and annual financial reports (2003-2011).	Executive compensation.	Board size.
49	Romano and Guerrini (2014)	Italy (SOEs)	Ownership, board size, female directors, age of board members, education background, and politically connected directors.	ROI, ROE,ROA, ROS, and D/E.	OLS regression.	Agency theory.	Secondary data from Commissione Nazionale di Vigilanza sulle Risorse Idriche report of 2011.	Board size and ownership.	Politically connected directors, education background, age of board members, female directors

50.	Khan et al. (2013).	Bangladesh.	Managerial ownership, public ownership, foreign ownership, board independence, CEO duality, and audit committees.	CSR disclosures.	OLS regression.	Legitimacy theory.	Secondary data from annual financial reports (2005-2009).	Public ownership, foreign ownership, board independence, and audit committee.	Managerial ownership.
51.	Ntim (2013).	South Africa	Aggregate index comprising of: Boards of directors and ownership; accounting and auditing; risk management, internal audit and control; integrated sustainability reporting; and compliance and enforcement.	Tobin's q.	Univariate and multivariate regression.	Political cost theory and Resource dependence theory.	Secondary data from annual report (2002-2007).	CG index.	N/A
52.	Ntim and Soobaroyen (2013).	South Africa.	CG index and Boards, directors, ownership, accounting and auditing, risk management, internal audit and control, compliance, and enforcement.	CSR disclosures, Tobin's q, ROA, and total share return.	Multivariate regression.	Neo-Institutional theory.	Secondary data from annual reports and sustainability reports (2002-2009).	CG index has a positive relationship with CSP. The same result is also true for each element making the index.	Block ownership and institutional ownership,
53.	Nyamongo and Temesgen (2013).	Kenya.	Board size, independent directors, and CEO duality.	ROA and ROE.	Panel regression.	Resource dependence theory, stewardship theory, and agency theory.	Secondary data from annual financial reports (2005-2009).	Independent directors.	Board size and CEO duality.

54.	Hafsi and Turgut (2013).	United States of America.	Board size, director independence, director stock ownership, leadership duality, director age, director gender, director ethnicity, director experience, and director tenure.	CSR disclosures.	OLS regression.	Agency theory and resource dependence theory.	Secondary data from IRRC directors' data base and board analyst database, compustat, and KLD.	Director gender.	Director age Board size, director independence, director stock ownership, leadership duality, director ethnicity, experience, and tenure.
55.	Roitto (2013).	Finland.	Board members' average age, gender diversity, board independence, institutional ownership.	CSR disclosures.	OLS regression.	Legitimacy theory and agency theory.	Secondary data from annual financial reports and corporate governance reports (2012).	N/A	Board members' average age, gender diversity, board independence, institutional ownership.
56.	Menzio et al. (2012).	Italy (SOEs).	Board composition and political connection.	Return on invested capital and ROE.	Multivariate.	None	Primary data from survey taken annually (1994-2004).	Politically connected directors exert a positive and significant effect on employment.	Politically appointed directors have a negative impact on ROI and ROE.
57.	Ujunwa (2012).	Nigeria.	Board size, board skill, board nationality, board gender, board ethnicity, and CEO duality.	ROA.	Generalised Least Square (GLS), Fixed-Effects and Random Effects models.	Resource dependence theory and agency theory.	Secondary data from NSE factbook and annual financial reports (1991-2008).	Board skill, board nationality and ethnicity.	CEO duality, gender diversity, and board size.

58.	Reddy et al. (2011).	New Zealand (SOEs).	Board independence, board size, board diversity and board committees.	ROA, ROE, operating income to Return on assets, net revenue to total assets and operating efficiency.	Ordinary Least Square.	Agency theory.	Secondary data from annual financial reports (2000-2007).	N/A	Board size, Board diversity board committee, board independence.
59.	Pham et al. (2011).	Australia.	Board independence and size, insider, and outsider shareholdings.	Economic value added and Tobin's q.	Fixed-effects regression.	Agency theory.	Secondary data obtained from Stern Stewart and Co (1994-2003).	Board independence and board size	institutional block holders and ROA
60.	Abatecola and Poggesi (2010).	Italy (SOEs).	Number and frequency of board meetings, Number and authority of NED, Separation of roles between CEO and chairman, number of independent directors, director's nomination proposal committee, pay committee, director's reward, internal affairs audit committee, investor relations.	Return on Investment, ROE and Return on Sales.	Multiple case study.	None	In-depth qualitative multiple case study research method.	N/A	No conclusive relationship could be found.

61.	Cheng et al.(2010).	China.	Demographic characteristics of chairpersons: Education level, Title, age, years of experience, and gender.	EPS, ROA, Annual % change of EPS and ROA, cumulative stock return and cumulative abnormal return.	Multiple regression analysis.	Upper echelons theory, resource dependence theory and managerial networking theory.	Secondary data from China Stock Market and Accounting Research and the Taiwan Economic Journal Databases between (1999 to 2005).	Education level, titles, age, and tenure.	Years of experience.
62.	Ghazali (2010).	Malaysia.	Ownership structure (director ownership, foreign ownership, and government ownership), board size, independent directors, and chair independent.	Tobin's q	Multiple regression.	Resource dependence theory.	Secondary data from annual reports (2001).	Foreign ownership and government ownership.	Board size, independent directors and chair independent.
63.	Huang (2010).	Taiwan	Independent directors and government ownership.	CSR disclosures and ROA.	Ordinary least square.	Agency theory.	Taiwan Economic journal, Annual financial reports, websites, and CSR report (2006-2007).	Independent directors and government ownership.	n/a
64.	Paul and Sainty (2009).	Canada.	Board independence.	Corporate Social performance, EPS and ROE.	Multiple regression.	Agency theory, stakeholder theory, real option theory and signalling theory.	Secondary data (2002-2006).	Board independence.	Board shareholder orientation.

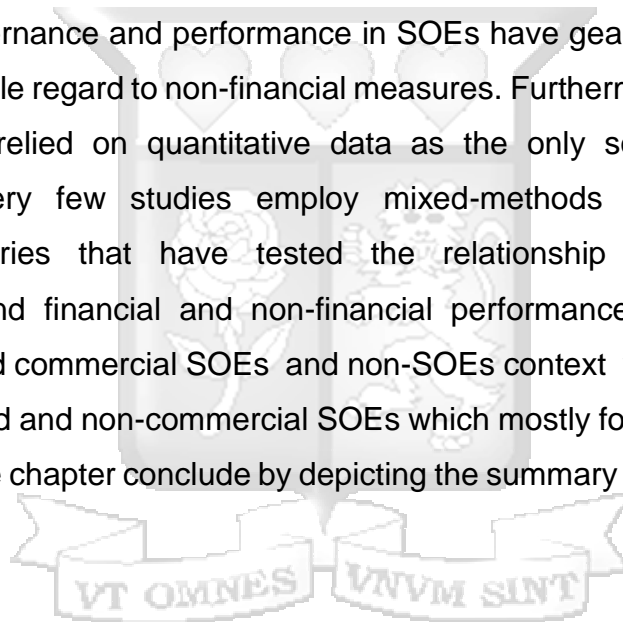
65.	Ehikioya (2009).	Nigeria.	Board size, board composition, number of outstanding shares, CEO duality, board skills, no. family members on board, shareholders concentration.	ROA, price earnings ratio, ROE and Tobin's q.	Panel data ordinary least square (OLS).	Agency theory and stakeholder theory.	Secondary data from annual financial reports (1998-2002).	Ownership concentration and ROA, ROE, PE, Board size and ROA, PE and Tobin's Q.	Board composition CEO duality and family member on board and board size
66.	Adams and Ferreira (2009).	United States of America.	Directors' age, tenure, independent directors, board size, board meetings, remuneration, other directorships, meeting fee and fraction of female directors on board.	Tobin's q and ROA.	Probit and ordinary least square regression.	Agency theory.	Secondary data from annual financial reports (1996-2003).	N/A	Average effect of gender diversity on firm performance is negative.
67.	Goldeng et al. (2008).	Norway (Non-SOEs and SOEs).	Ownership identity.	ROA.	OLS regression.	Agency theory.	Secondary data from Norwegian Register of Company Accounts (1990-1999).	Ownership identity.	N/A
68.	Fitzpatrick (2008).	Australia (SOEs).	Board -CEO relationship, Board composition, committee structure, health service delivery and policy, executive meetings, planning sessions.	Feedback from stakeholders' survey.	Case study analysis.	Agency theory, stewardship theory, stakeholder theory, resource dependence theory, and managerial hegemony theory.	Primary data from questionnaire survey, interviews and observation (2001-2003).	Board -CEO relationship, Board composition, committee structure, health service delivery and policy, executive meetings, planning sessions.	N/A

69.	Campbell and Mínguez-Vera (2008).	Spain.	Gender diversity in the board.	Tobin's q.	Panel regression.	Agency theory.	Secondary data from Spanish Stock Exchange Commission 1995-2000.	Female representation on board increases firm value.	N/A
70.	Barako and Brown (2008).	Kenya.	Board independence, gender diversity, foreign directors,	CSR disclosures.	Multiple regression analysis.	Stakeholder theory and legitimacy theory.	Secondary data from annual financial report (2008).	Board independence, gender diversity	Foreigners on boards.
71.	Rose (2007).	Denmark.	Female board representation.	Tobin's q.	Probit as well as Poisson regression.	Agency theory and stakeholder theory.	Secondary data from annual financial report (1998-2001).	N/A	Female board membership.



#### 4.13 Chapter summary

The chapter discussed extensive literature review on the relationship between corporate governance and financial and non-financial performance and identified gaps in the literature that required further studies. While there are numerous studies relating corporate governance provisions and financial and non-financial performance, most studies concentrate on individual provisions of corporate governance with relatively few studies focusing on combined corporate governance provisions. Also, extant literature is mostly on the non-SOEs sector compared to studies that have been conducted in SOEs. Moreover, relative to developing countries, existing studies are either from developed or emerging economies. In addition, performance measures in the previous studies linking corporate governance and performance in SOEs have geared towards financial aspects with little regard to non-financial measures. Furthermore, majority of prior studies have relied on quantitative data as the only source of knowledge acquisition, very few studies employ mixed-methods research approach. Besides, theories that have tested the relationship between corporate governance and financial and non-financial performance have mostly been applied in listed commercial SOEs and non-SOEs context with little applicability in the non-listed and non-commercial SOEs which mostly focus on social service provisions. The chapter conclude by depicting the summary of literature reviewed in table 4.1.



## CHAPTER FIVE

### HYPOTHESES DEVELOPMENT

#### 5.1 Introduction

The objective of this study is to establish the relationship between corporate governance and financial and non-financial performance of SOEs in Kenya. Whereas the theoretical underpinning and literature review for the study has been offered in chapter three and chapter four, this chapter discusses hypotheses development of independent variables to be tested using secondary data and is structured as follows: Section 5.2 to 5.9 covers hypotheses development of CG provisions. Section 5.10 presents control variables, section 5.11 highlights conceptual framework. Finally, section 5.12 provides a summary of the chapter.

#### 5.2 Board meetings

Board meeting refers to gathering of directors to discuss matters affecting the organization (Hassan et al., 2017). The impact of board meetings on performance is explained from agency theory perspective (Jensen & Meckling, 1976). The ability of the board to monitor managers' actions is through attendance of meetings. Khaireddine et al. (2020) assert that availability of information obtained from frequent meetings reduces information asymmetry among the management. Frequency of the board meetings has been documented to have impact on the performance of the organization (Adams & Ferreira, 2009). Yet, there is no consensus among researchers on the frequency of the meetings that should be held. However, it is generally argued that more meetings is associated with performance improvement (Rehman & Hashim, 2018). This is because directors get the most important information to run the organisation by attending the meetings (Adams & Ferreira, 2009). The MCCG recommends frequency of board meetings to be at least four times a year. This means that board members can organise as many meetings as possible to discuss the performance of SOEs. However, Mahadeo and Soobaroyen (2012) argue that the statistics of frequency of board meetings in the public sector such as SOEs are usually to justify the

remuneration of board members and not to improve performance. Moreover, Thompson et al., (2018) argue that board meetings in the public sector are costly, lengthy, and unproductive. This can negatively affect performance. To counter this argument, Khairredine et al. (2020) assert that the availability of information obtained from frequent meetings reduces information asymmetry among the management thus motivating financial and non-financial performance.

The empirical findings are however varied on the effect of frequency of board meetings on performance. Whereas positive significant relationship have been reported on the association between frequency of board meetings and financial performance (Al-Matari, 2019; Arora & Sharma, 2016; Gupta et al., 2019), negative but insignificant relationship have also been documented (Bhat et al., 2018; Hassan et al., 2017). On the non-financial performance, Hussain and Rigoni (2018), Khairredine et al. (2020), and Majumder et al. (2017) provide evidence that frequency of board meetings positively and significantly influence CSR performance. On the contrary, Ștefănescu (2013) established negative significant association with CSR performance while Lagasio and Cucari (2019) and Ofoegbu et al. (2018) reported negative and positive insignificant link between frequency of board meetings and CSR performance respectively.

On the basis of the argument advanced above relating to the frequency of board meetings and the findings of Al-Matari (2019), Gupta et al. (2019), Hussain and Rigoni (2018) and Khairredine et al.(2020), the following hypotheses are proposed:

*H<sub>1a</sub>: There is a positive relationship between the frequency of board meetings and the financial performance of SOEs in Kenya.*

*H<sub>1b</sub>: There is a positive relationship between the frequency of board meetings and the non- financial performance of SOEs in Kenya.*

### **5.3 Gender diversity**

Gender diversity refers to the presence of female directors in corporate boards (Ibrahim & Hanefah, 2016; Ujunwa, 2012). The impact of gender diversity on

performance can be better understood if it is looked at through the prism of the agency theory (Jensen & Meckling, 1976), stakeholder theory (Freeman, 1984), and resource dependence theory (Pfeffer & Salancik, 1978). On the basis of agency theory, women are likely to attend meetings more often compared to their male counterparts (Adams & Ferreira, 2009), they are also touted as having extra ability in decision making, trustworthy and committed to the organisation (Assenga et al., 2018). Viewed from stakeholder theory, society may perceive firms with women boards as more responsive to social performance than those that do not (Pucheta-Martínez & Gallego- Alvarez, 2019). In Kenya, MCCG provides for gender diversity in the board appointments and recommends that not more than two-thirds of both appointed and elective positions in the public service should be dominated by members of the same gender. Drawing on resource dependence theory, Hafsi and Turgut (2013) contend that female directors add experience sets and values that are dissimilar of those of their male colleagues.

Prior studies have been inconclusive regarding the relationship between gender diversity and performance. On the financial performance, Assenga et al. (2018), Berezinets et al. (2017) and Darko et al. (2016) reported positive significant relationship between female representation on the board and financial performance. However, Adams and Ferreira (2009), Gupta et al. (2019) and Rose (2007) document that female board representation is negatively associated with financial performance. Nonetheless, Reddy et al. (2011) reported negative but insignificant impact between female representation on board and financial performance. Similarly, Rakhman (2019), found positive but insignificant association between gender diversity and the level of capital budget realization among local governments in Indonesia while Romano and Guerrini (2014) find negative but insignificant relationship between gender diversity and financial performance as measured by ROA and ROS of Italian water utilities.

The role of gender diversity has equally produced divergent results on non-financial performance. Ibrahim and Hanefah (2016), Orazalin (2019), Pucheta-Martínez Gallego-Álvarez (2019) and Ullah et al. (2019) document positive significant relationship between gender diversity and CSR performance.

Conversely, Cucari et al. (2018), Fahad and Rahman (2020) and Muttakin et al. (2015) observed negative significant association between gender diversity and CSR performance.

Grounded on the agency, stakeholder and resource dependence theories and the empirical evidence of positive relationship, the following hypotheses are proposed:

*H<sub>2a</sub>: There is a positive relationship between board gender diversity and financial performance of SOEs in Kenya.*

*H<sub>2b</sub>: There is a positive relationship between board gender diversity and non-financial performance of SOEs in Kenya.*

#### **5.4 Board skill**

Individuals appointed as board members should have the right skills to ensure superior performance (Ehikioya, 2009). Board functions require high level of competency that can enhance critical thinking in discharging the roles of monitoring, advisory and resource mobiliser. Resource dependence theorist views a director with a right skill as a strategic resource to the organisation (Ujunwa, 2012). The MCCG recommends that board appointment should take into consideration the mix of skills and competency required for the achievement of the organization's long term goals (GOK, 2015). Doctorate qualification, being the highest level of academic achievement may inculcate mix of competency and capability required in discharging board functions which may improve entity's performance. In addition, professional certification such as Certified Public Accountant (CPA), The Chartered Institute of Marketing (CIM) among others enhances the quality and competency of the holder (Al-Matari, 2019).

However, the empirical evidence on the relationship between board skill and financial and non-financial performance is inconclusive. Many prior studies observe that board skill positively and significantly influence financial performance (Guney et al., 2020; Hassan et al., 2017; Pribadi, et al., 2020; Ujunwa, 2012). In contrast, Ehikioya (2009) provided mix results on the impact

of board skill and different financial performance measures; negative but insignificant relationship was reported between board skill and ROA and Tobin's q while positive but insignificant association was reported with ROE and PE. Assenga et al. (2018) found positive but insignificant relationship between board skill and ROA and ROE whereas Romano and Guerrini (2014) found negative effect between board skill and ROA and ROS.

The inconclusive results have also surfaced in prior research regarding the impact of board skill and non-financial performance. Katmon et al. (2019) and Harjoto et al. (2015) observed positive significant connection between board skill and CSR performance. On the contrary, Subramanian et al. (2016) assert that there is a negative significant association between board skill and innovation performance while Khan et al. (2019) established positive but insignificant association between board skill and CSR performance. Therefore, based on resource dependence theory, this study prompts the following hypotheses:

*H<sub>3a</sub>: There is a positive relationship between board skills and the financial performance of SOEs in Kenya.*

*H<sub>3b</sub>: There is a positive relationship between board skills and the non-financial performance of SOEs in Kenya.*

## **5.5 Board sub-committees**

Board sub-committees' function on performance can be explained from agency theory perspective. The agency problem is solved by establishing board whose inner workings reside in board committee (Puni & Anlesinya, 2020). Power and responsibilities are decentralized by establishing independent board committees thus enhancing efficiency and effectiveness (Masud et al., 2018). Committees coalesce to bring different expertise in decision making (Berezinets et al., 2017; Jiraporn et al., 2019). Besides, Laux and Laux (2009) and Puni and Anlesinya (2020) argue that most of the functions carried out by the board are finetuned first by various committees before presenting them to the board for implementation. MCCG recommends formation of board sub-committees with a maximum of four committees of the board. It is therefore expected, that with the

establishment of board sub-committees, they work cohesively to improve the performance in general.

Mix results have been documented on the impact of board committees and performance. On the influence of board sub-committees on financial performance, Dato et al. (2018) and Puni and Anlesinya (2020) found positive significant impact of board sub-committees on financial performance. Conversely, Berezinets et al. (2017) found negative but insignificant association between nomination, audit, and strategic committee on Tobin's q. Reddy et al., (2011) find positive but insignificant effect between audit and remuneration committee on ROA. Similarly, Mix findings have also been reported on the link between board sub-committees and CSR performance. Whereas Mahmood (2018) and Pucheta-Martínez and Gallego- Alvarez (2019) observed positive and significant relationship between board sub-committee and CSR performance, Masud et al. (2018) report positive but insignificant link between board sub-committee and CSR performance. Therefore, the following hypotheses are proposed:

*H<sub>4a</sub>: There is a positive relationship between board sub-committees and financial performance of SOEs in Kenya.*

*H<sub>4b</sub>: There is a positive relationship between board sub-committees and non-financial performance of SOEs in Kenya.*

## **5.6 Board size**

The agency theory presents divergent views on the impact of board size on performance. On the one hand, agency theory posits that larger board improves monitoring capacity, networking and expertise which may result into a better performance (Berezinets et al., 2017; Darko et al., 2016), but on the other hand, such boards may slower the decision making process (Heo, 2018; Kaymak & Bektas, 2017). Although it remains unclear what optimal board size should be (Guney et al., 2020; Romano & Guerrini, 2014), viewed from stakeholder theory, larger boards are likely to represent a wider stakeholders therefore aligning entity's activities to the needs of its stakeholders (Kaymak & Bektas, 2017).

Resource dependence theory advocates for a larger board due to likelihood of attaining divergent skills, expertise and knowledge which are essential for better performance (Berezinets et al., 2017; Ghazali, 2010).

With the adoption of MCCG in 2015, the number of boards in SOEs are required to be between 7 to 9. However, unlike private sector, the citizens do not have direct relationship with the board of directors of SOEs because the board report directly to the line cabinet secretary or to the parliament. A gloomy picture is painted of SOEs directors with Thompson et al. (2018) asserting that such directors are political appointees whose selections are on favours as opposed to merit, and therefore, may take decisions that do not improve performance.

Mix results is observed in the prior literature on the relationship between board size and financial performance. While Al-Matari (2019) and Ehikioya (2009) observe positive significant relationship between board size and financial performance, Guney et al. (2020) and Locke and Duppati (2014) revealed significant negative association between board size and financial performance, yet other researchers either reveal negative but insignificant relationship (Assenga et al., 2018; Darko et al., 2016; Reddy et al., 2011) or positive but insignificant association (Ghazali, 2010; Heo, 2018; Romano & Guerrini, 2014) between the two variables. In other related studies linking CG and non-financial performance, Masud et al. (2018) and Pucheta-Martínez and Gallego- Alvarez (2019) presented positive significant relationship between board size and CSR performance. In contrast, Khairredine et al. (2020) find positive but insignificant relationship between board size and ethics performance. To ascertain whether board size affects entities' financial and non-financial performance, the following hypotheses are formulated:

*H<sub>5a</sub>: There is a significant relationship between board size and financial performance of SOEs in Kenya.*

*H<sub>5b</sub>: There is a significant relationship between board size and non-financial performance of SOEs in Kenya.*

## 5.7 Board independence

Independent director is defined as a director who do not have any relationship with the organization for which he/she works except that of directorship and in some cases, may hold small amount of shares (OECD, 1999). Independent directors are regarded as effective since they are perceived as less bias and less likely to collude with the management (Agyemang & Castellini, 2015). The impact of board independence on organisational performance may be discussed from the lenses of agency theory, stakeholder theory and legitimacy theory. From the agency viewpoint, larger percentage of independent directors may be expected to easily scrutinize the entity's operations and put its management on guard. On the other hand, stakeholder theory posits that such directors are best placed to represent the wider interest of the organisation (Kaymak & Bektas, 2017). Moreover, independent directors may enhance legitimacy by acting as a representative of many stakeholders (Ntim & Soobaroyen, 2013). MCCG recommends that at least one third of the board members should be independent at the time of appointment (GOK, 2015). It is therefore expected that with the adoption of MCCG with the provision of independent directors, performance of SOEs should improve.

Previous studies observed competing findings on the impact of independence of the board and financial performance. While positive significant influence is revealed by Al-Matari (2019), Assenga et al. (2018) observed positive but insignificant relationship between board independence and ROA and ROE. Again, Bhat et al. (2018) revealed positive but insignificant relationship between NEDs and Tobin's q. Moreover, Darko et al. (2016) reported negative significant relationship between independence of the board and ROA. Further, Afrifa and Tauringana (2015) reported negative but insignificant relationship between independence of the board and Tobin's q for medium firms in UK.

In the same vain, significant positive findings between board independence and CSR performance have been established (Ashfaq & Rui, 2019; Khaireddine et al., 2020; Kaymak & Bektas, 2017) as well as negative significant association (Pucheta-Martínez & Gallego-Álvarez, 2019).

Fitting with the agency, stakeholder, and legitimacy theories and on the basis of supportive positive evidence of prior literature, the researcher hypothesizes that:

*H<sub>6a</sub>: There is a positive relationship between board independence and the financial performance of SOEs in Kenya.*

*H<sub>6b</sub>: There is a positive relationship between board independence and the non-financial performance of SOEs in Kenya.*

### **5.8 Age of board chair**

Board chairperson has a very important role of presiding over board of directors and to ensure it functions efficiently and effectively (Chen, 2016). Older directors are believed to have additional skill and experience (Cheng et al., 2010) and as such, the role of board chair age on performance can be construed from the lenses of resource dependence theory, stewardship theory and legitimacy theory. Observed from resource dependence perspective, older board chair indicates a more experienced individual with more skills on how to lead the enterprise to achieve its objective. Based on stewardship theory, Katmon et al. (2019) allude that since elders generally may not welcome new ideas from relatively younger members who are energetic and risk takers, they may be perceived as cautious and reluctant to take up risky activities, thus are likely to be a good steward of the firms' resources. Moreover, the firm may legitimize its governance practices by having older chair person who may be regarded as morally upright.

MCCG requires that the chairman of the board be appointed by the President for a three-year term which may be renewed for a further three years. The culture of board chair appointment by the government to head SOEs is similar to those found in China (Guan et al., 2021). This means that the board chair is not only leading the board but also act as the representative of the government. This situation allows the board to amass a lot of authority which, if utilized well, should help SOEs to improve their performance. MCCG however, does not specify the age bracket of members of the board including that of the chairperson. Despite

the absence of recommended age bracket of the board chairperson, there has been a general concern of the ability of the older individuals (retirees) appointed to lead SOEs. Goergen et al. (2015) empirically observed a cognitive conflict between the chairperson and CEO when there is existence of substantial age difference. This conflict may be as a result of different viewpoints relating to behaviour, attitude, and thinking which may be occasioned to historical events and social trends witnessed by the two individuals. Mahadeo and Soobaroyen (2012) assert that chairpersons of SOEs are politically nominated who in most cases lack experience to lead SOEs. For instance, majority of those appointed to chair SOEs in Kenya, are usually picked from political class, most of whom, are retired civil servants or those who have lost in their election/re-election bid.

Empirically, few studies have been done on the impact of board chair age and performance in general (Fahad & Rahman, 2020). Cheng et al.(2010) established positive significant relationship between board chairperson age and financial performance. Meanwhile, negative significant relationship have also been witnessed between board age in general and CSR performance (Hafsi & Turgut, 2013; Roitto, 2013).

On the assumption of resource dependence, stewardship and legitimacy theories, the following hypotheses are framed:

*H<sub>7a</sub>: There is a positive relationship between age of the board chair and the financial performance of SOEs in Kenya.*

*H<sub>7b</sub>: There is a positive relationship between age of the board chair and the non-financial performance of SOEs in Kenya.*

## **5.9 Combined corporate governance provisions**

The impact of CCG provisions on financial and non-financial performance can be explained from multi-theoretical framework to capture various corporate governance provisions such as frequency of board meeting, board skill, gender diversity, board sub-committees, board size, board independence and board chair age that make up the CCG provisions. Therefore, agency theory (Jensen &

Meckling, 1976), stakeholder theory (Freeman, 1984) resource dependence theory (Pfeffer & Salancik, 1978), stewardship theory (Donaldson & Davis, 1991) and legitimacy theory (Suchman, 1995) may be used to explain this relationship. The relationship between CG and performance is deemed comprehensive when CCG provisions is used as opposed to a single corporate governance provision, since it is unlikely that the quality of corporate governance of an entity could be determined by a single characteristic (Brown et al., 2011; Ho, 2005; Owusu & Weir, 2016).

Contradictory findings have been reported in prior studies on the impact of CCG and financial performance. On the one hand, Tang et al. (2020) find a positive association between CCG provisions and CSR performance of listed mining SOEs in China. Abdallah and Ismail (2017), Mardnly et al. (2018) and Owusu and Weir (2016) discovered significant positive association between CCG and financial performance. On the other hand, Ntim and Soobaroyen (2013) established significant positive relationship between CCG and CSR performance. Thus, the hypotheses are:

*H<sub>8a</sub>: There is a positive relationship between CCG provisions and financial performance of SOE in Kenya.*

*H<sub>8b</sub>: There is a positive relationship between CCG provisions and non-financial performance of SOE in Kenya.*

## **5.10 Control variables**

A control variable is one that is not of primary interest to the researcher but is related to the dependent variable (Kothari et al., 2014). The study discusses age of SOEs, SOE size and leverage as control variables consistent with prior researchers (Gupta et al., 2019; Kim et al., 2019; Reddy et al., 2011) to alleviate the problem of endogeneity.

### **5.10.1 Age of SOEs**

Literature on corporate governance suggest that age of SOE may have impact on its performance (Fahad & Rahman, 2020) . Age of SOE is the years from the

date of its establishment to the end of the sample period (Kim et al., 2019). SOE age is considered as control variable because as the years passes by, the entity accumulates the know-how within its operational environment and also within its management team hence may affect performance in a positive way. Conversely, performance may also be negative as the entity gets older due to obsolete managerial skills or if the entity becomes stagnant (Kim et al., 2019).

Conflicting outcomes have been documented in the prior studies where other researchers observed positive significant relationship between firm age and financial performance (Afrifa & Tauringana, 2015; Kim et al., 2019; Ullah et al., 2019) and others reporting insignificant relationship (Arora & Bodhanwala, 2018; Assenga et al., 2018).

With regards to non-financial performance, Khaireddine et al. (2020) observed positive significant relationship between firm age and environmental and ethics performance. Orazalin (2019) also documented positive significant relationship between firm age and CSR performance. However, Garas and EIMassah (2018) found that firm age did not have any impact on CSR performance. Evidently, the proposal that firm age has significant influence on performance is contestable; therefore, the following hypotheses are proposed in line with legitimacy theory:

*H<sub>9a</sub>: There is a positive relationship between age of SOE and financial performance of SOEs in Kenya.*

*H<sub>9b</sub>: There is a positive relationship between age of SOE and the non- financial performance of SOEs in Kenya.*

### **5.10.2 Size of SOE**

The size of the enterprise has an impact on the performance of an enterprise (Ashfaq & Rui, 2019;s Fahad & Rahman, 2020). Size of SOE is considered as control variable because larger enterprises are deemed to posses greater financial and human resources that are required to effectively improve performance. Moreover, Klapper and Love (2004) note that enterprises with

large assets have a greater monitoring costs due to their larger cash flow hence are able to voluntarily adopt better corporate governance to help them mitigate agency costs. Hence, from from the agency theory stand point, larger firms are able to perform well than smaller firms due to resources they possess (Ashfaq & Rui, 2019; Ofoegbu et al., 2018). Also, from legitimacy theory perspectives, there is much pressure from the society for larger firms to engage in CSR performance (Khairredine et al., 2020; Khan et al., 2013; Orazalin, 2019).

Gupta et al. (2019) and Mardnly et al. (2018) documented positive significant relationships between firm size and financial performance. However, other researchers argued that firm size has negative significant relationship with financial performance (Assenga et al., 2018; Campbell & Mínguez-Vera, 2008; Ghazali, 2010; Hassan et al., 2017; Ntim, 2013; Reddy et al., 2011).

Turning to non-financial performance, Ashfaq and Rui (2019) and Orazalin (2019) found positive significant relationship between firm size and CSR performance. Also, Fahad and Rahman (2020) found that there is a positive relationship between firm size and social performance. Though, they did not find evidence for the association between firm size and environmental performance. At the same time, Khairredine et al. (2020) detected positive significant relationship between firm size and ethical performance but reported insignificant relation between firm size and environmental performance.

Thus, the following hypotheses have been formulated:

*H<sub>10a</sub>: There is a positive relationship between size of SOE and financial performance of SOE in Kenya.*

*H<sub>10b</sub>: There is a positive relationship between size of SOE and non- financial performance of SOE in Kenya.*

### 5.10.3 Leverage

Literature on corporate governance suggest that leverage may either have negative or positive relationship with firm performance (Fahad & Rahman, 2020; Reddy et al., 2011). The threat of bankruptcy is felt more in the private sector than it is felt in the public sector entities because of the guaranteed bailout by the government (Reddy et al., 2011). The assurance by the government for the bailout to the ailing SOEs makes creditors less concerned about the performance of these entities. However, the management must strive to manage the debt level so that they get favourable rating in the industry otherwise they risk their reputation for future role in the private sector. Besides, entities with high debts in relation to their assets may hinder the achievement of both financial and non-financial performance because debt must be paid first out of the available resources. It is therefore expected that there is a negative relationship between leverage and performance.

Gupta et al.(2019), Reddy et al. (2011) and Ullah et al. (2019) reported positive significant relationship between leverage and financial performance. On the contrary, Assenga et al. (2018) and Campbell and Mínguez-Vera (2008) reported negative significant association between leverage and financial performance, while Al-Matari (2019) observed positive insignificant association between leverage and Tobin's q. Besides, Arora and Bodhanwala (2018) discovered negative significant relationship between leverage and return on net worth as well as ROA, but negative but insignificant association was reported with EPS.

Also, few studies have reported significant positive impact of leverage and CSR performance (Ullah et al., 2019). In contrast, Khan et al. (2013) observed negative significant association between leverage and CSR performance. However, Pucheta-Martínez and Gallego-Álvarez (2019) and Fatma and Chouaibi (2021) found that leverage do not have any influence on CSR performance. The following hypotheses are therefore proposed:

H<sub>11a</sub>: There is a negative relationship between leverage and the financial performance of SOE in Kenya.

H<sub>11b</sub>: There is a negative relationship between leverage and the non-financial performance of SOE in Kenya.

### 5.11 Conceptual framework

Sekaran and Bougie (2013) argues that the conceptual framework is the foundation for which entire research is based. The authors define independent variable as that of primary interest to the researcher while independent variable is one that influences the direction of the dependent variable. The relationship between the corporate governance and performance can be depicted by the following diagram:

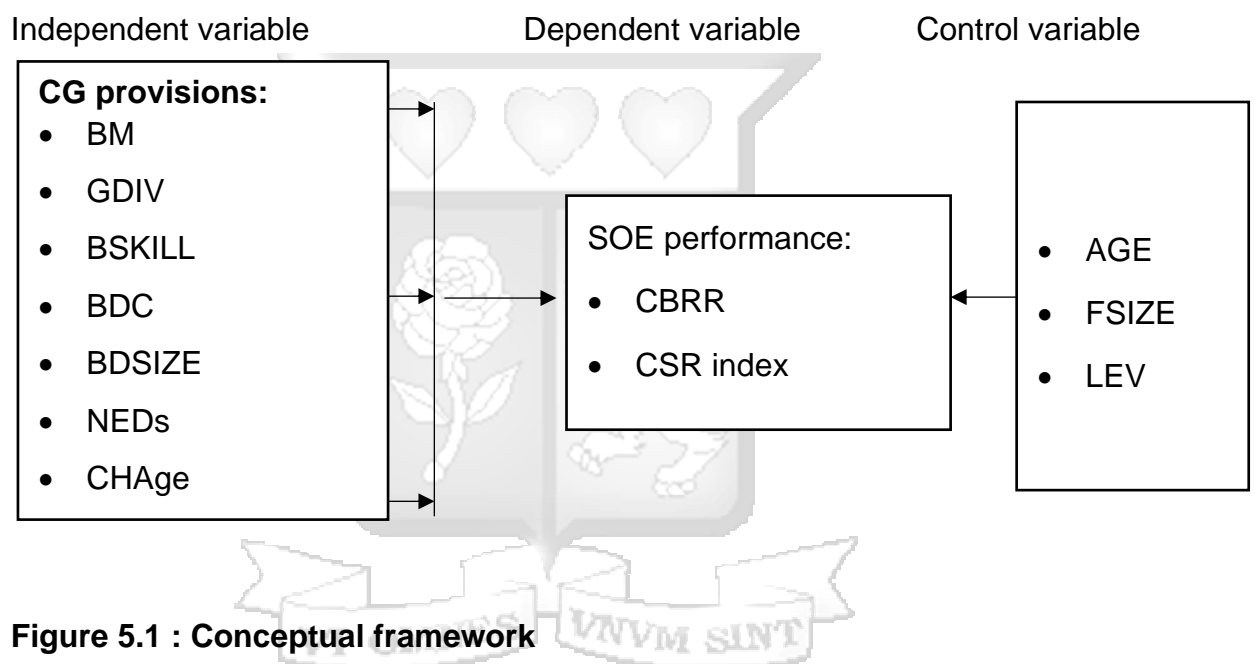


Figure 5.1 : Conceptual framework

### 5.12 Chapter summary

This chapter has discussed hypotheses development based on the independent variables identified in chapter four (Board meetings, gender diversity, board skills, board sub-committees, board size, NEDs, and board chair age), CCG provisions and three control variables (Age of SOE, SOE size and Leverage) relevant to the SOEs in Kenyan context. The variables included in hypotheses formulations were identified from the proposition given in extant theoretical framework, empirical literature as well as MCCG.

Theories supporting each variable is identified and presented alongside a discussion on hypothesis development. First, it is established that agency theory

is supportive of board meetings, gender diversity, board sub-committees, board size, board independence, and size of the entity. Second, stakeholder theory is found to lend support to gender diversity, board size, and board independence. Third, resource dependence theory support gender diversity, board skill, board size, age of board chair, and enterprise age. Age of board chair is supported by resource dependence theory, stewardship theory and legitimacy theory. Board independence, size of the enterprise, and leverage are both supported by legitimacy theory. Lastly, all the five theories support CCG provisions.

The chapter concludes by illustrating the relationships between the variables in a conceptual framework diagram.



# CHAPTER SIX

## RESEARCH METHODOLOGY

### 6.1 Introduction

This research sought to determine the relationship between corporate governance and financial and non-financial performance of SOEs in Kenya. To achieve this purpose, appropriate research methodology need to be selected. This chapter therefore serves the purpose. The chapter proceeds as follows: Section 6.2 discusses philosophical assumptions, section 6.3 presents ontology, section 6.4 epistemology, section 6.5 research purpose, section 6.6 provides research design, section 6.7 provides target population and data collection methods, 6.8 presents research components, 6.9 is about questionnaire construction, section 6.10 is on interview construction and administration, section 6.11 describes research reliability, section 6.12 discusses research validity, section 6.13 is about data analysis, section 6.14 discusses diagnostic testing, section 6.15 regards selection of appropriate estimation model, section 6.16 discusses concerns for endogeneity, 6.17 is about ethical consideration and finally, section 6.18 is the chapter summary.

### 6.2 Philosophical assumptions

Research methodology refers to processes and procedures followed by the researcher to answer the research questions (s) (Greener, 2008). Saunders, Lewis and Thornhill (2008) organizes these processes in the form of layers which they refer as onion. The onion has six layers: philosophies, approaches, strategies, choices, time horizon, techniques, and procedures.

The outer layer is the research philosophy. A research philosophy is the set of common beliefs and agreements shared between scientists about how problems should be understood and addressed (Greener, 2008). The role of philosophy is to help a researcher obtain answer to a meaning of a complex phenomenon (Sefotho, 2015). Creswell (2013) explains that philosophical assumptions help the researcher to choose whether to use qualitative, quantitative, or mixed methods approaches in research. The philosophical assumption chosen has influence to the research strategy (Saunders et al., 2008).

Philosophical assumptions can be classified in different ways using different models in social science (Sefotho, 2015). Creswell (2013) discusses philosophical assumptions under four categories; post-positivism, constructivism, transformative and pragmatism. Saunders et al., (2008) also discusses philosophical assumptions like Creswell except that instead of transformative, it discusses realism.

### **6.2.1 Post-positivism**

Post-positivism (also called scientific method) has its origin from French philosopher, Auguste Comte who first coined the term “positivism”. He argued that reality can be observed (Mack, 2010). Saunders et al. (2008) add that reality has objective existence. Moreover, Greener (2008), posits that only phenomena which can be known through senses (sight, smell, touch, and taste) can produce “knowledge”. Positivism is however challenged on the basis that it tends to assume absolute truth of knowledge, hence post-positivism that acknowledges that absolute knowledge is not possible (Saunders et al., 2008). It is against this background that evidence established by researchers do not prove a hypothesis, and instead, they indicate a failure to reject the hypothesis.

In the context of this study which tests the relationship between corporate governance and financial and non-financial performance of SOEs in Kenya, the researcher obtained objective information via audited annual financial reports, therefore, there was no interaction of what was tested and the researcher. Besides, corporate governance variables were measured objectively consistent with extant literature. While the researcher does not seek to annul the proposition of positivism, consideration was made in favor of post-positivism (Sefotho, 2015) as it is believed that the latter is an extension of the former on how reality should be perceived, acknowledging the challenge of obtaining absolute truth.

### **6.2.2 Constructivist/ Interpretivism**

Constructivism can be regarded the “anti-positivist” because it was developed as a reaction to positivism (Mack, 2010). Under this paradigm, reality is individually constructed and therefore, there are multiple realities as individuals. Moreover,

since it is socially constructed, the researcher cannot distance him/herself from the study objects or the methods of the study (Saunders et al., 2008). The main tenet of constructivist/Interpretivism is that research can never be objectively observed from the outside rather, it must be observed from inside through the direct experience of the people (Mack, 2010). This study also tested the relationship between corporate governance provisions and financial and non-financial performance of SOEs in Kenya by involving the audit committee chairpersons and SOEs directors via questionnaire and interview to probe their social construction on the subject matter.

### **6.2.3 Transformative worldview**

According to Creswell (2013), transformative worldview holds that research inquiry needs to address social issues such as feminists, ethnic minority, persons with disability etc as a focal point of the study. He however argues that there is no literature characterizing this philosophical stance, but critical theorists believe that research methods do not fit marginalized individuals in society.

### **6.2.4 Realism**

Realism argues that what the sense show us is the reality and that this reality is independent of the mind (Saunders et al., 2008) but is interpreted through social conditioning. Both realism and positivism are similar in the sense that they assume scientific approach to the development of the knowledge.

### **6.2.5 Pragmatism**

Pragmatism is not committed to any one philosophy (Saunders et al., 2008). It accepts both singular and multiple realities (Sefotho, 2015). This paradigm uses both observable phenomena and subjective phenomena to provide acceptable knowledge (Saunders et al., 2008).

## **6.3 Ontology**

Ontology is the study of being (Mack, 2010). It is concerned with what constitute reality (Saunders et al., 2008). The knowledge of what constitute reality help the researcher on how to go about uncovering knowledge of relationships among

phenomena and social behavior and how they evaluate their own and other's research (Mack, 2010). Ontological assumption can either be objectivism or subjectivism (Saunders et al., 2008). So, for a positivist, social entities exist independent to social actors concerned with their existence and that there are objective measurement criteria to access them while for a constructivist, multiple realities exist and that there are various ways to access them (Bryman & Bell, 2015).

#### **6.4 Epistemology**

Epistemology is concerned with what constitute acceptable knowledge in a field of knowledge (Saunders et al., 2008). This means that different fields have different knowledge that is acceptable. In other words, epistemology deals with how knowledge is acquired (Mack, 2010). The epistemological approach for this study was both post-positivism and constructivism / interpretivism. This is because the subject matter of corporate governance and performance of SOEs has both quantitative and qualitative characteristics. Objective reality was extracted from the audited annual financial reports of SOEs. On the other hand, subjective reality was extracted from the mindset of the actors (audit committee chairpersons and directors) through questionnaire and interview.

#### **6.5 Research Approach**

Research approaches may be broadly categorized into two (Bryman & Bell, 2015; Saunders et al., 2008); deductive and inductive approaches. In deductive approach, the researcher tests a theory and hypotheses and design a research strategy to accomplish those intentions, and on the other hand, inductive approach, researcher collect data and develop a theory based on the result of data analysis (Saunders et al., 2008). In this study, since the research philosophy adopted lends towards post-positivism and narrowly towards constructivism/interpretivism, both approaches were employed to test theoretical assumptions of the relationship between corporate governance and financial and non-financial performance of SOEs in Kenya as well as to get new insights on this relationship from the questionnaire and interview with key actors.

## **6.6 Research design**

Research design is the general plan of how a researcher goes about answering research question (s) (Greener, 2008; Saunders et al., 2008). Research design comprises research strategies, research choice and time horizon (Saunders et al., 2008). This study applied explanatory sequential mixed research design. Mixed method research design allows the researcher to collect both quantitative and qualitative data in order to understand the concept better (Creswell, 2013). Daiser et al. (2017) argue that studies should become less dependent on secondary data only and should use empirical insights from other methods such as questionnaire and interview to provide additional research content and perspectives. Also, Grossi et al. (2015) recommend a broader methodology in the study of SOEs as it adds to the validity of the study findings. Specifically, data was gathered from the audited annual financial reports, survey questionnaire, and interview by the researcher.

## **6.7 Research components**

### **6.7.1 Dependent variables**

This study used two components of SOEs performance namely, Capital budget realization ratio (CBRR) and CSR disclosures as proxies for financial and non-financial measures respectively. SOEs have economic and social objective, therefore, it is appropriate to use measures that reflect the purpose of their existence (Goldeng et al., 2008; Reddy et al., 2011).

The use of CBRR as a financial performance measure (dependent variable), is consistent with prior studies (Akbar et al., 2019; Predonu & Gherman, 2013; Rakhman, 2019; Tosun, 2014). Earlier studies have focused on a range of financial measures such as ROE (Bhasa, 2015; Coletta & de Souza Lima, 2020; Gupta et al., 2019), Tobin's q (Bhat et al., 2018; Coletta & de Souza Lima, 2020) and EPS (Gupta et al., 2019; Hassan et al. 2017). However, these measures are not suitable for the current study because of lack of traded equity shares among the concerned entities.

Capital expenditure budget relates to long term investment plan on fixed assets that supports the welfare of the community and improve public services (Kuntari, et al., 2019). Capital budget realization is usually reported on annual basis by SOEs that applies IPSAS accrual basis of accounting and make their approved budget (s) publicly available through audited annual financial reports as per the recommendation of International Public Sector Accounting Standards (IPSAS) 24; Presentation of budget information in financial statements (Grandis & Mattei, 2014). The realization ratio indicates efficiency level of the public entity in achieving the social welfare objective (Akbar et al., 2019; Rakhman, 2019; Tosun, 2014). While some SOEs and empirical literature make argument that under realization of capital budget fund may be as a result of delay of release of funds from the exchequer, bureaucracy when government officials fail to support their budget with necessary documentations, lengthy tender process and war on corruption which makes the government officials cautious on fund utilizations (Rakhman, 2019), statistics of current study of CBRR exhibits variations that must be explained by other factors other than those mentioned since the funds are normally released to the SOEs at the same time.

The term “ Non-financial performance “ is ambiguous and may have different connotation ranging from corporate social disclosure, Corporate Social Responsibility (CSR), social audit etc. CSR is a concept that is used to denote activities that improve employee benefits, environmental friendly production processes, labour practices, human rights, community involvement, anti-corruption, among other stakeholder focus initiatives that are good for society (Ashfaq & Rui, 2019; Dunn et al., 2009; Liang & Renneboog, 2017; Matuszak & Róžańska 2017). CSR disclosure has been used as a proxy measure to non-financial performance in prior literature involving SOEs (Peña & Jorge, 2019; Yetano & Sorrentino, 2021). CSR is regarded as a platform that entities use to fulfil the needs of their stakeholders including workers, customers, suppliers, the community, society and environment (Huang, 2010). Consequently, this study applies CSR disclosure as a proxy measure to non-financial performance. CSR reporting may be voluntary or mandatory depending on a country requirement (Ashfaq & Rui, 2019).

The most common methodology in the extant literature in the assessment of CSR disclosure is the content analysis where a binary code is used, awarding 1 when the related item is present in the annual report and 0 otherwise (Hussain & Rigoni, 2018; Khaireddine et al., 2020; Ofoegbu et al., 2018; Orazalin, 2019). This method has limitation since it does not differentiate between different levels of disclosures. This means that companies that have disclosed general statements and those that have disclosed more information supported by quantitative data as well as those that gives a comparative analysis of reported CSR information are treated equally under binary coding.

To overcome this limitation, this thesis borrows from Khan et al. (2019) and Ntim and Soobaroyen (2013) and differentiate between different levels of CSR disclosures. Specifically, the construction of CSR performance score for this study uses a checklist developed by Ntim and Soobaroyen (2013) with little modification to capture the nature and extent of CSR disclosure of SOEs in Kenya. The provision on Black Economic Empowerment was excluded from the researcher's checklist because it is not applicable in Kenya. A total of 16 disclosure items are identified and included in this checklist that contains four dimensions of CSR disclosure, namely, ethics (four items), health and safety initiative (four items), environment (three items) and social investment (five items) (Appendix III). This checklist is deemed suitable since it considers elements of prime importance to the Kenyan government. For instance, Public Officer Ethics Act (2003) provides guidance on ethical values for public officers and board of directors of public institutions. Moreover, chapter six of the 2010 Kenyan Constitution prescribes the leadership and integrity of state officers. Besides, chapter four of the Constitution discusses more broadly on the bill of rights as pertains to labour relations, health and safety, and social investment which are all recommended by OECD (2015), for which Kenya is a signatory. Chapter five, part two under section 69 to 72 provides for obligations in respect of the environment.

The scoring procedure (as indicated below appendix III) on CSR index was done both by the researcher and two independent raters. Total disclosure under each theme was summed independently. The results were then discussed and

harmonized into a single figure. Finally, the aggregated ratio was expressed as a percentage that was then used for analysis.

### **6.7.2 Independent variable**

The independent variables in this study are those indicated in the previously formulated hypotheses in chapter five. The operationalization of individual provisions of corporate governance is illustrated in table 6.4. The CCG provisions index is constructed based on seven dimensions of corporate governance as explained in chapter four; board meetings, gender diversity, board skill, board sub-committees, board size, board independence and board chair age. Data on these variables are obtained from the audited annual financial reports of SOEs.

Disclosure index in the previous studies have been done on weighted (Arora & Bodhanwala, 2018; Djokic & Duh, 2018; Nurharjanto et al., 2018) or unweighted basis (Abdallah & Ismail, 2017; Owusu & Weir, 2016; Tingbani et al., 2020). In weighted disclosure, some items are considered more important than others while in unweighted disclosure, each item is given equal importance (Marston & Shrives, 1991). Marston and Shrives argues that the use of weight in disclosure involves a lot of subjectivity. To save time and reduce subjectivity, the researcher employed unweighted method in CCG disclosure index construction. Besides, it has been observed that whether weighted or unweighted index is used, the results is not materially different (Eisenberg et al., 1998; Ntim, 2013).

Consistent with prior studies such as Coletta and de Souza Lima (2020) and Matuszak and Róžańska (2017), every corporate governance provision was awarded 1 if applicable to SOE, otherwise 0 score was awarded to construct CCG provisions disclosure index. Consistent with prior studies, the total disclosure under each provision was summed independently both by the researcher and two independent raters. The results were then discussed and harmonized into a single ratio. Finally, overall CCG provisions disclosure index was computed by adding up the scores for each corporate governance provision for each SOE divided by maximum possible scores. The aggregated ratio was

then expressed as a percentage that was used for analysis. CCG disclosure index is attached as appendix II.

The total disclosure score for each SOE in each year was obtained by the following formula:

$$CCG = \sum_{i=1}^n \frac{I_i}{B} \times 100$$

Where CCG is the combined corporate governance provisions index,  $n$  measures the total number of attributes,  $I_i$  is an indicator taking the value 1, if the attribute is disclosed and 0 otherwise and  $B$  is the number of all reported attributes.

In addition, consistent with prior studies (Bhasa, 2015; Ghazali, 2010; Ntim, 2013), three control variables have been introduced to minimise the potential effect of omitted variables (AGE, FMSIZE & LEV).

### **6.8 Target population and data collection methods**

The population of the study consisted of 169 registered non-commercial SOEs in Kenya that apply IPSAS accrual method of accounting. However, out of those, only 45 were purposively selected based on the availability of data for the four years (180 observations) from 2015 to 2018 which are divided among 5 sectors: public universities, training and research, service corporations, regulatory bodies, and manufacturing. Table 6.1 reports segregation of sampled SOEs across the 5 sectors.

The study used both secondary and primary data sources. Secondary data was sourced from the audited annual financial reports of each of the sampled SOE. The starting period is 2015 because this was the time when the MCGG became operational in Kenya among SOEs. The end of the sample period is 2018 because data is only available for this period at the time of this study since there is generally a weakness in Kenya's public sector on the timeliness of release of audited financial reports (World Bank, 2021). The delay in releasing annual financial reports seems to be a common phenomenon across African countries

as observed by Mahadeo and Soobaroyen (2012). Data was collected electronically from audited annual financial reports available at (<http://www.oagkenya.go.ke/>) and the specific entities' websites.

There are a number of ways SOE can disseminate their information such as press release, interim reports, letters etc, but the audited annual financial reports is still preferred and is considered to be the major medium of disclosing the information (Akhtaruddin, 2005; Marston & Shrikes, 1991). Besides, annual financial reports are considered reliable since they have been subjected to statutory audit by the Office of the Auditor General.

Primary data involved survey questionnaire to the respondents (audit committee chairpersons) (Appendix I) and interviews to the SOEs directors. Questionnaire is considered as the most appropriate method because it can reach a large population with less costs.

**Table 6.1: Sample SOEs classification**

No	Industry type	Total sample	Sample (%)
1.	Public universities	2	4
2.	Training and Research	8	18
3.	Service corporation	23	51
4	Regulatory	8	18
5	Manufacturing	4	9
Total		45	100

**Source: State Corporation Advisory Committee**

## 6.9 Questionnaire construction

To determine whether corporate governance provisions are perceived as influencing financial and non-financial performance of SOEs in Kenya, the survey questionnaire was constructed based on extensive review of literature such as Chithambo and Tauringana (2017), Fitzpatrick (2008), Khongmalai and Distanont (2017) and Owusu and Weir (2016). The questionnaire targeted 45 audit committee chairpersons of SOEs in Kenya as identified in section 6.8 above. According to Matei and Drumasu (2015) and OECD (2015), audit

committee members including the chair have umbrella understanding of SOEs, not just on financial reporting, but also on ethical values and governance arrangement within the enterprise. Besides, audit committee chairs are non-executive directors and the fact that the committee that they head is the only mandatory committee among SOEs in Kenya (GOK, 2015), they are suited to provide reliable information on governance arrangement of SOEs in Kenya. Furthermore, the involvement of audit committee in gathering data on governance arrangements within SOEs is consistent with current literature (Dubihlela & Mukono, 2022).

Further steps were undertaken in developing questionnaire to maximise the response rate. First, senior university researchers knowledgeable on corporate governance were involved in the preliminary stages of questionnaire development. Second, three different academics were invited to provide their input on the layout, wording and style. Finally, to ensure understandability of the questionnaire, pilot study was conducted so that necessary concern were captured in the revised version.

The questionnaire items are aligned to objective three of this study which sought to establish the perception of audit committee chairpersons on the relationship between corporate governance provisions and financial and non-financial performance of SOEs in Kenya. Participants in the questionnaire were distinct from those in pilot study. The questionnaires were self-administered by mail using the SOEs' corporate email address indicated in their annual financial reports. All the questionnaires were sent within the first week of May 2020 up to 8<sup>th</sup> May, 2020 using Microsoft Office 365, accompanied by an introductory letter stating the purpose of the study. The deadline for returning filled questionnaires, as communicated in the cover later was 8<sup>th</sup> July 2020. A follow up communication was made through e-mail and telephone calls for those who did not reply by the deadline, asking them to send completed questionnaires by 8<sup>th</sup> August 2020. Reminder was done up to four times after the deadline to increase the response rate.

The questionnaire was generally closed ended making it easy to complete by respondents and also necessary in curbing social desirability bias. Consistent with prior literature (Alleyne et al., 2014; Chithambo & Tauringana, 2017; Khongmalai et al., 2010), the questionnaire was designed on a five point Likert scale.

The questionnaire was organized into three sections. Section I contained five questions. Question one was designed to obtain background information relating to identity of SOEs to assist in knowing the participating entities. Second question sought to establish the gender of the respondents so as to identify respondents by gender. Third question was about the age of audit committee chair and was asked to help establish active governance group which audit committee chairperson belongs. The fourth question pertained to the length of time in job to assist in establishing the experience of the respondents who took part in the survey. The fifth question sought to establish the highest level of academic qualification of the respondent to determine if they were knowledgeable enough to rely on information provided.

Section II and III contained 20 questions that sought the perception of audit committee chairpersons whether various corporate governance provisions and specific SOEs' characteristics affect financial and non-financial performance.

### **6.10 Interview construction and administration**

Interviews were conducted to further draw in-depth insight on how identified corporate governance provisions influence financial and non-financial performance of SOEs in Kenya. The questions included in the interview guide (Appendix IV) originated from the literature review and hypotheses development covered in chapter four and five. The interview targeted one director of each of the 45 entities identified in the sample and was carried out in the month of March 2021. Difficulties were however encountered in obtaining permission for interviews with relevant directors, the main reason being 'alleged' sensitivity of corporate governance information of SOEs in Kenya and their unavailability to participate in the interview. However, a total of six directors (Two retired boards

and four presently serving as board members) were identified for face-to face interviews based on their acceptance to participate.

Concern may be raised as to the adequacy of six directors to provide the in-depth feedback for the qualitative strand. To address this fear and following prior studies of this nature (Mahmood et al., 2018; Shrestha, 2022) who considered five and four respondents respectively for the qualitative thread, the purpose of qualitative inquiry in the current study which is anchored on explanatory sequential mixed method is not for generalizability of research findings, but to provide explanation for significant and insignificant variables. Therefore, the researcher purposively went for respondents who were willing to provide research information. Besides, while there are no rules for sample size in qualitative inquiry, Marshall et al. (2013) provides some guidance on how to address this elusive concept and states that sample size in qualitative inquiry depends on what the researcher wants to know, the purpose of inquiry, what's at stake, what will be useful, what will have credibility and what can be done with available time and resources. Moreover, proponents of qualitative inquiry suggest that sample size can be regarded as adequate upon saturation (Hennink & Kaiser, 2022; Kerr et al., 2010; Marshall et al., 2013). Marshall et al. (2013) state that saturation is reached when the researcher gathers data to the point of diminishing returns, when nothing new is being added. It is worth noting that data saturation occurs at various levels in extant literature. The respondents of this study were drawn from representative sample of the population (Saunders et al., 2008), having consisted of two women board and four male board members.

Interview lasted approximately two hours and were conducted at the participants' workstation. Before each interview session, the interviewee was briefed about the interview's general topic. Note taking of the discussion during the interview was conducted by the researcher who was the sole interviewer. This was after asking the interviewees whether they would allow for tape-recording, but none of them gave consent to be tape recorded. The researcher used pseudo names ( Interviewee 1,2,3,4,5 and 6) during data presentation to maintain anonymity.

### 6.11 Research reliability

According to Sekaran and Bougie (2013), reliability is the extent to which data collection tool is free from bias thus enhancing consistency and stability of the instrument. This study ensured reliability by extracting secondary data from the annual financial reports of SOEs which remain constant over time. Moreover, these reports have been subjected to auditing by the office of the Auditor General, hence the reliability is assured.

In addition, the reliability of a questionnaire is often tested using Cronbach's  $\alpha$  statistic to indicate that the response of subjects show similar response pattern (Khongmalai & Distanont, 2017; Nakyeyune et al., 2016; Nerantzidis & Tsamis, 2017). To ensure the reliability of the questionnaire and the internal consistency, a Cronbach's alpha coefficient was calculated. A reliability coefficient of 0.70 or higher is acceptable (Khongmalai & Distanont, 2017; Taber, 2018) while those below 0.60 are considered to be poor (Sekaran & Bougie, 2013). Table 6.2 shows that all the items exhibited a satisfactory alpha larger than 0.7 with the overall coefficient alpha value of 0.82 as shown on table 6.3.

**Table 6.2: Scale reliability test results**

<b>Construct</b>	<b>Cronbach's Alpha</b>
<b>CBRR</b>	
BM	0.825
GDIV	0.822
BSKILL	0.812
BDC	0.803
BDSIZE	0.823
NEDs	0.806
CHAge	0.825
FMAGE	0.801
FSIZE	0.808
LEV	0.803
<b>CSR performance</b>	
BM	0.8
GDIV	0.818

BSKILL	0.837
BDC	0.793
BDSIZE	0.806
NEDs	0.808
CHAge	0.807
FMAGE	0.809
FMSIZE	0.814
LEV	0.809

**Table 6.3: Reliability Statistics summary**

Cronbach's Alpha	Cronbach's Alpha Based on Standardized Items	N of Items
0.820	0.815	20

### 6.12 Research validity

There are three types of validity according to Greener (2008); face validity, construct validity and internal validity. Face validity requires that the way research question is answered should be clear even to a lay person or non-researcher that the method chosen is the most appropriate and makes sense. In this study, face validity of determining the relationship between corporate governance provisions and financial and non-financial performance was achieved through developing corporate governance provisions based on the recommendation of various corporate governance codes and related literature that used similar approach.

Construct validity requires that the tool of the research measures the construct it purports to measure. Construct validity of the questionnaire was achieved through pilot study. In addition, multiple sources of data (secondary and primary) were helpful in gaining further insight.

Further, Internal consistency refers to the degree to which the items in a test measure the same construct (Muttakin et al. 2015). Cronbach's coefficient alpha has been used in the previous corporate governance disclosure score studies

(Muttakin et al., 2015; Khongmalai & Distanont, 2017; Tumwebaze et al., 2018). However, this statistical method tends to overestimate or underestimate the reported value (Taber, 2018). The underestimation usually occurs when the items in the scale are less than 10 (Herman, 2015). Given that the corporate governance disclosure index in the current study is made up of 7 items in the scale, Cronbach's coefficient alpha test of validity is not a suitable measure of internal consistency. As a result, the validity of the corporate governance disclosure scores was achieved by employing two independent raters together with the researcher to examine the annual financial reports in gathering corporate governance data. Discrepancies occurring between raters and the researcher were discussed and harmonized to come up with the final disclosure score. This method of enhancing reliability has been used in similar studies (Hossain et al., 1995; Kent & Zunker, 2017; Wijesinghe et al., 2019).

### 6. 13 Data Analysis

Sekaran and Bougie (2013) posit that data obtained from questionnaire, interviews, observations or through secondary sources need to be edited, coded, categorised and any blank responses should be dealt with appropriately. Data collected both from secondary and primary data was edited, coded and sorted into appropriate category and then keyed into computer before further analysis. The researcher used the Statistical Package for the Social Science programme (Version 24) for the descriptive analysis of the data and EViews (Version 11) was used to test the developed hypotheses in this study. The following regression models were utilized:

$$CBRR_{it} = \beta_0 + \beta_1 BM_{i,t-1} + \beta_2 GDIV_{i,t-1} + \beta_3 BSKILL_{i,t-1} + \beta_4 BDC_{i,t-1} + \beta_5 BSIZE_{i,t-1} + \beta_6 NEDS_{i,t-1} + \beta_7 CHAge_{i,t-1} + \beta_8 AGE_{i,t-1} + \beta_9 FMSIZE_{i,t-1} + \beta_{10} LEV_{i,t-1} + \epsilon_{i,t-1} \quad (I)$$

$$CBRR_{it} = \beta_0 + \beta_1 CCG_{t-1} + \beta_2 AGE_{i,t-1} + \beta_3 FMSIZE_{i,t-1} + \beta_4 LEV_{i,t-1} + \epsilon_{i,t-1} \quad (II)$$

$$CSR_{it} = \beta_0 + \beta_1 BM_{i,t-1} + \beta_2 GDIV_{i,t-1} + \beta_3 BSKILL_{i,t-1} + \beta_4 BDC_{i,t-1} + \beta_5 BSIZE_{i,t-1} + \beta_6 NEDS_{i,t-1} + \beta_7 CHAge_{i,t-1} + \beta_8 AGE_{i,t-1} + \beta_9 FMSIZE_{i,t-1} + \beta_{10} LEV_{i,t-1} + \epsilon_{i,t-1} \quad (III)$$

$$CSR_{it} = \beta_0 + \beta_1 CCG_{t-1} + \beta_2 AGE_{i,t-1} + \beta_3 FMSIZE_{i,t-1} + \beta_4 LEV_{i,t-1} + \epsilon_{i,t-1} \quad (IV)$$

**Table 6.4: Operationalisation of the variables**

Variables	Acronym	Measurement	Supporting literature
<b>Dependent:</b>			
Capital Budget Realization Ratio	CBRR	Actual capital expenditure/Total capital expenditure budget	Rakhman (2019).
CSR performance	CSR	CSR index score to the maximum possible expressed as a percentage	Ntim and Soobaroyen (2013).
<b>Independent</b>			
Board meetings	BM	No. of meetings in a year	Hassan et al. (2017) and Gupta et al. (2019).
Gender diversity	GDIV	Blau index of gender diversity <sup>2</sup>	Harjoto et al. (2019), Kagzi and Guha (2018) and Tarigan et al. (2018).
Board skill	BSKILL	Ratio of board members with PhD qualification to board size	Aldhamari et al. (2020) and Assenga et al.(2018).
Board sub-committees	BDC	Number of board sub-committees	Jiraporn et al. (2019) and Kafidipe et al. (2021).

<sup>2</sup> The Blau index is measured as  $1 - \sum_{i=1}^n P_i^2$ , where  $P_i$  is the percentage of board members in each category and represents the number of categories used and  $n$  is the total number of board members. The values of the Blau index for gender diversity range from 0 to a maximum of 0.5, which occurs when board members comprise an equal member of men and women.

Board size	BSIZE	Total number of board members	Hassan et al. (2017), Bhat et al. (2018) and Shawtari et al. (2016).
Board independence	NEDs	1 if at least one half of board members are independent members, 0 otherwise	Nerantzidis (2016) and Ntim (2013).
Age of Board Chair	CHAge	Age of the chairperson	Hafsi and Turgut (2013).
CCG provisions	CCG	Corporate governance score to the maximum possible CG characteristics in the CCG-Index expressed as a percentage	Abdallah and Ismail (2017), Scholtz and Smit (2015).
Age of SOE	AGE	Number of years since incorporation	Arora and Bodhanwala (2018) and Kim et al. (2019).
Size of SOE	FMSIZE	The natural log of total assets	Al-Matari (2019), Assenga et al.(2018), and Hassan et al. (2017).
Leverage	LEV	Natural log of total liabilities divided by total assets	Al-Matari (2019) and Kim et al. (2019).

### 6.13.1 Data Analysis procedure- Objective 1 and 2

To answer the research question one and two "To what extent is there a relationship between individual provisions of corporate governance and financial and non-financial performance of SOEs in Kenya?", and "Is there a significant association between combined corporate governance provisions and financial

*and non-financial performance of SOEs in Kenya?*”, the researcher employed fixed-effects balanced panel regression of identified corporate governance variables and regressed them on each of the performance measures using EVIEWS version 11.

#### **6.13.2 Data Analysis procedure- Objective 3**

To answer the research question three, “*What is the perception of SOEs audit committee chairpersons on the influence of CG provisions on financial and non-financial performance of SOEs in Kenya?*”, the researcher distributed the closed-ended questionnaire to one audit committee chairperson in each of the 45 SOE and responses collected. Thereafter, similar to Chithambo and Tauringana (2017), “top-two and bottom-two boxes” approach was used by collapsing the original five-point Likert scale. Top-two box represents the respondents who agreed or strongly agreed while bottom-two box represents the respondents who selected disagree and strongly disagree and those who selected neutral, formed its own group. Afterwards, the results were subjected to a two-way t-test between the mean score of each item and its neutral score and analysed using the Statistical Package for Social Science, version 24.

#### **6.13.3 Data Analysis procedure- Objective 4**

To answer the research question four, “*What is the perception of board of directors on the impact of various corporate governance provisions on financial and non-financial performance of SOEs in Kenya?*”, Interviews were conducted with four serving and two retired SOEs board of directors. The results were presented thematically and critically studied in detail to get further insights.

### **6.14 Diagnostic testing**

The multiple regression analysis assumptions of linearity, homoscedasticity, multicollinearity, autocorrelation, normality, homoscedasticity were tested. These tests are necessary in order to improve the validity of all statistical inferences for this study (Brooks, 2014; Gujarati & Porter, 1999; Wooldridge, 2013).

### 6.14.1 Linearity test

Linearity is one of the assumptions of classical linear regression. The assumption requires that appropriate model should be linear in parameters (Brooks, 2014). This means that the relationship between the dependent variable and independent variables can be represented by a straight line. Therefore, for a multiple linear regression to be used, the relationship between the dependent variable and independent variables must be linear in nature. Violation of this assumption results in incorrect coefficient estimates.

This study employs Ramsey RESET test for linearity as proposed by Brooks (2014) and Wooldridge (2013) and also consistent with prior studies (Adib & Xianzhi, 2019; Rodrigues et al., 2017). An F-statistic and likelihood ratio whose probabilities are not significant indicate that the model is linear, free from omitted variables bias and absence of misspecification (Brooks, 2014). The results as shown in Table 6.5 indicate no violation to linearity assumptions since the p-values of F-statistics and likelihood ratio are greater than the significance level of 0.05 for all the four models.

**Table 6.5: Ramsey RESET test**

<b>Model I</b>	Value	df	Probability
t-statistic	0.384766	123	0.7011
F-statistic	0.148045	(1, 123)	0.7011
Likelihood ratio	0.162391	1	0.6870

<b>Model II</b>	Value	df	Probability
t-statistic	1.763400	123	0.0803
F-statistic	3.109579	(1, 123)	0.0803
Likelihood ratio	3.370524	1	0.0664

<b>Model III</b>	Value	df	Probability
t-statistic	1.066806	129	0.2881
F-statistic	1.138075	(1, 129)	0.2881
Likelihood ratio	1.185786	1	0.2762

<b>Model IV</b>	Value	df	Probability
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	Value	df	Probability
t-statistic	0.132376	129	0.8949
F-statistic	0.017523	(1, 129)	0.8949
Likelihood ratio	0.018337	1	0.8923

#### 6.14.2 Homoscedasticity test

The degree to which the data values for the dependent and independent variables exhibits equal variance is known as homoscedasticity (Saunders et al., 2008). When the variance is not equal, then the situation is known as heteroscedasticity. The presence of heteroscedasticity in a regression model may cause high standard errors, resulting into a spurious relationship (Brooks, 2014). To avoid this problem, multiple linear regression assumption requires that the residuals of the model should exhibit homoscedasticity.

This study tested homoscedasticity using Breusch-Pagan-Godfrey as proposed by Brooks (2014) and applied by several researchers in the past (Bezuidenhout, 2016; Mulyadi, 2017). Using the test, the researcher failed to reject the null hypothesis of homoscedasticity in models I, II, and IV since the p-values for both F-statistics and Chi-Square are greater than 0.05. The violation of this assumption was detected in model III (Table 6.6). As a result, the researcher employed robust standard error to address this problem consistent with prior studies (Aldhamari et al., 2020; Dato et al., 2018; Hafsi & Turgut, 2013; Jia & Zhang, 2019).

**Table 6.6: Heteroskedasticity Test: Breusch-Pagan-Godfrey**

##### Model I

F-statistic	0.690532	Prob. F(10,124)	0.7317
Obs*R-squared	7.121315	Prob. Chi-Square(10)	0.7139
Scaled explained SS	7.697119	Prob. Chi-Square(10)	0.6584

##### Model II

F-statistic	0.192922	Prob. F(4,130)	0.9417
Obs*R-squared	0.796638	Prob. Chi-Square(4)	0.9389
Scaled explained SS	0.946688	Prob. Chi-Square(4)	0.9178

##### Model III

F-statistic	4.150128	Prob. F(10,124)	0.0001
Obs*R-squared	33.85275	Prob. Chi-Square(10)	0.0002
Scaled explained SS	32.33936	Prob. Chi-Square(10)	0.0004

#### **Model IV**

F-statistic	1.619336	Prob. F(4,130)	0.1732
Obs*R-squared	6.407228	Prob. Chi-Square(4)	0.1707
Scaled explained SS	8.443379	Prob. Chi-Square(4)	0.0766

#### **6.14.3 Serial autocorrelation**

Classical linear regression assumes that the error terms are uncorrelated with one another. Serial autocorrelation problem arises when errors are correlated with one another (Brooks, 2014; Gujarati & Porter, 1999; Wooldridge, 2013). Various techniques have been used in prior literature to address the problem. When the form and cause of autocorrelation is known, then, Generalized Least Square procedure may be used to deal with the problem (Brooks, 2014). Otherwise, Brooks (2014) suggests log transformation may also be used as a remedy to the problem.

EViews software provides two statistical tests for autocorrelation: Durbin Watson and Breusch Correlation LM Test. According to Gujarati and Porter (1999), Durbin Watson statistic result of between 1.5 and 2.5 implies that there is no serious problem with serial correlation. Prior studies have tested the presence of autocorrelation using Durbin Watson value (Assenga et al., 2018; Ntim, 2013; Scholtz & Smit, 2015). However, Durbin Watson can only detect first order autocorrelation (Brooks, 2014).

In this study, autocorrelation was also tested using Breusch-Godfrey Correlation LM Test due to its ability to detect high-order autocorrelation (Table 6.7). Using the tests, autocorrelation was detected in model 3 and 4 since the probabilities of their F-statistics result and Chi-square were less than 0.05. Brooks (2014) and Flatt and Jacobs (2019) suggest lagging of independent variables where applicable to address the problem. In this study, the problem was addressed by using a combination of methods, lagging independent variable by one period as

well as using robust standard error in line with previous studies (Kalisa, 2019; Mazzotta & Ferraro, 2020; Olowokure et al., 2015).

**Table 6.7: Breusch-Godfrey Serial Correlation LM Test**

<b>Model I</b>			
Obs*R-squared	0.0000	Prob. Chi-Square(2)	1
<b>Model II</b>			
Obs*R-squared	0.0000	Prob. Chi-Square(2)	1
<b>Model III</b>			
F-statistic	22.63039	Prob. F(2,122)	0.0000
Obs*R-squared	36.53101	Prob. Chi-Square(2)	0.0000
<b>Model IV</b>			
F-statistic	19.92377	Prob. F(2,128)	0.0000
Obs*R-squared	32.04943	Prob. Chi-Square(2)	0.0000

#### 6.14.4 Multicollinearity test

Multicollinearity exists when two independent variables are perfectly correlated with each other (Gujarati & Porter, 2004). The problem of multicollinearity is that the researcher may not be able to entangle the effect of either variable on dependent variable. Brooks (2014) suggests several ways to deal with the problem of multicollinearity; First is the suggestion to ignore it if the model is adequate, two is to drop one of the collinear variables, third is to transform the highly correlated variable into a ratio and include the ratio and not individual variable. The worst suggestion is to drop the collinear variable since it might reduce the precision of the estimated coefficient. Methods such as stepwise regression have also been suggested in extant literature (Hussain & Rigoni, 2018; Mahmood et al., 2018).

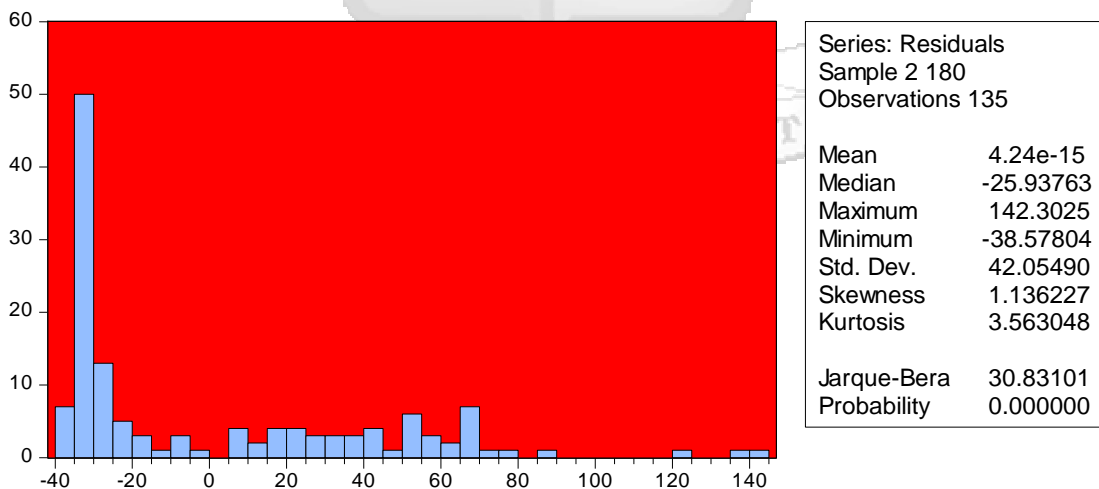
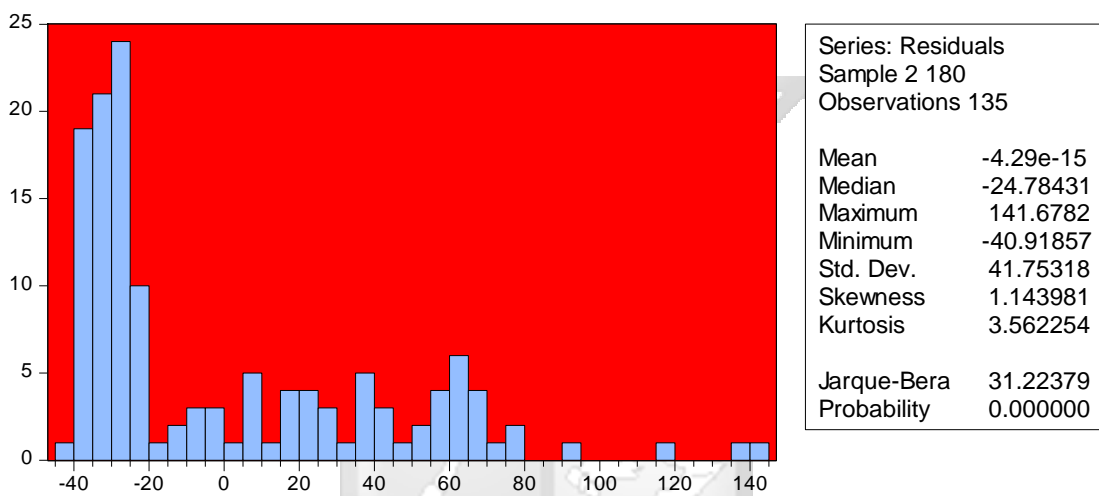
Spearman correlation matrix results are presented in table 7.2 for all the variables included in the study. CBRR is positively related with board skill. CSR performance is negatively associated with frequency of board meetings, gender diversity, and board size. Overall, the correlation among all the variables suggest that there is no problem of multicollinearity since the coefficient values are below the threshold. Brooks (2014) and Gujarati and Porter (1999) suggest that multicollinearity is a problem when the correlation coefficient exceeds 0.8. All the correlations in this study are below 0.8. However, non-existence of high correlation does not mean absence of multicollinearity (Abadi et al., 2016). Therefore, the researcher also analysed the variance inflation factor (VIFs) (Gujarati & Porter, 1999; Huang et al., 2012) for each variable. All the VIF are less than 10 (Tables 7.3 and 7.4), the highest VIF is 1.8825 providing additional confirmation that multicollinearity is not a problem (Scholtz & Smit, 2015).

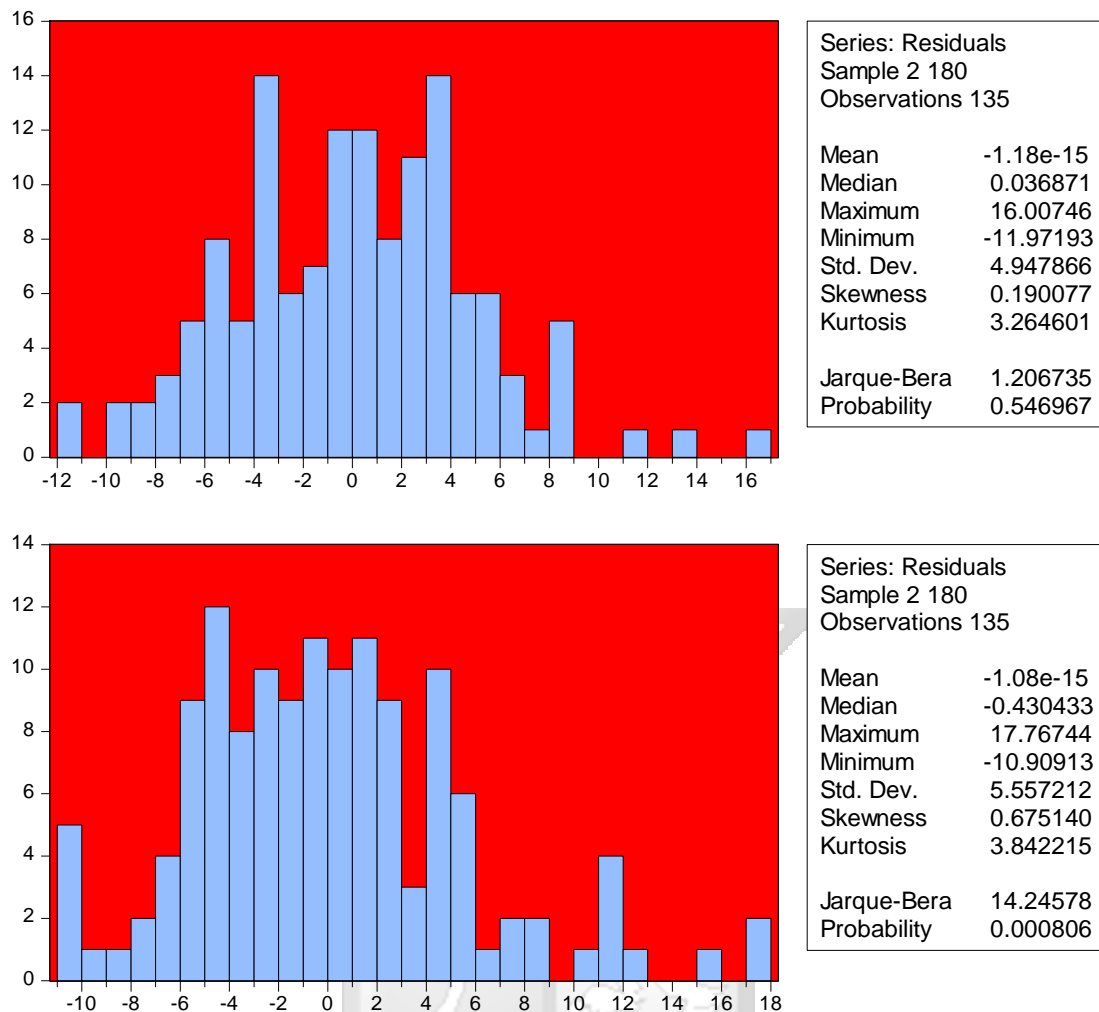
#### **6.14.5 Normality test**

The classical normal linear regression model assumes that the error term ( $\mu_i$ ) is distributed normally with constant mean, variance, and covariance (Brooks, 2014). The reason for the assumption is to the effect that the influence of omitted variables or neglected variables is small and at best random hence posing no threat to the coefficient estimate (Brooks, 2014; Gujarati & Porter, 1999). The violation of the assumption can imply that inferences made about the coefficient's estimates could be wrong. Jarque-Bera tests for normality is popular among practitioners in economics and business (Das & Imon, 2016). A normal distribution is not skewed and should have a bell shape and Bera-Jarque statistic should be insignificant;  $p > 0.05$ .

All the models for this study were tested for normal distribution of residual using Jarque-Bera tests for normality and violation was observed in three models (Model I, II and IV). While normality is included among the assumptions of classical linear regression model, it plays no role in showing that OLS estimators are the best linear unbiased estimators (Wooldridge, 2013). Besides, where the data is relatively large and tends towards infinity, the assumption can be relaxed (Brooks, 2014; Pek et al., 2018). Realistic question would therefore be, how large

should sample size be to invoke the assumption of classical linear regression of normality? There is no agreement among researchers on how large sample size should be but some researchers suggest any number greater than 30 (Field, 2013; Reddy et al., 2011; Wooldridge, 2013). Since the current research examined data from a relatively larger sample, this condition may not distort the results as significant departure from non-normality may be negligible for a sample size of 45 and 135 observations. The following are the results of models I,II,III and IV respectively:





**Figure 6.1: Jarque-Bera tests for normality**

### 6.15 Selection of appropriate estimation model

To choose either pooled model or the option of fixed-effects model or random effects model for each of the four models, Breusch and Pagan (1980) Lagrange Multiplier (LM) test was performed and test results indicated that pooled regression model was not appropriate for the analysis for all the four models since the LM tests showed significant p-values ( $P= 0.0000; 0.0000; 0.0000; 0.0004$ ). Thus, the null hypothesis is rejected, implying that random effects model is appropriate. To select between random effects and fixed-effects model, Hausman specification test was conducted. Random effects assumes that entity-specific effects are not correlated with other explanatory variables. Therefore, Hausman test evaluates whether this assumption is satisfied. The result of the

Hausman test indicate that random effects model is more appropriate than fixed-effects model for all the models ( $p=0.5111$ ;  $0.6056$ ;  $0.2457$ ;  $0.2921$ ).

### **6.16 Concerns for endogeneity**

Endogeneity is a phenomenon that results from the omission of explanatory variables in the model, which leads to a correlation between the model error term and its explanatory variables (Abdallah et al., 2015) or misspecification of the model. When this happens, the assumption of ordinary least square of zero expected value of error term is violated. Ramsey Reset test can be used to test the omission of an explanatory variable or model misspecification which often are the causes of endogeneity (Adib et al., 2019). Presence of endogeneity causes biased and inconsistent ordinary least square (OLS) estimators (Bhagat & Bolton, 2008). Endogeneity can also occur because of reverse causality. Previous studies have established the reverse relationship between CG variables and performance (Abdallah & Ismail, 2017; Assenga et al., 2018; Ntim, 2013).

Before moving further to perform regression analysis, the concern for endogeneity was first addressed. Different strategies have been employed by extant literature to address the problem of endogeneity. Abdallah et al. (2015), Guney et al. (2020), Pham et al. (2011) and Silveira et al. (2010) employed two stage least square (2SLS). However, the challenge with 2SLS method is that it requires external exogenous variables that in many occasions are difficult to find (Abdallah et al., 2015; Katmon et al., 2019). In addition, before the employment of 2SLS, the explanatory variables should be tested for endogeneity (Guney et al., 2020). The significance of establishing whether explanatory variables are endogenous is to make sure that 2SLS method is appropriate. Application of Ordinary Least Square (OLS) method in the presence of endogenous variables results into inappropriate coefficient estimates and as such, 2SLS is appropriate when explanatory variables are endogenous.

Other studies make use of Generalised Method of Moments (GMM) (Abdallah et al., 2015; Aslam & Haron, 2020; Locke & Duppati, 2014; Merendino & Melville, 2019). GMM can be used in place of 2SLS since the method does not requires external exogeneous variable and uses internally generated instruments (

Abdallah & Ismail, 2017). Further, GMM can be applied when the model violates the normality, autocorrelation and homoscedasticity assumptions (Bøhren & Strøm, 2007). However, similar to 2SLS, before applying GMM, Guney et al. (2020), Locke and Duppati (2014), Mulyadi (2017) and Ntim et al. (2017) suggest a test for the presence of endogeneity in explanatory variables because application of GMM estimation in the presence of exogenous explanatory variables produces biased parameter estimates. Therefore, the researcher carried regressor endogeneity test (Also known as Durbin-Wu-Hausman Test) for all the four models whose result appear in table 6.8 below. Accordingly, the result suggest GMM is not the best option since the explanatory variables are exogenous.

Consequently, the researcher applied combination of approaches to control for endogeneity. First, independent variables were lagged by one period which is consistent with prior studies such as Afrifa and Tauringana (2015), Bamahros et al. (2022), Dato et al. (2018), Ullah et al. (2019), and Yu et al. (2015). Second, similar to Assenga et al. (2018), the researcher used balanced panel data to minimise the risk of endogeneity. Third, despite the Hausman's' tests suggesting that random effects are more appropriate and efficient, fixed-effects regression was embraced due to consistency of results associated with the method (Mazzotta & Ferraro, 2020) and also in line with prior studies such as Ali et al. (2018), Kim et al. (2019), Ntim et al. (2012) and Tingbani et al. (2020) that employed fixed-effects (FE) method to control for unobserved heterogeneity due to time-unvarying omitted variables that differ across firms but are constant over time. Moreover, since Ramsey Reset test can be used to detect the omission of an explanatory variable or model misspecification which often are the causes of endogeneity (Abdallah, et al., 2015; Adib et al., 2019), and the fact that test results as depicted in table 6.5 above shows that models are adequate and do not suffer from omission of important explanatory variables or model specification, the researcher is confident that the possibility of presence of endogeneity is adequately controlled.

Finally, the study has included control variables to help reduce the effect of possible presence of endogenous relationship (Afrifa & Tauringana, 2015; Ntim,

2013; Ongsakul et al., 2020). Besides, Abdallah and Ismail (2017) and Ali et al. (2018) assert that none of the existing methods can completely and adequately eliminate fully the problem of endogeneity. This means that researchers can only control for the problem of endogeneity but not eliminate it completely.

**Table 6.8: Regressor Endogeneity Test**

<b>Model I</b>			
	Value	df	Probability
Difference in J-stats	8.303664	10	0.5992
<b>Model II</b>			
	Value	df	Probability
Difference in J-stats	3.324889	4	0.5050
<b>Model III</b>			
	Value	df	Probability
Difference in J-stats	10.22594	10	0.4209
<b>Model IV</b>			
	Value	df	Probability
Difference in J-stats	0.184654	4	0.9960

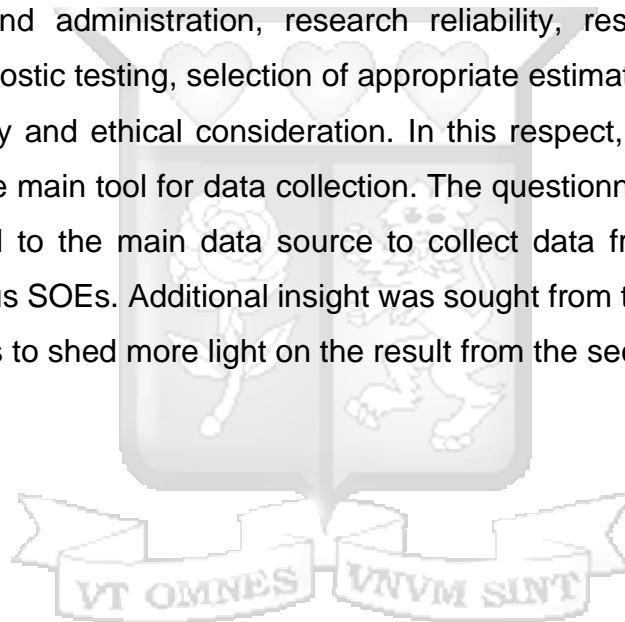
### 6.17 Ethical considerations

Ethical considerations are very important in social science. Permission to carry out the research was obtained from the relevant authorities. First, approval letter from Strathmore University Ethics Review was obtained prior to data collection (Appendix VI), approval number SU-IERC0665/20. Second, research license was obtained from the Ministry of Education (Appendix IV), ref no: 232264, licence no: NACOSTI/P/20/4745.

The privacy of the participants was maintained. It was purely voluntary, and participants were free to complete or partially complete the process at their discretion. Respondents were given details about the particulars of the research study. Data gathered remains confidential and only serves the purpose of this study.

### **6.18 Chapter summary**

The chapter has discussed philosophical assumptions, Ontology, epistemology, research purpose, research design, target population and data collection methods, research components, questionnaire construction, interview construction and administration, research reliability, research validity, data analysis, diagnostic testing, selection of appropriate estimation model, concerns for endogeneity and ethical consideration. In this respect, the annual financial reports was the main tool for data collection. The questionnaire was added as a integration tool to the main data source to collect data from audit committee chairs in various SOEs. Additional insight was sought from the interview with the SOEs directors to shed more light on the result from the secondary.



# CHAPTER SEVEN

## PRESENTATION OF RESEARCH FINDINGS

### 7.1 Introduction

The aim of this chapter is to present the results of the study objectives. The chapter is organised as follows: Section 7.2 present the results of the impact of corporate governance provisions on financial and non-financial performance based on secondary data. Section 7.3 reports on further analyses and robustness tests. Section 7.4 presents on the results of the primary data on the impact of corporate governance provisions on financial and non-financial performance. Section 7.5 presents joint display of results from secondary data and primary data (questionnaires) on the relationship between corporate governance provisions and financial and non-financial performance. Section 7.6 illustrate the Interview results of the perception of directors on the role of corporate governance both financial and non-financial performance. The chapter summary is provided in section 7.7.

### 7.2 Results of the impact of corporate governance provisions on financial and non-financial performance based on secondary data

#### 7.2.1 Descriptive statistics of dependent and independent variables between 2015 to 2018

Table 7.1 presents statistical summary of sample data of both dependent and independent variables used in this study. The mean CBRR is 30.71 (Max =172 and median = 2.50). The minimum CBRR of 0 per cent suggests that there is a wide variation in CBRR of SOEs. The mean CSR performance score is 8.45 ( Max=29.69 and Median = 7.81).The mean value of 8.45 per cent means that CSR performance is still very low. The mean BM is 6.64 ( Max= 47 and median = 4). This finding shows that majority of SOEs comply with the requirement of MCCG that stipulates that SOEs should hold a minimum of 4 meetings per year. GDIV (Blau index of gender diversity) has relatively low mean of 0.39 ( Max=0.50 and Median = 0.41). The result suggest that the level of gender diversity is very

low on Kenyan SOEs boards. This is surprising since Kenya has for a long time advocated for one third gender rule on both elected and appointed leaders which is anchored in the 2010 Constitution. The mean BSKILL is 24.5 per cent (Max = 100 and Median = 12.50), mean BDC is 4.02 (Max =13 and Median = 4), mean BDSIZE is 11.14 (Max= 40 and Median = 10), mean NEDs is 54.44 (Max = 90.90 and Median = 57.14), mean CHAge is 57. 27( Max = 78 and Median is 57.50) which shows that majority of SOEs comply with MCCG requirement on independence of directors. The mean of CCG is 67.70 per cent. This means that on average, SOEs comply with the MCCG provisions.

**Table 7.1: Descriptive statistics of dependent and independent variables between 2015 to 2018**

Variables	Obs	Mean	Med	Max	Min	Std. Dev.
CBRR	180	30.71	2.50	172.00	0.00	41.14
CSR	180	8.45	7.81	29.69	0.00	5.88
BM	180	6.64	4.00	47.00	0.00	6.52
GDIV	180	0.39	0.41	0.50	0.00	0.11
BSKILL	180	24.06	12.50	100.00	0.00	26.79
BDC	180	4.02	4.00	13.00	0.00	1.87
BDSIZE	180	11.14	10.00	40.00	1.00	5.20
NEDs	180	54.44	57.14	90.90	0.00	18.75
CHAge	180	57.27	57.50	78.00	31.00	8.84
CCG	180	67.70	71.00	100.00	14.28	15.94
AGE	180	16.75	10.00	60.00	1.00	15.29
FMSIZE	180	13,435.72	1,887.11	413,375.40	11.87	47,629.50
LEV	180	654.50	5.45	41,990.79	0.20	4,505.10

### **7.2.2 CSR reporting based on the four CSR themes as per Kenya's SOEs classification (2015-2018)**

Table 7.2 presents disclosure pattern of SOEs of four CSR themes: Ethics, health and safety, environment, and social investment as a percentage of the total. On average, all categories of SOEs seems to prioritize social investment disclosure. Adherence to social investment is a noteworthy finding, especially since some scholars, for instance Ervits (2021) found a similar trend of social CSR disclosure among Chinese SOEs. The second priority is environmental

disclosure, followed by health and safety and finally ethics. This outcome suggest that SOEs in Kenya have different sets of priorities in addressing social problem.

**Table 7.2: CSR reporting based on the four CSR themes as per Kenya’s SOEs classification (2015-2018)**

SOE Classification	CSR theme categories %			
	Ethics	HESA	ENVI	SOIN
Public Universities	2.86	17.14	34.29	45.71
Training and Research	14.80	25.44	31.36	28.40
Service corporation	15.67	26.20	23.41	34.72
Regulatory	13.77	21	23.20	42.03
Manufacturing	17.76	27.10	24.30	30.84

Source: Own authorship based on the analysis of 45 audited annual reports of SOEs between 2015-2018

### 7.2.3 Inferential statistics

Consistent with prior studies (Inya & Psaros, 2018; Nkundabanyanga, 2016; Ntim, 2013), before performing a regression analysis, significant diagnostic tests on the assumptions of classical linear regression were performed to ascertain appropriateness of data for statistical analysis. According to Assenga et al. (2018) and Ntim et al. (2012), significant diagnostic tests are linearity, heteroscedasticity, serial autocorrelation, multicollinearity, and normality. Consequently, the researcher performed each test for each of the four models for this study. These assumptions can be analysed graphically or statistically (Flatt & Jacobs, 2019). However, graphical methods only indicate a violation of assumptions rather than adherence (Flatt & Jacobs, 2019). Moreover, graphical analysis is very subjective (Das & Imon, 2016). Due to these limitations, this study adopted statistical method to data analysis which is the objective in hypothesis determination. The results of these diagnostic tests are as indicated in chapter six sections 6.14.1 to 6.14.5.

#### 7.2.4 Correlation results

The frequently used correlations in extant literature are Pearson's (Al-Matari, 2019; Fahad & Rahman, 2020; Matuszak et al., 2019) and Spearman's (Bhagat & Bolton, 2008; Garas & ElMassah, 2018; Ntim & Soobaroyen, 2013; Romano & Guerrini, 2014) correlations. The choice of the correlation statistic to use is dependent on the characteristics of the data set. Pearson's correlation is used when the data meets the assumptions of parametric tests and Spearman's correlation is used when the data fails to meet the assumptions of parametric tests. Parametric tests require normally distributed variables, linear relationship between the variables, and homoscedasticity (Alsaqr, 2021). This thesis considered Spearman's correlation because of violations of homoscedasticity and normality assumptions as established in chapter six section 6.14.2 and 6.14.5.

Table 7.3 presents the correlation matrix among variables. The analyses shows that CBRR is unrelated to BM, GDIV, BDC, BDSIZE, NEDs, CHAge and CCG. This demonstrate that these variables do not depend on the CBRR to be effective. The positive significant correlation coefficient between CBRR and BSKILL implies that board skill is positively correlated with CBRR.

In addition, the analyses indicate that the correlation between CSR score and BM is positive and significant. In contrast, the result demonstrates negative significant correlation between CSR score and GDIV and BSIZE. There is also no significant correlation between BSKILL, BDC, NEDs, CHAge and CCG. As for control variables, the result finds insignificant correlation coefficient between AGE, FMSIZE and LEV and CBRR whereas, FMSIZE indicate positive significant correlation coefficient with CSR scores while FAGE and LEV show insignificant correlations.

**Table 7.3: Spearman correlation coefficients matrix for State-owned enterprises in Kenya**

Variable	1	2	3	4	5	6	7	8	9	10	11	12	13
1.CBRR	1												
2.CSR	0.1346 0.1197	1											
3.BM	0.0255 0.7692	0.2462***	1										
4.GDIV	-0.0400 0.6453	-0.1428*	-0.0140	1									
5.BSKILL	0.1487* 0.0852	0.1967	-0.253***	0.0999	1								
6.BDC	-0.0021 0.9803	-0.1338	0.2038**	0.0826	0.2504***	1							
7.BDSIZE	-0.0723 0.4050	-0.1712**	0.1190	-0.0273	-0.1873	0.1454*	1						
8.NEDs	-0.1265 0.1436	-0.1072	0.1403	0.2193***	-0.1994**	0.1319	-0.0045	1					
9.CHAge	-0.0177 0.8384	-0.0167	0.0130	0.0275	0.0657	-0.0886	0.0125	0.2193***	1				
10.CCG	-0.0500 0.5648	0.0012	0.3097***	0.4054***	-0.1111	0.3174***	0.2562***	0.2789***	-0.1107	1			
11.AGE	-0.0531 0.5405	-0.0958	0.2067**	0.2625***	-0.1260	-0.1517*	0.2385***	-0.1355	-0.0172	-0.1338	1		
12.FMSIZE	-0.0156 0.8579	0.1905**	0.1141	-0.1573*	0.0626	-0.0700	-0.1695	-0.0799	0.2832***	-0.0873	0.1966**	1	
13.LEV	0.0329 0.7047	-0.1520*	0.0980	-0.0244	-0.0037	-0.1345	0.2695***	-0.1012	0.0803	-0.0883	-0.0381	0.3934***	1
		0.0783	0.2581	0.7785	0.9660	0.1198	0.0016	0.2430	0.3543	0.3084	0.6609	0.0000	

Notes: \* Significance at the 10% level (2-tailed), \*\* significance at the 5% level (2-tailed), \*\*\* significance at the 1% level (2-tailed).

### 7.2.5 Results of the relationship between corporate governance provisions and financial performance.

Table 7.4 , panel A, shows the results of fixed panel regression model I which are based on BM, GDIV, BSKILL, BDC, BDSIZE, NEDs, CHAge and control variables (AGE, FMSIZE, and LEV). The  $R^2$  adjusted is 46 per cent and the model is significant ( $F= 3.1100$ ,  $\rho= 0.0000$ ). The results indicate that three corporate governance provisions (BM, GDIV, & BSKILL) have a significant positive relationship with CBRR. This suggest that  $H_{1a}$ ,  $H_{2a}$  and  $H_{3a}$  cannot be rejected ( $\beta = 2.5472$ ,  $\rho= 0.0000$ ;  $\beta = 18.4429$ ,  $\rho= 0.0000$ ;  $\beta = 0.4216$ ,  $\rho= 0.0803$ ) respectively. The results also indicate that BDC have insignificant positive relationship with CBRR while BSIZE, NEDs and CHAge have negative but insignificant relation with CBRR. The result suggests that  $H_{4a}$ ,  $H_{5a}$ ,  $H_{6a}$  and  $H_{7a}$  are rejected ( $\beta = 0.5231$ ,  $\rho= 0.8260$ ;  $\beta = -1.4891$ ,  $\rho= 0.1316$ ;  $\beta = -22.4310$ ,  $\rho= 0.1328$ ;  $\beta = -0.4717$ ,  $\rho= 0.1616$ ) respectively. With regard to control variables, only leverage is not significant ( $\beta = -0.4609$ ,  $\rho= 0.8340$ ) while AGE and FMSIZE are significantly related with CBRR positively and negatively respectively ( $\beta = 6.1228$ ,  $\rho= 0.0000$ ;  $\beta = -6.4071$ ,  $\rho= 0.0655$ ).

Panel B shows the results of panel regression model II based on CCG.  $R^2$  adjusted is 43 per cent and the model is significant ( $F= 3.1037$ ,  $\rho = 0.0000$ ). The results indicate CCGI has positive but insignificant relationship with CBRR. This suggest that  $H_8$  is rejected ( $\beta = 0.1297$ ,  $\rho= 0.5918$ ). Unlike model 1, AGE is the only control variable that is significant ( $\beta = 4.6866$ ,  $\rho= 0.0035$ ) while LEV and FMSIZE are insignificant ( $\beta = 1.5071$ ,  $\rho= 0.5333$ ;  $\beta = 0.4870$ ,  $\rho= 0.8625$ ).

**Table 7.4: Panel regression model (dependent variable: CBRR)****Panel A: Individual corporate governance provisions**

Variable	Coefficient	Std. error	t-statistic	p-value	VIF
Constant	8.8392	38.9748	0.2268	0.8212	N/A
<b>Independent</b>					
BM (-1)	2.5472	0.2658	9.5842	0.0000***	1.7302
GDIV (-1)	18.4429	0.8031	22.9635	0.0000***	1.3850
BSKILL (-1)	0.4216	0.2380	1.7715	0.0803*	1.4866
BDC (-1)	0.5231	2.3711	0.2206	0.8260	1.8825
BDSIZE (-1)	-1.4891	0.9774	-1.5236	0.1316	1.2074
NEDs (-1)	-22.4310	14.7725	-1.5184	0.1328	1.6001
CHAge (-1)	-0.4717	0.3338	-1.4129	0.1616	1.1325
<b>Control</b>					
AGE (-1)	6.1228	1.2807	4.7810	0.0000***	1.2136
FMSIZE (-1)	-6.4071	3.4312	-1.8673	0.0655*	1.4567
LEV (-1)	-0.4609	2.1920	-0.2103	0.8340	1.3361
R <sup>2</sup>	0.68				
Adjusted R <sup>2</sup>	0.46				
F-statistic	3.11				
Significance	0.0000***				
Observations	135				

**Panel B: Combined corporate governance provisions**

Variable	Coefficient	Std. Error	t-Statistic	P-value	VIF
Constant	-59.2792	18.1587	-3.2645	0.0016***	N/A
CCG (-1)	0.1297	0.2410	0.5382	0.5918	1.0239
AGE (-1)	4.6866	1.5616	3.0012	0.0035***	1.0835
FMSIZE (-1)	0.4870	2.8035	0.1737	0.8625	1.2529
LEV (-1)	1.5071	2.4092	0.6256	0.5333	1.2262
R <sup>2</sup>	0.63				
Adjusted R <sup>2</sup>	0.43				
F-statistic	3.1038				
Significance	0.0000***				
Observations	135				

Notes: \* Significance at the 10% level (2-tailed), \*\*\* significance at the 1% level.

### 7.2.6 Results of the relationship between corporate governance provisions and non-financial performance.

Table 7.5, panel A, shows the results of panel regression model III which are based on BM, GDIV, BSKILL, BDC, BDSIZE, NEDs, CHAge and control variables (AGE, FMSIZE, and LEV). The  $R^2$  adjusted is 75 per cent and the model is significant ( $F= 8.5473$ ,  $\rho= 0.0000$ ). The results indicate that coefficient of BM is negative and significant at 5 per cent ( $\beta = -0.0325$ ,  $\rho= 0.0372$ ). This means that  $H_{1b}$  is rejected. Secondly, the coefficient of GDIV is negative but insignificant ( $\beta = -6.2685$ ,  $\rho= 0.1269$ ). In this regard,  $H_{2b}$  is rejected. Thirdly, the coefficient of BSKILL is positive and significant at 1 per cent ( $\beta = 0.0343$ ,  $\rho= 0.0014$ ), therefore,  $H_{3b}$  fails to be rejected. Moreover, the coefficient of BDC is negative and significant at 1 per cent ( $\beta = -0.7789$ ,  $\rho= 0.0000$ ), hence,  $H_{4b}$  is rejected. Furthermore, the coefficient of BSIZE and NEDs are positive but insignificant ( $\beta = 0.0202$ ,  $\rho= 0.8575$ ;  $\beta = 1.0253$ ,  $\rho= 0.1246$ ) respectively. This suggests that  $H_{5b}$  and  $H_{6b}$  are rejected. Finally, the coefficient of CHAge is negative and significant at 1 per cent ( $\beta = -0.1101$ ,  $\rho= 0.0001$ ) therefore  $H_{7b}$  is rejected. Among the control variables, only LEV is not significant ( $\beta = -0.3054$ ,  $\rho= 0.1967$ ) while AGE and FMSIZE are positively related with CBRR at 1 and 10 per cent respectively ( $\beta = 6.1228$ ,  $\rho= 0.0000$ ;  $\beta = -6.4071$ ,  $\rho= 0.0655$ ).

Panel B shows the results of panel regression model IV based on CCG.  $R^2$  adjusted is 74 per cent and the model is significant ( $F= 8.8831$ ,  $\rho = 0.0000$ ). The results indicate that the coefficient of CCG is positive and significant at 1 percent ( $\beta = 0.0129$ ,  $\rho= 0.0000$ ). This suggest that  $H_{8b}$  is accepted. Of the control variables, AGE is the only control variable that is significant ( $\beta = 0.6356$ ,  $\rho= 0.0000$ ) while coefficients of LEV and FMSIZE are negative and positive respectively but insignificant ( $\beta = -0.0766$ ,  $\rho= 0.6192$ ;  $\beta = 0.1299$ ,  $\rho= 0.1660$ ).

**Table 7.5: Panel regression model (dependent variable: CSR)**

**Panel A: Individual corporate governance provisions**

Variable	Coefficient	Std. error	t-statistic	p-value	VIF
Constant	6.7720	2.4847	2.7255	0.0079***	N/A
<b>Independent</b>					
BM (-1)	-0.0325	0.0153	-2.1194	0.0372**	1.7302
GDIV (-1)	-6.2685	4.0638	-1.5425	0.1269	1.3850
BSKILL (-1)	0.0343	0.0103	3.3174	0.0014***	1.4866
BDC (-1)	-0.7789	0.1259	-6.1854	0.0000***	1.8825
BDSIZE (-1)	0.0202	0.1123	0.1802	0.8575	1.2074
NEDs (-1)	1.0253	0.6605	1.5522	0.1246	1.6001
CHAge (-1)	-0.1101	0.0268	-4.1136	0.0001***	1.1325
<b>Control</b>					
AGE (-1)	0.7132	0.0599	11.9105	0.0000***	1.2136
FMSIZE (-1)	0.1292	0.0678	1.9063	0.0602*	1.4567
LEV (-1)	-0.3054	0.2346	-1.3018	0.1967	1.3361
R <sup>2</sup>	0.85				
Adjusted R <sup>2</sup>	0.75				
F-statistic	8.5473				
Significance	0.0000****				
Observation	135				

**Panel B: Combined corporate governance provisions**

Variable	Coefficient	Std. error	t-statistic	p-value	VIF
Constant	-3.4608	0.7446	-4.6482	0.0000***	N/A
CCG (-1)	0.0129	0.0041	3.1860	0.0020***	1.0239
AGE (-1)	0.6356	0.0312	20.3735	0.0000***	1.0835
FMSIZE (-1)	0.1299	0.0930	1.3970	0.1660	1.2529
LEV (-1)	-0.0766	0.1536	-0.4988	0.6192	1.2262
R <sup>2</sup>	0.83				
Adjusted R <sup>2</sup>	0.74				
F-statistic	8.8831				
Significance	0.0000***				
Observations	135				

Notes: \* Significance at the 10% level (2-tailed), \*\* significance at the 5% level (2-tailed), \*\*\* significance at the 1% level.

### 7.3 Further analyses and robustness tests

The study conducted three additional analyses to examine the relationship between board meetings, gender diversity, board skill, board sub-committees, board size, board independence, board chair age and combined corporate governance provisions (CCG) and financial and non-financial performance of SOEs in Kenya.

#### 7.3.1 Alternative financial performance measure

As the first extra test, the same set of independent variables are re-estimated using ROA as the dependent variable as modelled in equation I and II so as to ensure comparability with previous studies in SOEs (Bhasa, 2015; Hassan et al., 2017; Locke & Duppati, 2014). The new-classical law and economic theorists argue that failure to measure performance by profitability is the main cause of inefficiency of SOEs due to deprivation of incentive to increase gains, cut costs, and operate efficiently (Mwaura, 2007). Thus, privatization of SOEs is justified on this basis. However, privatization is not a panacea to financial performance challenges in SOEs. Extant literature demonstrate that SOEs financial performance could be enhanced by improving their corporate governance structures as opposed to changing their ownership structure ( Mbo & Adjasi, 2017). While financial performance is not the main goal for SOEs that are non-commercial, prudence in financial efficiency can enhance their self-reliance and less dependent on exchequer.

As shown in panel A of Table 7.6,  $R^2$  adjusted is 71 per cent and the model is significant ( $F= 7.1345$ ,  $\rho= 0.0000$ ). The results indicate that three corporate governance provisions (BM, BSKILL & NEDs) have significant positive relationship with ROA ( $\beta = 0.5078$ ,  $\rho= 0.0560$ ;  $\beta = 0.4104$ ,  $\rho= 0.0803$ ;  $\beta = 18.6165$ ,  $\rho= 0.0074$ ) respectively. Interestingly, board independence becomes significant when ROA is used as a financial performance measure. The results also indicate that GDIV, BDC, CHAge have negative but insignificant relationship with ROA while BDSIZE has positive but insignificant relation with ROA ( $\beta = -2.3908$ ,  $\rho= 0.8354$ ;  $\beta = -0.5927$ ,  $\rho= 0.5918$ ;  $\beta = -0.1074$ ,  $\rho= 0.6138$ ;  $\beta = 0.8521$ ,  $\rho= 0.1025$ ) respectively. With regard to control variables, only AGE is not significant ( $\beta = -$

1.9466,  $\rho = 0.1483$ ) while LEV and FMSIZE are significantly and positively related with ROA respectively ( $\beta = -22.8469$ ,  $\rho = 0.0005$ ;  $\beta = -8.6959$ ,  $\rho = 0.0001$ ).

Panel B shows the results of fixed-effects panel regression equation II based on CCG provisions. R2 adjusted is 81 per cent and the model is significant ( $F = 12.57$ ,  $\rho = 0.0000$ ). The results indicate that CCG provisions have positive but insignificant relationship with ROA. Unlike model 1, AGE, FMSIZE and LEV are all negative and significantly related ( $\beta = -3.5339$ ,  $\rho = 0.0022$ ;  $\beta = -26.8062$ ,  $\rho = 0.0136$ ;  $\beta = -9.4741$ ,  $\rho = 0.0000$ ).

The results largely remain consistent with the baseline results reported in the main findings in Table 7.4 panel A and B with exception of gender diversity and board independence which changes the sign of their coefficients and significance. The negative but insignificant result of gender diversity is congruent with the result obtained by Ullah et al. (2019) in Pakistan. The result is not surprising because the achievement of gender equality in the public service in Kenya has not been fully implemented.

**Table 7.6: Alternative financial performance measure ( ROA)**

**Panel A: Individual corporate governance provisions results**

Variable	Coefficient	Std. error	t-statistic	p-value	VIF
Constant	178.7735	48.4653	3.6887	0.0004***	N/A
<b>Independent</b>					
BM (-1)	0.5078	0.2658	1.9392	0.0560**	1.7302
GDIV (-1)	-2.3908	11.4726	-0.2084	0.8354	1.3850
BSKILL (-1)	0.4104	0.1696	2.4199	0.0178***	1.4866
BDC (-1)	-0.5927	1.1008	-0.5384	0.5918	1.8825
BDSIZE (-1)	0.8521	0.5158	1.6519	0.1025	1.2074
NEDs (-1)	18.6165	6.7764	2.7473	0.0074***	1.6001
CHAge (-1)	-0.1074	0.2119	-0.5067	0.6138	1.1325
<b>Control</b>					
AGE (-1)	-1.9466	1.3336	-1.4597	0.1483	1.2136
FMSIZE (-1)	-22.8469	6.2706	-3.6435	0.0005***	1.4567
LEV (-1)	-8.6959	2.0309	-4.2818	0.0001***	1.3361
R <sup>2</sup>	0.83				
Adjusted R <sup>2</sup>	0.71				
F-statistic	7.1345				
Significance	0.0000***				
Observations	135				

**Panel B: Combined corporate governance provisions**

Variable	Coefficient	Std. error	t-statistic	p-value	VIF
Constant	242.7849	74.2496	3.2698	0.0021***	N/A
CCG (-1)	0.3072	0.1954	1.5717	0.1232	1.0239
AGE (-1)	-3.5339	1.0875	-3.2494	0.0022***	1.0835
FMSIZE (-1)	-26.8062	10.4321	-2.5696	0.0136***	1.2529
LEV (-1)	-9.4741	1.1348	-8.3485	0.0000***	1.2262
R <sup>2</sup>	0.88				
Adjusted R <sup>2</sup>	0.81				
F-statistic	12.57				
Significance	0.0000***				
Observations	135				

Notes: \* Significance at the 10% level (2-tailed), \*\* significance at the 5% level (2-tailed), \*\*\* significance at the 1% level.

**7.3.2 Additional analysis based on individual CSR subcomponents**

Secondly, consistent with prior studies such as Buerter et al. (2020), Jordaan et al. (2018), and Ntim and Soobaroyen (2013), the additional analysis examined whether there is any difference in findings when the individual CSR subcomponent is used as dependent variable as depicted in equation III and IV. The researcher regressed both individual and CCG provisions over the four CSR subcomponents (ethics, health and safety initiatives, environment, & social investment).

Table 7.7 and Table 7.8 panel A and B show the results of the CSR subcomponents. Panel A on ethics subcomponent show that R<sup>2</sup> adjusted is 61 per cent and the model is significant (F= 4.8664,  $\rho$ = 0.0000). The results indicate that BSKILL has a significant positive relationship with ethics subcomponent ( $\beta$  = 0.0148,  $\rho$ = 0.0031). The results also indicate that BM and BDC have negative and significant relationship with ethics subcomponent ( $\beta$  =-0.0882,  $\rho$ = 0.0823;  $\beta$  = -0.5624,  $\rho$ = 0.0079) respectively. Other corporate governance provisions (GDIV, BDSIZE, NEDs,& CHAge) show insignificant impact ( $\beta$  = -0.3694,  $\rho$ = 0.9052;  $\beta$  = 0.0203,  $\rho$ = 0.9063;  $\beta$  = 0.4078,  $\rho$ = 0.7341;  $\beta$  =- 0.0604,  $\rho$ = 0.2735). With regard to control variables, only AGE is significant ( $\beta$  = 1.0330,  $\rho$ = 0.0225)

while LEV and FMSIZE are negative but insignificantly related to ethics subcomponent ( $\beta = -0.3204$ ,  $\rho = 0.1065$ ;  $\beta = -0.6239$ ,  $\rho = 0.1028$ ).

Panel B shows the results of regression model IV based on CCG.  $R^2$  adjusted is 63 per cent and the model is significant ( $F = 5.7163$ ,  $\rho = 0.0000$ ). The results indicate that CCG provisions have positive but insignificant relationship with ethics subcomponent ( $\beta = 0.0346$ ,  $\rho = 0.3422$ ). All the control variables turn to be insignificant. FMSIZE ( $\beta = -0.9449$ ,  $\rho = 0.2082$ ), LEV ( $\beta = -0.2143$ ,  $\rho = 0.6529$ ), and AGE ( $\beta = 0.0346$ ,  $\rho = 0.3422$ ).

On health and safety initiative subcomponent, the results indicate that  $R^2$  adjusted is 72 per cent and the model is significant ( $F = 7.4527$ ,  $\rho = 0.0000$ ). The results indicate that BM and BDC have significant negative relationship with health and safety subcomponent ( $\beta = -0.0886$ ,  $\rho = 0.0503$ ;  $\beta = -1.2729$ ,  $\rho = 0.0038$ ). The results also indicate that other corporate governance provisions (GDIV, BSKILL, BDSIZE, NEDs, CHAge) have insignificant influence on health and safety subcomponent ( $\beta = 2.4433$ ,  $\rho = 0.4812$ ;  $\beta = 0.0104$ ,  $\rho = 0.7768$ ;  $\beta = 0.4831$ ,  $\rho = 0.2192$ ;  $\beta = -1.1177$ ,  $\rho = 0.1364$ ;  $\beta = 0.0716$ ,  $\rho = 0.3753$ ). With regard to control variables, all variables turn to be insignificant. FMSIZE ( $\beta = 0.1057$ ,  $\rho = 0.7735$ ), LEV ( $\beta = -0.1970$ ,  $\rho = 0.4697$ ), and AGE ( $\beta = 0.8852$ ,  $\rho = 0.1784$ ).

Panel B shows the results of panel regression model IV based on CCG provisions.  $R^2$  adjusted is 72 per cent and the model is significant ( $F = 8.1270$ ,  $\rho = 0.0000$ ). The results indicate CCG provisions have negative but insignificant relationship with health and safety initiative subcomponent ( $\beta = -0.0139$ ,  $\rho = 0.7785$ ). All the control variables turn to be insignificant. AGE ( $\beta = 0.8287$ ,  $\rho = 0.3600$ ), LEV ( $\beta = 0.0279$ ,  $\rho = 0.9623$ ), and SIZE ( $\beta = -0.0388$ ,  $\rho = 0.9697$ ).

Regarding environmental subcomponent, the results indicate that  $R^2$  adjusted is 61 per cent and the model is significant ( $F = 4.8678$ ,  $\rho = 0.0000$ ). The results indicate that BSKILL has significant positive relationship with environment subcomponent ( $\beta = 0.1099$ ,  $\rho = 0.0453$ ) while CHAge demonstrate an inverse relationship with environment subcomponent ( $\beta = -0.3345$ ,  $\rho = 0.0180$ ). The

results also indicate that other corporate governance provisions (BM, GDIV, BDC, BDSIZE, & NEDs) have insignificant influence on environment subcomponent ( $\beta = -0.0907$ ,  $\rho = 0.1330$ ;  $\beta = -8.1239$ ,  $\rho = 0.2276$ ;  $\beta = -0.4695$ ,  $\rho = 0.5045$ ;  $\beta = 0.0192$ ,  $\rho = 0.9015$ ;  $\beta = 1.4713$ ,  $\rho = 0.1834$ ) respectively. With regard to control variables, AGE has significant and positive relationship with environment subcomponent ( $\beta = 1.3774$ ,  $\rho = 0.0959$ ) while FMSIZE and LEV have insignificant relationship ( $\beta = 0.9888$ ,  $\rho = 0.3243$ ;  $\beta = -0.0978$ ,  $\rho = 0.9353$ ).

Panel B shows the results of regression model IV based on CCG.  $R^2$  adjusted is 73 per cent and the model is significant ( $F = 4.9075$ ,  $\rho = 0.0000$ ). The results indicate CCG provisions have positive but insignificant relationship with environment subcomponent ( $\beta = 0.0651$ ,  $\rho = 0.3117$ ). All the control variables turn to be insignificant. AGE ( $\beta = 0.9410$ ,  $\rho = 0.3471$ ), LEV ( $\beta = 0.4173$ ,  $\rho = 0.5047$ ), and FMSIZE ( $\beta = 1.2086$ ,  $\rho = 0.4425$ ).

Finally, regarding social investment subcomponent, the results indicate that  $R^2$  adjusted is 62 per cent and the model is significant ( $F = 5.0741$ ,  $\rho = 0.0000$ ). The results indicate that BDC and CHAge have significant negative relationship with social investment subcomponent ( $\beta = -0.8654$ ,  $\rho = 0.0115$ ;  $\beta = -0.0757$ ,  $\rho = 0.0055$ ). The results also indicate that other corporate governance provisions (BM, GDIV, BSKILL, BDSIZE, & NEDs) have insignificant influence on social investment subcomponent ( $\beta = -0.0819$ ,  $\rho = 0.3164$ ;  $\beta = -16.2814$ ,  $\rho = 0.1514$ ;  $\beta = 0.0173$ ,  $\rho = 0.2028$ ;  $\beta = 0.0447$ ,  $\rho = 0.2604$ ;  $\beta = 1.3364$ ,  $\rho = 0.5015$ ) respectively. With respect to control variables, FMSIZE and LEV have negative and significant relationship with social investment subcomponent ( $\beta = 1.8668$ ,  $\rho = 0.0199$ ;  $\beta = -1.0380$ ,  $\rho = 0.0074$ ) while AGE has insignificant relationship ( $\beta = 0.4203$ ,  $\rho = 0.3635$ ).

Panel B shows the results of panel regression model IV based on CCG.  $R^2$  adjusted is 58 per cent and the model is significant ( $F = 4.9203$ ,  $\rho = 0.0000$ ). The results indicate CCG provisions have negative but insignificant relationship with social investment subcomponent ( $\beta = -0.0337$ ,  $\rho = 0.5483$ ). With regard to control variables, FMSIZE has significant and positive relationship with social investment

subcomponent ( $\beta = 1.8038$ ,  $\rho = 0.0358$ ) while AGE and LEV have insignificant relationship ( $\beta = 0.4249$ ,  $\rho = 0.5924$ ;  $\beta = -0.8619$ ,  $\rho = 0.1418$ ).

In sum, the findings are generally consistent with the previous evidence. The estimated coefficients of the control variables also do not differ much from previous evidence.

**Table 7.7: Additional analysis based on individual CSR subcomponents**

**Panel A: Individual corporate governance provisions results**

Variable	Aggregate CSR	ETHICS	HESA	ENVI	SOIN
Constant	6.7720*** (2.7255)	-1.0413 (-0.4063)	-9.7113 (-0.7200)	2.9788 (0.6151)	3.6914 (0.6055)
<b>Independent</b>					
BM (-1)	-0.0325** (-2.1194)	-0.0882* (-3.2678)	-0.0886* (-4.2895)	-0.0907 (-2.4601)	-0.0819 (-1.3247)
GDIV (-1)	-6.2685 (-1.5425)	-0.36944 (-0.1347)	2.4433 (0.8581)	-8.1239 (-1.7198)	-16.2814 (-2.2685)
BSKILL (-1)	0.0343*** (3.3174)	0.0148*** (17.8559)	0.0104 (0.3238)	0.1100** (4.5353)	0.0173 (1.8672)
BDC (-1)	-0.7789*** (-6.1854)	-0.5624*** (-11.1873)	-1.2729*** (-16.2152)	-0.4695 (-0.8068)	-0.8654** (1.2717)
BDSIZE (-1)	0.0202 (0.1802)	0.0203 (0.1331)	0.4831 (1.7674)	0.0192 (0.1400)	0.0447 (1.5541)
NEDs (-1)	1.0253 (1.5522)	0.4078 (0.3900)	-1.1177 (-2.4220)	1.4713 (2.0005)	1.3364 (0.8133)
CHAge (-1)	-0.1101*** (-4.1136)	-0.0604 (-1.4952)	0.0716 (1.1315)	-0.3345** (-7.3502)	-0.0757*** (-13.4824)
<b>Control</b>					
AGE (-1)	0.7132*** (11.9105)	1.0330** (6.5500)	0.8852 (2.0385)	1.3774* (2.9923)	0.4203 (1.1672)
FMSIZE (-1)	0.1292* (1.9063)	-0.6239*** (-2.8736)	0.1057 (0.3289)	0.9889 (1.2962)	1.8668** (6.9911)
LEV (-1)	-0.3054 (-1.3018)	-0.3204 (-2.8140)	-0.1970 (-0.8846)	0.0978 (0.0918)	-1.0380*** (-11.5896)
R <sup>2</sup>	0.85	0.77	0.83	0.77	0.77
Adjusted R <sup>2</sup>	0.75	0.61	0.72	0.61	0.62
F-statistics	8.5473	4.8664	7.4527	4.8678	5.0741
Significance	0.0000	0.0000	0.0000	0.0000	0.0000
Observations	135	135	135	135	135

This table reports the results of individual corporate governance provisions and control variables on both aggregated and individual CSR subcomponents. Notes: \*, \*\* and \*\*\* indicate significance at the 10%, 5% , and 1% levels, respectively (2-tailed) with *t*-statistics indicated in parentheses.

HESA, ENVI and SOIN refers to health and safety initiatives, environment, and social investments in that order. Detailed variable definitions and supporting literature are provided in Table 6.4.

**Table 7.8: Additional analysis based on individual CSR subcomponents**

**Panel B: Combined corporate governance provisions results**

Variable	Aggregate CSR	ETHICS	HESA	ENVI	SOIN
Constant	-3.4608*** (-4.6482)	-6.4967 (-0.7089)	-3.4140 (-0.2350)	-17.3400 (-1.0845)	-6.4819 (-0.4726)
<b>Independent</b>					
CCG (-1)	0.0129*** (3.1860)	0.0346 (0.9604)	-0.0139 (-2.2895)	0.0651 (1.0234)	-0.0337 (-0.6049)
<b>Control</b>					
AGE(-1)	0.6356*** (20.3735)	1.0135 (1.6736)	0.8287 (0.9250)	0.9410 (0.9503)	0.4249 (0.5393)
FMSIZE (-1)	0.1299 (1.3970)	-0.9449 (-0.1347)	-0.0388 (-0.0382)	1.2086 (0.7749)	1.8038** (2.1662)
LEV (-1)	-0.0766 (-0.4988)	-0.2143 (-0.4528)	0.0279 (0.0475)	0.4173 (0.6726)	-0.8619 (-1.4958)
R <sup>2</sup>	0.83	0.76	0.82	0.73	0.73
Adjusted R <sup>2</sup>	0.74	0.63	0.72	0.58	0.58
F-statistics	8.8831	5.7163	8.1270	4.9075	4.9203
Significance	0.000	0.0000	0.0000	0.0000	0.0000
Observations	135	135	135	135	135

This table reports the results of CCG provisions and control variables on both aggregated and individual CSR subcomponents. Notes: \*, \*\* and \*\*\* indicate significance at the 10%, 5% , and 1% levels, respectively (2-tailed) with *t*-statistics indicated in parentheses. HESA, ENVI and SOIN refers to health and safety initiatives, environment, and social investments in that order. Detailed variable definitions and supporting literature are provided in Table 6.4.

**7.3.3 Comparison of fixed-effects and random effects results**

The third additional analysis was the application of different regression estimator: the random-effects model. Table 7.9, panel A, shows the results of panel regression model I which are based on BM, GDIV, BSKILL, BDC, BDSIZE, NEDs, CHAge and control variables (AGE, FMSIZE, and LEV). The R<sup>2</sup> adjusted is -0.04 and the model is insignificant (F= 0.5213,  $\rho$ = 0.8724). The results indicate that coefficient of BM is positive and significant at 10 per cent ( $\beta$ = 0.9218,  $\rho$ = 0.0714). The coefficient of GDIV is positive but insignificant ( $\beta$  = 0.5208,  $\rho$ = 0.9804). The coefficient of BSKILL is negative but insignificant ( $\beta$  = - 0.0650,  $\rho$ = 0.5767). The coefficient of BDC is negative but insignificant ( $\beta$  = -2.0633,  $\rho$ =

0.4330). The coefficients of BSIZE and NEDs are negative but insignificant ( $\beta = -1.1366, \rho = 0.5386$ ;  $\beta = -3.4694, \rho = 0.5081$ ) respectively. Finally, the coefficient of CHAge is negative but insignificant ( $\beta = -0.4039, \rho = 0.6116$ ). Among the control variables, all of them turn to be insignificant. The coefficients and p-values for AGE, FMSIZE and LEV are ( $\beta = 0.0898, \rho = 0.8472$ ), ( $\beta = -1.6623, \rho = 0.5982$ ), and ( $\beta = -1.2014, \rho = 0.2136$ ) respectively.

Panel B shows the results of panel regression model II based on CCG provisions.  $R^2$  adjusted is -0.0253 and the model is insignificant ( $F = 0.1740, \rho = 0.9514$ ). The results indicate that the coefficient of CCG is positive but insignificant ( $\beta = 0.1052, \rho = 0.6698$ ). With regard to control variables, all of them turn to be insignificant. The coefficients and p-values for AGE, FMSIZE and LEV are ( $\beta = 0.1360, \rho = 0.7441$ ), ( $\beta = -1.2827, \rho = 0.5834$ ), and ( $\beta = -0.0998, \rho = 0.2136$ ) respectively.

Table 7.9, panel A, shows the results of panel regression model III which are based on BM, GDIV, BSKILL, BDC, BDSIZE, NEDs, CHAge and control variables (AGE, FMSIZE, and LEV). The  $R^2$  adjusted is 0.08 and the model is significant ( $F = 2.3243, \rho = 0.0152$ ). The results indicate that coefficient of BM is negative but insignificant ( $\beta = -0.0447, \rho = 0.4086$ ). The coefficient of GDIV is negative and significant at 5 per cent ( $\beta = -7.6562, \rho = 0.0330$ ). The coefficient of BSKILL is positive but insignificant ( $\beta = 0.0366, \rho = 0.1251$ ). The coefficient of BDC is negative and significant at 1 per cent ( $\beta = -0.7575, \rho = 0.0046$ ). The coefficients of BSIZE and NEDs are positive but insignificant ( $\beta = 0.0765, \rho = 0.5870$ ;  $\beta = 1.1759, \rho = 0.5387$ ) respectively. Finally, the coefficient of CHAge is negative and significant ( $\beta = -0.0993, \rho = 0.0447$ ). Among the control variables, the coefficient of AGE is negative but insignificant ( $\beta = -0.0448, \rho = 0.3267$ ), the coefficient of FMSIZE is positive and significant ( $\beta = 0.6606, \rho = 0.0575$ ), and finally, the coefficient of LEV is negative and significant ( $\beta = -0.5099, \rho = 0.0433$ ).

Table 7.9, panel B shows the results of panel regression model IV based on CCG provisions.  $R^2$  adjusted is 0.0000 and the model is insignificant ( $F = 0.9729, \rho =$

0.0152). The results indicate that the coefficient of CCG is positive but insignificant ( $\beta = 0.0060$ ,  $\rho = 0.3129$ ). With regard to control variables, the coefficient of AGE is negative but insignificant ( $\beta = -0.0109$ ,  $\rho = 0.5680$ ). The coefficient of FMSIZE is positive and significant at 5 per cent ( $\beta = 0.5821$ ,  $\rho = 0.0565$ ). Finally, the coefficient of LEV is negative but insignificant ( $\beta = -0.3044$ ,  $\rho = 0.2802$ ).

Overall, the results obtained from random effects mirrors those that are obtained from fixed effects for regression models I,II,III and IV. The only notable difference is the low explanatory power and insignificant models which may be due to the inadequacy of the random effect estimator in dealing with endogeneity. Therefore, it can be concluded that the findings of this thesis are robust under different estimation methods (Fixed-effects and random effects).

**Table 7.9: Comparison of Fixed-effects and random effects results (Dependent variable: CBRR)**

**Panel A: Individual corporate governance provisions results**

Fixed effects		Random effect			
Variable	Coefficient	p-value	Coefficient	p-value	VIF
Constant	8.8392	0.8212	91.4119	0.1223	N/A
<b>Independent</b>					
BM (-1)	2.5472	0.0000***	0.9218	0.0714*	1.7302
GDIV (-1)	18.4429	0.0000***	0.5208	0.9804	1.3850
BSKILL (-1)	0.4216	0.0803*	-0.0650	0.5767	1.4866
BDC (-1)	0.5231	0.8260	-2.0634	0.4330	1.8825
BDSIZE (-1)	-1.4891	0.1316	-1.1366	0.5386	1.2074
NEDs (-1)	-22.4310	0.1328	-3.4694	0.5081	1.6001
CHAge (-1)	-0.4717	0.1616	-0.4039	0.6116	1.1325
<b>Control</b>					
AGE (-1)	6.1228	0.0000***	0.0898	0.8472	1.2136
FMSIZE (-1)	-6.4071	0.0655*	-1.6623	0.5982	1.4567
LEV (-1)	-0.4609	0.8340	-1.2014	0.2136	1.3361
R <sup>2</sup>	0.68		0.04		
Adjusted R <sup>2</sup>	0.46		-0.04		
F-statistic	3.11		0.52		
Significance	0.0000***		0.8724		
Observations	135		135		

**Panel B: Combined corporate governance provisions results (Dependent variable: CBRR)**

Variable	Coefficient	p-value	Coefficient	p-value	VIF
Constant	-59.2792	0.0016	36.0196	0.3442	N/A
CCG (-1)	0.1297	0.5918	0.1052	0.6698	1.0239
AGE (-1)	4.6866	1.5616	0.1360	0.7441	1.0835
FMSIZE (-1)	0.4870	0.8625	-1.2827	0.5834	1.2529
LEV (-1)	1.5071	0.5333	0.0998	0.8975	1.2262
R <sup>2</sup>	0.63			0.01	
Adjusted R <sup>2</sup>	0.43			-0.03	
F-statistic	3.1038			0.17	
Significance	0.0000***			0.9514	
Observations	135			135	

Notes: \* Significance at the 10% level (2-tailed), \*\*\* significance at the 1% level.

**Table 7.10: Comparison of Fixed-effects and random effects results (Dependent variable: CSR)**

**Panel A: Individual corporate governance provisions results**

Fixed effects			Random effect		
Variable	Coefficient	p-value	Coefficient	p-value	VIF
Constant	6.7720	0.0079	14.7609	0.0005***	N/A
<b>Independent</b>					
BM (-1)	-0.0325	0.0372**	-0.0447	0.4086	1.7302
GDIV (-1)	-6.2685	0.1269	-7.6562	0.0330**	1.3850
BSKILL (-1)	0.0343	0.0014***	0.0366	0.1251	1.4866
BDC (-1)	-0.7789	0.0000***	-0.7575	0.0046***	1.8825
BDSIZE (-1)	0.0202	0.8575	0.0765	0.5870	1.2074
NEDs (-1)	1.0253	0.1246	1.1759	0.5387	1.6001
CHAge (-1)	-0.1101	0.0001***	-0.0448	0.0447**	1.1325
<b>Control</b>					
AGE (-1)	0.7132	0.0000***	0.0898	0.8472	1.2136
FMSIZE (-1)	0.1292	0.0602*	-1.6623	0.5982	1.4567
LEV (-1)	-0.3054	0.1967	-1.2014	0.2136	1.3361
R <sup>2</sup>	0.68		0.16		
Adjusted R <sup>2</sup>	0.85		0.09		
F-statistic	8.5473		2.3243		

Significance	0.0000***	0.0152
Observations	135	135

**Panel B: Combined corporate governance provisions results (Dependent variable: CSR)**

Variable	Coefficient	p-value	Coefficient	p-value	VIF
Constant	-3.4608	0.0000	4.7121	0.1728	N/A
CCG (-1)	0.0129	0.0020***	0.0060	0.3129	1.0239
AGE (-1)	0.6356	0.0000***	-0.0110	0.5680	1.0835
FMSIZE (-1)	0.1299	0.1660	0.5821	0.0565*	1.2529
LEV (-1)	-0.0766	0.6192	-0.3044	0.2802	1.2262
R <sup>2</sup>	0.83			0.03	
Adjusted R <sup>2</sup>	0.74			-0.01	
F-statistic	8.8831			0.9729	
Significance	0.0000***			0.4248	
Observations	135			135	

Notes: \* Significant at the 10% level (2-tailed), \*\*\* significant at the 1% level.

## 7.4 Results of the primary data on the impact of corporate governance provisions on financial and non-financial performance

### 7.4.1 Response Rate

The researcher used a structured questionnaire to gather primary data between 8<sup>th</sup> May and 8<sup>th</sup> August 2020. A cover letter explaining the purpose of the study and a questionnaire were sent to audit committee chairpersons of 45 SOEs. The questionnaire survey resulted into 31 responses which was used for analytical purposes. The 69% response rate is exceptionally high for research of this nature considering the restriction of movements and scaled down operations of government offices during the COVID-19 pandemic. This response rate was deemed adequate when compared with similar studies in Barbados (Thompson et al., 2018) with a response rate of 67%, Spain (Garde et al., 2017) with a response rate of 61% and Ghana (Simpson, 2014) with a response rate of 68%. However, the degree of response rate in itself, may not be adequate. There is a possibility of non-response bias in survey research that may affect the validity of research findings. Creswell (2013) defines non-response bias as a situation in

which the overall results would substantially change if non-respondents had responded to the study survey. This situation may occur especially when non-responders occurred systematically as opposed to random occurrence. To test the possibility of non-response bias, and consistent with studies such as Alleyne et al. (2014), Garde et al. (2017) and Tasios and Bekiaris (2012), the non-response bias was tested by comparing the mean responses of early respondents (n=24) and late respondents (n=7) using independent t-sample of equality of means (two-tailed). Here, early respondents are defined as those who responded within two months of the survey mailing while late respondents are those that responded at the third month after the survey mail. No significant differences were observed between the two groups, suggesting that response bias do not exist that may affect the validity of research results.

To ascertain the suitability of independent sample t- test, and consistent with prior studies (Bastani et al., 2012; Muda & Naibaho, 2018; Muttakin et al., 2015), normality test was first carried out using Kolmogorov-Smirnov test and the result as shown in appendix 8 demonstrate normal distribution implying that the method's assumption is met and therefore suitable to use.

#### **7.4.2 Results of pilot study**

The objective of pilot study was to determine the validity and reliability of the research instrument and also to obtain important feedback to refine the research instrument. The original questionnaire with 25 questions was pilot tested with 3 audit committee chairperson in three SOEs. A cronbach  $\alpha$  value of 0.79 meant that the questionnaire was highly reliable.

#### **7.4.3 Demographic characteristics**

The results of section I of the questionnaire ( Appendix 1) as summarised in table 7.11 below indicate that out of 31 respondents, 19 or 61 per cent identified themselves as male while 12 or 39 per cent were female. This means that audit committee chair positions are dominated by male. Regarding age of respondents, 29 or 94 percent were below 60 years and 2 or 6 per cent were above 60 years with the youngest and the oldest being 36 and 63 years

respectively. Nineteen (19) of the respondents or 61 per cent indicated that they had served in their positions for a period between one and three years, while 12 or 39 per cent had indicated that they had served for more than three years. On the level of academic qualification, nine (9) or 29 per cent stated that they had PhD qualifications, 14 or 45 per cent indicated they possessed second university degree, six (6) or 19 per cent had 1<sup>st</sup> university degree while one (2) or 6 percent had Certified Public Accountancy of Kenya (CPA-K).

**Table 7.11: Demographic profile of the respondents**

<b>Characteristics</b>	<b>n</b>	<b>%</b>
<b>Gender</b>		
Male	19	61
Female	12	39
Total	31	100
<b>Age</b>		
< 60 years	29	94
>60 years	2	6
Total	31	100
<b>Years serving as audit committee chair person</b>		
1-3 years	19	61
>3 years	12	39
Total	31	100
<b>Highest academic qualification</b>		
Doctorate	9	29
Master's degree	14	45
Bachelor's degree	6	19
Certified Public Accountancy of Kenya (CPA-K)	2	6
<b>Total</b>	<b>31</b>	<b>100</b>

#### **7.4.4 Questionnaire results**

Respondents were requested to consider a list of seven CG provisions and three firm specific variables then to indicate on a five -point Likert scale (1-Strongly

disagree to 5-strongly agree) the extent to which each of the variables influences CBRR and CSR performance of SOEs in Kenya (Appendix 1, section II and III). The results of a two-way sample t-test that were also investigated using secondary data are indicated in appendix II.

The results in table 7.12 indicates that on the CBRR, four CG variables (BSKILL, BSIZE, NEDs, and CHAge) were statistically different from the neutral point (3=neutral) at 5 per cent level for both BSKILL and BSIZE, 10 per cent for NEDs and CHAge at 1 percent level. The mean value of BSKILL is above the neutral point of 3 which means that the respondents perceive the variable as having a significant influence on CBRR. On the remaining three CG provisions (BSIZE, NEDs and CHAge), as the mean values were all below the neutral point of 3, it suggests that, respondents do not agree that these CG provisions can influence CBRR. The lack of significance difference in respect to BM, GDIV, and BDC means that there is no evidence to suggest that the respondents perceive these variables as influencing CBRR. On the firm specific variables, LEV and FMSIZE are significant at 5 per cent and 1 per cent level respectively while AGE is not significant. This suggest that the level of resources and indebtedness significantly influence CBRR but no evidence to suggest that AGE influences the extent of CBRR.

The influence of corporate governance provisions on CSR performance reveals that BM, BDSIZE, NEDs, BDC and CHAge are all statistically different from the neutral point at 1 percent for BDSIZE, BM and CHAge, 5 per cent level for NEDs and 10 per cent level for BDC. The mean values of BM, BDSIZE, NEDs and CHAge are below the neutral point of 3, it means that respondents do no perceive these variables as significantly influencing CSR performance. Again, the mean value of BDC is above the neutral point of 3, suggesting that respondents perceive the variable as a significant influencer of CSR performance. The lack of significance difference in respect to GDIV and BSKILL imply that there is no statistical evidence to suggest that these variables influence CSR performance.

Similarly, on the firm specific characteristics, FMSIZE and LEV are significant at 1 and 5 percent, hence an indication that the variables significantly impact on

CSR performance while AGE lacks statistical evidence to suggest it influences CSR performance.

**Table 7.12: Perception of audit committee chairpersons on the relationship between CG provisions and financial and non-financial performance of SOEs in Kenya**

Relationship of CG provisions/ entity specific factors on performance	Mean score		SD		% Agreed or strongly agreed		% Disagreed or strongly disagree		% Neutral	
	CSR	CBRR	CSR	CBRR	CSR	CBRR	CSR	CBRR	CSR	CBRR
BM	2.48***	3.03	0.890	1.080	12.9	35.5	51.6	29	35.5	35.5
GDIV	3.01	2.90	0.775	.944	25.8	29	22.6	29	51.6	42
BSKILL	3.03	3.39**	1.169	0.92	38.7	41.9	35.5	16.1	25.8	41.9
BDC	3.48***	3.32	0.926	1.077	61.3	51.6	16.1	22.6	22.6	25.8
BDSIZE	2.48***	2.65**	0.851	.755	9.7	16.1	48.4	51.6	41.9	32.3
NEDs	2.61**	2.61*	1.054	1.145	19.4	25.8	54.8	58.1	25.8	16.1
CHAge	2.16***	2.10***	0.820	0.944	6.4	6.5	71	64.5	22.6	29
AGE	2.94	2.71	0.998	0.973	29	16.1	38.7	45.2	32.3	38.7
FMSIZE	3.48***	3.42**	0.926	1.089	51.6	51.6	16.1	22.6	32.3	25.8
LEV	3.35**	3.58***	0.915	1.025	45.2	54.8	19.4	12.9	35.4	32.3

Notes: \*p < 0.01 ; \*\* p < 0.05, \*\*\*p < 0.001 significantly different from a mid-neutral point of 3.

### 7.3.5 Joint display of results from secondary data and primary data on the relationship between corporate governance provisions and financial and non-financial performance

There are broad spectrum of approaches that can be used to integrate two or more types of data together. One of such approaches adopted in this thesis is the comparison of data sets collected and analyzed separately and then combined at the point of interpretation, checking for agreement or disagreement between findings which examines the same phenomena (Bazeley, 2012; Johnson et al., 2017; Fetters et al., 2013).

**Table 7.13: Comparison of results from secondary data and primary data on the relationship between corporate governance provisions and financial performance**

Variables	Secondary data (Annual reports)	Primary data (Questionnaire)	Consistency of results
1.BM	Significant (+)	Insignificant (+)	Inconsistent
2.GDIV	Significant (+)	Insignificant (-)	Inconsistent
3.BSKILL	Significant (+)	Significant (+)	Consistent
4.BDC	Insignificant (+)	Insignificant (+)	Consistent
5.BDSIZE	Insignificant (-)	Significant (-)	Inconsistent
6.NEDs	Insignificant (-)	Significant (-)	Inconsistent
7.CHAge	Insignificant (-)	Significant (-)	Inconsistent
8.AGE	Significant (+)	Insignificant (-)	Inconsistent
9.FMSIZE	Significant (-)	Significant (+)	Inconsistent
10.LEV	Insignificant (-)	Significant (+)	Inconsistent

**Table 7.14 : Comparison of results from secondary data and primary data on the relationship between corporate governance provisions and non-financial performance**

Variables	Secondary data (Annual reports)	Primary data (Questionnaire)	Consistency of results
1.BM	Significant (-)	Significant (-)	Consistent
2.GDIV	Insignificant (-)	Insignificant (-)	Consistent
3.BSKILL	Significant (+)	Insignificant (+)	Inconsistent
4.BDC	Significant (-)	Significant (+)	Inconsistent
5.BDSIZE	Insignificant (+)	Significant (-)	Inconsistent
6.NEDs	Insignificant (+)	Significant (-)	Inconsistent
7.CHAge	Significant (-)	Significant (-)	Consistent
8.AGE	Significant (+)	Insignificant (-)	Inconsistent
9.FMSIZE	Significant (+)	Significant (+)	Consistent
10.LEV	Insignificant (-)	Significant (+)	Inconsistent

### **7.3.5 Interview results of the perception of directors on the role of CG on financial and non-financial performance**

In order to buttress the results from both secondary (audited annual financial reports) and primary (Questionnaire) data sources, the researcher sought the perception of SOEs directors. The interview questions are attached as appendix IV. Q1 asked respondents their views on how frequency of board meetings influences capital budget realization ratio (Financial performance) and CSR performance(Non-financial performance) and the responses were as follows:

*“There is closer and routine monitoring of performance and expenditure. However, more meetings also translate to more expenditure on the board budget”*  
(Interviewee 1)

*“Depending on size and activities of the organization, meetings could be four times a year or more. Frequency could be good as members will be in touch with what is happening in the organization, but meetings should also be controlled so they are not just revenue earners for directors. Effective and competent boards only meet if they must meet”* (Interviewee 2)

*“Too many meetings could lead to fatigue; too few could lead to inefficiency”*  
(Interviewee 3)

*“The problem we have in Kenya is the history of Imperial presidency. The 2010 constitution tried to solve this, but the problem persists. While in paper the corporate structure may appear to mimic what the best practice should be, but it is up to the executive to make it work. I believe you stay in this country, and you may have heard that politician make up most board membership. Nothing much can be expected when politicians meet to discuss. It is about how much each take into their pockets”* (Interviewee 4)

*“Meetings are essential to gather views of members and to reach consensus. Decisions that are taken during meetings may improve both budget absorption and CSR activities”* (Interviewee 5)

*“Performance of SOEs is influenced by several factors. Frequency of meetings is one of them. Performance of management and monitoring is done during meetings. However, In Kenya’s SOEs, some managers may be more connected politically and therefore, the intention of the meetings to monitor and to offer performance evaluation may be a futile exercise” (Interviewee 6)*

In relation to Question 2, respondents were asked about their opinion on the Constitution requirement of gender diversity of board membership in Kenya’s SOEs and how it links with the capital budget realization and CSR performance. Their responses were as follows:

*“Gender diversity ensures there is balance in thought, planning, and rationalized approach in budget allocation”. CSR performance though, is a lip service. It is not given serious attention and female representation is inadequate to change the status quo” (Interviewee 1)*

*“As per Kenyan constitution 2010, gender balance is emphasized, and diverse boards seem to perform well compared to those that are not on both issues” (Interviewee 2)*

*“Close family friends or acquaintances are selected in the name of gender equity. But if it is done with integrity, then perhaps we may see a change as has been observed in other parts of the world” (Interviewee 3)*

*“There is male dominance in boards in our SOEs. If qualified female could be given enough positions they can perform well” (Interviewee 4)*

*“There is a natural difference in thinking between men and female. When there is gender balance, their thinking is brought together that may enhance proper usage of capital budget and involvement in CSR activities” (Interviewee 5)*

*“Corruption is the major issue affecting the growth and performance of our SOEs. While both men and women have been mentioned in financial mismanagement and corruption, the number of women who are mentioned are relatively lower and*

*that means that if we have more women, most resources will be channelled into their proper usage” (Interviewee 6)*

Question 3 ask respondents to explain the extent to which board skill is emphasized in the appointment of new board members and the relation PhD qualification has on capital budget realization and CSR performance. The responses were as below:

*“It contributes in terms of having academic knowledge on financial management for those with the skill. However, there is more that is needed in management and governance besides academic qualifications. The right academic skills in financial management may influence performance in both areas” (Interviewee 1)*

*“PhD qualifications give the member an elevated profile upon which to negotiate on many fronts which can lead to both CSR performance and capital budget realization” (Interviewee 2)*

*“Board members are required to have adequate academic qualification. PhD qualification raises Board's self-esteem and increases pressure to perform” (Interviewee 3)*

*“Higher qualification such as PhD is a good thing for the country. The problem we have in Kenya is that there is no equal opportunity. However, as to whether it contributes to better performance is a different story. As earlier stated, you may have PhD qualification, but you may not use the knowledge to bring change due to political and self-interest of elected officials” (Interviewee 4)*

*“Every board is required to have skills in certain key areas such as finance, audit, human resource and generally leadership and governance. So, when new board members are appointed, such key areas must be paid attention to”. PhD qualification introduces critical thinking that may result to proper usage of resources and in the involvement in CSR activities” (Interviewee 5)*

*“The board is viewed as being compliant with the Constitution of Kenya which requires the holders of that position to have sufficient skill. PhD qualification gives the Board the pressure to prove it can deliver” (Interviewee 6)*

Question 4 sought to know how board sub-committees impact CSR performance and capital budget fund usage. The responses were as below:

*“Board sub-committees helps in consideration of budget, review of financial performance, approval of work plans whose activities inform the budget, audit of expenditure to ensure that there is value for money” (Interviewee 1)*

*“It is the sub- committees that do the ‘donkey’ work for the board. They are the ones that come up with papers and concept notes in partnership with management that are submitted to the full board (Interviewee 2)*

*“Scrutinizing matters in-depth and making recommendations to the Board for decision making” (Interviewee 3)*

*“Do not expect that these foreign cultures of CG will work in a country like Kenya. We have weak legal framework and almost zero enforcement. May be one day we may see a change” (Interviewee 4)*

*“Board committees can be very useful in assisting the boards to perform its functions. However, a lot of emphasis has been given to audit committees. CSR committees do not exist in these SOEs and that shows that CSR activities is a by the way thing” (Interviewee 5)*

*“Board committees are not the final decision maker. Again, the board may not have full autonomy to influence any impactful change that may lead to performance. Board committees’ role is advisory in nature” (Interviewee 6)*

Question 5 examined directors’ perception on the procedure for appointment of a person to a board as stipulated by Mwongozo code that recommends the size of the board to be between 7 to 9 and ways in which the board size improve the

Kenyan SOEs capital budget realization and CSR performance. The responses are shown below:

*“Appointment procedure of a board member is done as per the recommendation contained in State Corporation Act. As to whether that is the practice is a different issue altogether. I think that the larger the board the better is the control again, when it is too small then control becomes an issue”* (Interviewee 1)

*“I do not believe that size of board really matters in public sector entity. It is all about the prevailing political interest and again, I may be wrong, but these boards are selected to pay political debt and not to perform. Mwongozo code guides on the appointment by the cabinet secretary and by the president”* (Interviewee 2)

*“Board appointment is done by the line cabinet secretary. The size of the board should not be too many and not too low but should be optimum size. When the board size is too large it becomes difficult to build consensus and if it is too low, generation of new ideas becomes limited”* (Interviewee 3)

*“Board appointment does not follow the recommendation by both Mwongozo and State Corporation Act. Political interest determines who is appointed. Increasing the board size is a burden to the taxpayer and in most cases, they do not perform to benefit the common person”* (Interviewee 4)

*“Board appointment is done as per the institution requirement and the skill needed. More boards can only improve performance if they are from diverse background in terms of geographical representation, gender representation and ethnicity”* (Interviewee 5)

*“Mwongozo code gives specification on how board member is appointed. The larger the size the better for diverse interest groups including political interest”* (Interviewee 6)

Question 6 inquired about the contribution of board independence on capital budget realization and CSR performance. The following responses were received:

*“Mwongozo guides on this. All directors are trained on their fiduciary responsibility, and they have a mandate to approve budgets and monitor expenditure through quarterly reports submitted by management to the Board. The budget incorporates CSR activities”* (Interviewee 1)

*“Every SOEs has a performance contract that they are measured against”* (Interviewee 2)

*“It is a good practice to have NEDs. If they work independently, they can improve both CSR and absorbed capital fund”* (Interviewee 3)

*“NEDs scrutinise all the activities of the entire board especially those relating to the procurement. However, procurement rules and delay by Treasury to release the funds have greatly affected the absorption of funds. If proper documentation is not availed to support the usage of funds one can be charged and convicted”* (Interviewee 4)

*“The impact of NEDs on both performances depends on his/her character and values”* (Interviewee 5)

*“There is no independence of “NEDS” because of the appointment procedure. As such, have no positive impact on capital budget fund utility and CSR performance”* (Interview 6)

Question 7 sought to know the contribution of older chairperson of Kenya’s SOE on capital budget realization and CSR performance? Below are the responses from the directors.

*“Older chairperson may mean more experience and exposure which may likely yield to positive results”* (Interviewee 1)

*“Older could mean experience, maturity, and wisdom but sometimes older could also become a hindrance to the board performance if they are not open to new ideas and if they stick to the old mentality of knowing it all. So, it just depends on a diverse board in terms of age is a good thing” (Interviewee 2)*

*“Might inspire confidence; but may also slow the board down” (Interviewee 3)*

*“The productivity level may go down as one ages. We have seen cases of those aged boards fall or start to sleep during the meetings. In short, I do not expect any performance improvement that older chairperson can bring but, in some cases, they may want to impart some values especially on matters of social wellbeing of the citizen” (Interviewee 4)*

*“Older persons are rigid in their thinking. They do not accept new ideas from younger generations” (Interviewee 5)*

*“Older chairperson is good for performance improvement due to moral and experience they bring on board. However, their productivity level fades past the retirement age” (Interviewee 6)*

Question 8 required explanation on what ways capital budget realization and CSR performance of Kenyan’s SOEs are influenced by (a). Period the entity has been in operation, (b). resources controlled by the entity, (c). indebtedness. The following responses were given:

*“Some of the SOEs that have existed for a longer period may have been innovative and initiated income generating activities/initiatives either that boosted their budget needs. However, there are instances of some that have been there for several years and continue to be fully dependent on the exchequer. Capital budget realization depends on budget allocation or resources generated. CSR performance is influenced by the execution of planned activities/initiatives based on the budget allocated for each. Indebtedness matter on the achievement of the objective. This means that the amounts generated by the SOEs first goes to*

*paying off debt before spending on other planned activities, so it means the higher the debt, less the CSR activities and for capital budget projects” (Interviewee 1)*

*“There is the likelihood that those that have existed over a longer period could have established relationships with development partners who continue to support their programmes/projects either in-kind or cash. My take is that the period an entity has been in operation may not have relation to its innovative ways on how capital fund should be invested and the type of CSR activity, but what matters more is how innovative an institution is to be self-sustainable. . Larger SOEs in terms of resources are capable of attracting qualified work force with expertise to utilize capital budget. Higher debts is necessary to supplement capital budget received from the National government” (Interviewee 2)*

*“Age of the entity - building of a brand over time. SOEs with own resources can plan and strategize in a timely fashion. Thus, they are fully in control of their own performance. More debt can allow the entity to get funds to invest for the entity’s activities such as long-term projects and CSR” (Interviewee 3)*

*“Age of the entity does not automatically translate to better performance because management are changed once their term expires and they go with experienced obtained. Adequate resources could increase outputs. Too much indebtedness chases away stakeholders - e.g., lenders, suppliers, etc” (Interviewee 4)*

*“SOEs which has been in operation for several years may have gained experience on how to achieve some objectives. Performance generally whether it is the issue of CSR involvement or Capital budget absorption will need to be supported with enough resources. High indebtedness may hinder the entity from achieving its goals because debt must be paid first” (Interviewee 5)*

*“As SOEs ages, the performance improves if there is strong internal structure, otherwise it does not bring any value. No organisation can invest in beneficial projects and CSR if there are no needed resources. High level of indebtedness takes away resources hence poor performance” (Interviewee 6)*

## 7.5 Chapter Summary

The aim of this chapter was to present the results relating to the objectives of the study. The chapter has presented results from secondary data and primary data collected from sampled entities. Specifically, the chapter presented the results of the impact of CG provisions on financial and non-financial performance based on secondary data, results of the primary data on the impact of corporate governance provisions on financial and non-financial performance as well as joint display of results from secondary data and primary data (questionnaires) on the relationship between corporate governance provisions and financial and non-financial performance.

The result from the secondary data suggests that corporate governance provisions (BM, BSKILL and GDIV) have positive significant impact on financial performance of SOEs in Kenya. Four corporate governance provisions (BDC, BDSIZE, NEDs, and CHAge) and CCG were found not to be significantly associated with financial performance. Moreover, the results indicate that BSKILL and CCG provisions have positive significant relationship with non-financial performance. The results also suggest that BM, BDC and CHAge have negative significant impact on non-financial performance. Also, three CG provisions (GDIV, BDSIZE and NEDs) are found to have insignificant relationship with non-financial performance.

Primary data results (Questionnaire) reveal that out of the seven corporate governance provisions, BSKILL is the only variable that positively impact financial performance, while BDSIZE, NEDs and CHAge negatively and significantly impact financial performance. On the contrary, the results shows that there is no evidence to suggest that BM, GDIV and BDC have any impact on financial performance. On the non-financial performance, the results show BDC have a positive connection with non-financial performance. The results also affirms that BM, BDSIZE, NEDs and CHAge negatively impact non-financial performance and that there is little evidence to suggest that GDIV and BSKILL sway non-financial performance. The chapter also illustrated the Interview results of the perception of directors on the role of corporate governance on both financial and non-financial performance. The central issue that arose from the interview

findings indicated that there is lack of due process of board appointment despite guidance on competitive selection offered by MCCG.



## CHAPTER EIGHT

### DISCUSSION OF THE IMPACT OF CORPORATE GOVERNANCE PROVISIONS ON FINANCIAL AND NON-FINANCIAL PERFORMANCE

#### 8.1 Introduction

This thesis had four objectives. First, to determine the relationship between individual provisions of corporate governance and financial and non-financial performance of SOEs in Kenya. Second, to determine the relationship between combined corporate governance provisions and financial and non-financial performance of SOEs in Kenya. Third, to investigate the perceptions of SOEs audit committee chairpersons whether corporate governance provisions influence financial and non-financial performance of SOEs in Kenya. Finally, to explore the perception of board of directors through the interviews how various corporate governance provisions influence financial and non-financial performance of SOEs in Kenya.

The purpose was achieved through explanatory sequential mixed-methods approach in which secondary data was first sought from the annual financial reports and analyzed. In the second phase, primary data was collected where closed questionnaire survey designed on a five-point Likert scale was sent out to the audit committee chairpersons of SOEs in Kenya. The survey results were collapsed into “top-two and bottom-two boxes” approach and then subjected to a two-way t-test using the Statistical Package for Social Science. The questionnaire survey was followed by personal interviews to SOEs directors.

The aim of this chapter is therefore to discuss and compare current research findings with finding of prior studies and explain possible reasons for the similarities and differences in findings. The chapter is organized as follows: Section 8.2 presents the discussion of the relationship between corporate governance provisions and financial and non-financial performance based on secondary data. Section 8.3 discusses the relationship between corporate

governance provisions and financial and non-financial performance based on primary data. Section 8.4 is the chapter summary.

## **8.2 Discussion of the impact of corporate governance provisions on financial and non-financial performance based on secondary data results.**

### **8.2.1 Board meetings**

The results document a strong positive relationship between frequency of board meetings and financial performance, which aligns with previous studies (Al-Matari, 2019; Arora & Sharma, 2016; Gupta et al., 2019). The positive relationship is confirmed from the observation of some participants in the interview inquiry who noted that frequency of meetings allows board members get in touch with what is happening in the organization as well as enabling closer and routine monitoring of financial performance and expenditure. Meetings are also essential to gather views of members and to reach consensus. Moreover, decisions that are taken during meetings may improve budget realization. However, the respondents also caution that meetings should be controlled so that they are not just revenue earners for board of directors. Plausible explanation for the positive result relating frequency of board meetings and financial performance could be that frequent meetings enables board of directors to continuously scrutinize management activities and put them alert as well as discuss most relevant issues during the meeting such as effective monitoring and appraisal of management, setting of strategy and to communicate other valuable information pertaining to the running of the entity. Therefore, increasing the number of board meetings positively impact on financial performance which is likely to be cascaded to the citizen through the provisions of social welfare services.

These result is however in contrast with other studies that found negative but insignificant relationship between frequency of board meetings and other measures of financial performance (Bhat et al., 2018; Hassan et al., 2017; Romano & Guerrini, 2014). The contradictory findings could be as a result of the differences in the sample size of study. Although Bhat et al. (2018) and Hassan et al. (2017) carried their study using both non-SOEs and SOEs firms, the entities

representing SOEs were relatively low; 9 and 32 for Bhat et al. (2018) and Hassan et al. (2017) respectively. The sample size for the current study is 45. Parameter estimates improves with the sample size. Another possible reason for the difference in finding could be due to the heterogeneity in the sampled entities, whereas the current study examined purely SOEs, Bhat et al. (2018) and Hassan et al. (2017) used both non-SOEs and SOEs in their sample yet the governance structures of SOEs and non-SOEs are likely to be different. With regard to Romano and Guerrini (2014), even though the study was purely on SOEs, their focus was on water sector in contrast to the present study that considered five different sectors which is likely to provide a broader picture on financial performance.

On the basis of the positive result, it can be inferred that agency theory (Jensen & Meckling, 1976) proposition that ability of the board to monitor managers' action is through attendance of meetings. This is because availability of information obtained from frequent meetings reduces information asymmetry among the management (Khairredine et al., 2020) which is manifested in this study through the positive and significant impact of frequency of board meetings on financial performance.

The finding of negative significant relationship between frequency of board meetings and non-financial performance is in harmony with the result of Ștefănescu (2013) but in contrast with prior studies such as Hussain and Rigoni (2018) and Khairredine et al. (2020) who revealed positive significant relationship between frequency of board meetings and non-financial performance and Lagasio and Cucari (2019) and Ofoegbu et al. (2018) who reported negative and positive insignificant link between frequency of board meetings and non-financial performance respectively. The result suggests that as more meetings are held, non-financial performance decreases. Contradiction of results can be explained by the differences in methodology used in measuring non-financial performance (CSR), while the previous studies (Hussain & Rigoni, 2018; Khairredine et al., 2020; Lagasio and Cucari, 2019; Ofoegbu et al., 2018) employ binary coding of awarding 1 when related item is disclosed and zero otherwise, current study differentiate between different levels of disclosure

awarding between 0 to 4, where zero represent no disclosure, and 4 representing CSR information supported by explicit assessments of performance. The result may imply that board members do not consider non-financial performance more seriously compared to financial performance. Therefore, agency theory proposition on the impact of frequency of board meetings on non-financial performance is not supported.

### **8.2.2 Gender diversity**

The positive and significant relationship between gender diversity and financial performance follows Assenga et al. (2018), Berezinets et al. (2017) and Darko et al. (2016) who found positive significant association between gender diversity and financial performance. The result confirms respondents' viewpoints who opined that gender diversity ensures there is balance in thought, planning and rationalized approach in budget allocation hence seem to perform well compared to those that are not especially where qualified boards are competitively recruited. Other participants view men dominated boards as likely to engage in corrupt practices compared to their female counterparts and therefore associate improved performance with more female board membership. The finding may imply that presence of gender diversity in the board increases board effectiveness in key decision making, particularly on decisions that are related to utilization of capital budget. This argument corroborate Adams and Ferreira (2009) that women board members are more likely to attend meetings to discuss the affairs of the enterprise compared to their male counterparts. Besides, Assenga et al. (2018) claim that women performs well in decision making, are trustworthy and show commitment to the organisation. The significant and positive result of gender diversity provides supportive evidence for the enforcement of the requirement of Article 81(b) of the Kenyan Constitution that stipulate that not more than two-thirds of the members of both elective and appointed public bodies shall be of the same gender (Republic of Kenya, 2010).

The results is however contrary to the negative relationship reported by Adams and Ferreira (2009), Gupta et al. (2019) and Rose (2007). The divergent results could be due to different measures of financial performance. While Adams and Ferreira (2009), Gupta et al. (2019) and Rose (2007) put emphasis on return on

assets, return on equity, Tobin's q and market price per share, the current study employs capital budget realization ratio as a measure of financial performance. In sum, the positive and significant result between gender diversity and financial performance validates the propositions of agency, stakeholder and resource dependence theories that having gender diversity on the board enhances financial performance due to the fact that women are likely to attend meetings more often compared to their male counterparts (Adams & Ferreira, 2009), they are also touted as having extra ability in decision making, trustworthy and committed to the organisation (Assenga et al., 2018) when explored from agency theory perspective. Observed from stakeholder theory, society perceive firms with women boards as more responsive to social performance than those that do not (Pucheta-Martínez & Gallego- Alvarez, 2019). Finally, when examined from resource dependence theory, Hafsi and Turgut (2013) contend that female directors add experience sets and values that are dissimilar of those of their male colleagues.

The results of negative but insignificant relationship between gender diversity and non-financial performance is contrary to the findings of positive and significant relationship documented by Ibrahim and Hanefah (2016), Orazalin (2019), Pucheta-Martínez and Gallego- Alvarez (2019) and Ullah et al. (2019). Further, the finding contradict negative and significant relationship between gender diversity and non-financial performance established by Cucari et al. (2018), Fahad and Rahman (2020) and Muttakin et al. (2015). Inconsistent findings between current study and prior studies may be due to the different characteristics of the sampled firms, whilst sample of current study is from non-listed SOEs whose CSR practice is on a voluntary basis, earlier studies drew their sample from either listed non-SOEs firms or firms from developed economies whose CSR disclosure practices are largely legislated and mandatory. For instance, Ibrahim and Hanefah (2016) reports that Jordanian government enacted legislation and regulations that mandates organizations operating within the country to disclose social and environmental activities in their annual reports. Besides, though Orazalin (2019) state that there is no legislation that requires mandatory disclosure of CSR information in Kazakhstan, the sample firms used in the study were listed commercial banks that are likely to be

motivated to disclose CSR information to legitimize their activities. Pucheta-Martínez and Gallego- Alvarez (2019) carried their study using firms drawn from 39 countries including Australia, Austria, Belgium, Canada, France, Germany, Italy, Switzerland, Spain, Portugal, Norway, Netherland, New Zealand etc. It is worth noting that majority of the firms in this study were mainly from developed European countries which have made CSR reporting as mandatory requirement for companies (Ashfaq & Rui, 2019; Khaireddine et al., 2020) especially after the adoption of European Union Directive 2014/95/EU on non-financial disclosures that came into force in 2017.

In brief, result suggest that female members of the board do not put enough pressure in the board for the CSR performance which is partly driven by voluntary nature of CSR reporting among SOEs in Kenya. Therefore, resource dependence theory, agency theory and stakeholder theory propositions on the role of board gender diversity on CSR performance is not confirmed.

### **8.2.3 Board skill**

Similarly, board skill had significant positive impact on financial performance. The finding is consistent with the results of Guney et al. (2020), Hassan et al. (2017), Pribadi et al. (2020) and Ujunwa (2012). Respondents to the interview agree that board members with adequate skill contributes to favourable financial performance. Moreover, they assert that PhD qualifications give the member an elevated profile upon which to negotiate on many fronts which can lead to better capital budget realization. Besides, PhD qualification raises board's self-esteem and critical thinking and pressure to perform. The result implies that increasing the number of individuals on board with PhD qualifications have a positive impact on capital budget realization of SOEs since they are endowed with a mix of competencies and capabilities that makes the entity perform better. In addition, skills acquired by the board members through education, inculcates innovation activities, creativity, and expertise in monitoring, which in turn lead to effective decision making in spending the capital budget fund.

In contrast, Assenga et al. (2018) found positive but insignificant relationship between board skill and ROA and ROE. Also, Ehikioya (2009) reported positive

but insignificant association between board skill and ROE and price earnings ratio. He also reported negative but insignificant relationship between board skill and ROA and Tobin's q. Equally, Romano and Guerrini (2014) established negative but insignificant effect between board skill and ROA and ROS. Varying results between current study and past studies may be as a result of different treatment for endogeneity, while the current study employed multiplicity of approaches in dealing with possible endogeneity comprising of application of fixed-effects balanced panel and lagging of independent variables by one period, Assenga et al. (2018) addressed endogeneity problem using fixed-effects regression analysis only. Ehikioya (2009) and Romano and Guerrini (2014) did not address the issue of endogeneity.

In addition, positive and significant result reported between board skill and non-financial performance is consistent with the results obtained by Harjoto et al. (2015) and Katmon et al. (2019) who also observed positive significant connection between board skill and non-financial performance. On the contrary, Khan et al. (2019) established positive but insignificant association between board skill and non-financial performance. Again, Subramanian et al. (2016) observed negative significant association between board skill and non-financial performance. Differences arising from current study's findings and those of Khan et al. (2019) and Subramanian et al. (2016) may be due to different approaches in measuring board skill. While the current study use the percentage of board of directors with PhD qualification, both Khan et al. (2019) and Subramanian et al. (2016) use heterogeneity indices (Blau's index and herfindahl index) that takes into account various levels of academic qualifications such as PhD, master's degree, bachelor's degree, and diploma.

Positive and significant result between board skill and financial and non-financial performance validates resource dependency theory postulation that board skill is a strategic resource to the entity.

#### **8.2.4 Board sub-committees**

The impact of board sub-committees on financial performance cannot be ascertained following positive but insignificant result. The positive but insignificant relationship between board sub-committees and financial performance is consistent with the findings of Bozec (2005) and Reddy et al. (2011). The findings uphold respondents' assertion that board sub-committees are not the final decision maker and may lack full autonomy to influence any impactful change that may lead to noticeable financial performance. The result suggests that even if the board sub-committees were to perform their roles as required, they are not the final decision maker, as such, their roles are limited to advisory based on their expertise and it is up to the full board to approve whatever decision they have recommended.

The result is however inconsistent with the findings of Dato et al. (2018), Puni and Anlesinya (2020) who found positive significant impact of board sub-committees on financial performance and Berezinets et al.'s (2017) negative but insignificant result on the association between nomination, audit, and strategic committee on Tobin's q as well as Gupta et al.'s (2019) significant negative relationship between audit committee and ROE. Divergent in results of current study and those of prior studies may have been occasioned by differences in operationalization of the board sub-committees variable. This study operationalized board sub-committees as the total number of board sub-committees in SOEs while prior studies (Dato et al., 2018; Puni & Anlesinya, 2020) operationalized the impact of board sub-committees on financial performance using a dummy variable, assigning 1 if related board sub-committee is present, zero otherwise. Gupta et al. (2019) on the other hand, operationalized board committee as the total number of individuals in audit committee.

Again, the reported negative and significant relationship between board sub-committees and non-financial performance is not in line with prior studies that reported positive significant relationship (Mahmood, 2018; Pucheta-Martínez & Gallego- Alvarez, 2019) and Masud et al.'s (2018) positive but insignificant result on the link between board sub-committees and non-financial performance.

Result is tandem with the observations made by the respondents in the interview that cite absence of CSR committee as demonstration of lack of commitment by the board on CSR activities. Divergent in results may be explained by differences in operationalization of the board sub-committees variable as explained in the above paragraph. Possible explanation for this result could be that board sub-committees are less powerful to institute meaningful impact on non-financial performance.

On the basis of the findings, the argument of agency theory that the agency problem is solved by establishing board whose inner workings reside in board committee has not been established.

### **8.2.5 Board size**

Negative but insignificant result between board size and financial performance is in line with the findings of prior studies (Assenga et al., 2018; Darko et al., 2016; Reddy et al., 2011). The result is however inconsistent with other previous studies such as Al-Matari (2019), Ehikioya (2009), Gupta et al. (2019) who established positive significant relationships between board size and financial performance and Guney et al. (2020) and Locke and Duppati (2014) who reported negative significant association between board size and financial performance as well as Heo's (2018) and Romano and Guerrini's (2014) findings of positive but insignificant association.

Besides, positive but insignificant result relating to board size and non-financial performance is in line with the findings of Khaireddine et al. (2020) who found positive but insignificant relationship between board size and ethics performance. However, the result contradict earlier studies of Masud et al. (2018) and Pucheta-Martínez and Gallego- Alvarez (2019) who presented positive significant relationship between board size and non-financial performance. Negative but insignificant relationship between board size and financial performance and positive but insignificant association between board size and non-financial performance confirms the observations of respondents that board members in SOEs are perceived as politically selected and may not have the incentive to improve performance. This result is not surprising because on average, the

reported mean size of 11.14 of board members is beyond the recommended threshold of between seven to nine members. Besides, there is heterogeneity in board size in Kenya with some SOEs having fewer board membership as low as one yet others having a higher number of 40. The current research finding may be different from earlier findings because of different threshold of board size in different jurisdiction. For example, Masud et al. (2018) report the threshold of board size in their study to be between 5 to 20 in Bangladesh, 3 to 15 in India, and greater than 7 in Pakistan. Heo (2018) document that Republic of Korea puts the maximum number of SOEs board at 15, and entities are at liberty to choose any number of boards within the set limit. Adherence to this requirement is confirmed in the same study that reports the mean of board size as 8.53. While studies of Gupta et al. (2019) in Nepalese SOEs and Romano and Guerrini' (2014) in Italy do not provide the guideline on recommended board size, the reported means of board sizes of 7 and 5 respectively is below the mean of board size reported in current study. Besides, the current study observes bloated board size as high as 40. This imply that decision making process is hampered due to larger board size that negates both financial and non-financial performance.

The findings partly lends support to agency theory in that larger boards may slower the decision making process (Heo, 2018; Kaymak & Bektas, 2017). However, the proposition of stakeholder and resource dependency theories on the impact of board size on performance is not confirmed. Stakeholder theory posits that larger boards are likely to represent a wider stakeholders thereby aligning entity's activities to the needs of its stakeholders (Kaymak & Bektas, 2017) while resource dependence theory advocates for a larger board due to likelihood of attaining divergent skills, expertise and knowledge which are essential for better performance (Berezinets et al., 2017; Ghazali, 2010).

#### **8.2.6 Board independence**

Negative but insignificant result between board independence and financial performance is consistent with the findings of Heo (2018) who reported negative but insignificant relationship between board independence and ROA of SOEs in the Republic of Korea. The result also mirrors Hassan et al.'s (2017) showing

negative but insignificant effect between board independence and EPS of Malaysian listed government linked companies. The findings confirm the comments made by respondents to the interview that there is lack of board independence because of the appointment procedure that is perceived as political. The findings are however not in line with studies such as Al-Matari (2019) and Assenga et al. (2018) who revealed positive but insignificant relationship between board independence and financial performance. The result equally contradict Bhat et al. (2018) and Darko et al. (2016) who reported positive but insignificant relationship and negative significant relationship respectively.

In addition, positive but insignificant result between board independence and non-financial performance is not in line with prior studies who found positive relationship (Ashfaq & Rui, 2019; Khairredine et al., 2020; Kaymak & Bektas, 2017) and the negative significant relationship reported by Pucheta-Martínez and Gallego-Álvarez (2019). The respondents to the interview are of the opinion that SOEs directors lack integrity and therefore being labelled as independent directors does not add value especially following the manner in which appointment is done which is considered as opaque. Differences in results of current study and results of earlier studies may be attributed to differences in measurement methods; while this study used a dummy variable to measure board independence, others such as Al-Matari (2019), Assenga et al. (2018), Darko et al. (2016), Hassan et al. (2017), Heo (2018), Kaymak and Bektas (2017) and Khairredine et al., 2020 measured board independence as the number of independent directors as a percentage of total board members. Practise of incorporating a dummy variable is recommended as one of the ways of controlling non-normality in the data as experienced in the current study (Brooks, 2014). Plausible explanation for the current results may be due to the fact that board independence alone is not enough, independence should be accompanied by strong, and ethical values. The findings do not support the argument advanced by agency theory that larger percentage of independent directors can easily scrutinize the entity's operations and put its management on guard. The result also fails to uphold stakeholder theory that independent directors are best placed to represent the wider interest of the organisation (Kaymak & Bektas, 2017). Furthermore, the proposition of legitimacy theory that independent board act as

a representative of many stakeholders (Ntim & Soobaroyen, 2013) is not confirmed.

### **8.2.7 Board chair age**

Negative but insignificant result reported between board chair age and financial performance contradict positive significant relationship reported by Cheng et al. (2010). Inconsistency in research findings may be due to different ways in which board chair age has been measured. This study measured board chair age using the total number of years since birth while Cheng et al. (2010) measured it using the number of years board chairperson stays in office. Negative significant result of the relationship between board chair age and non-financial performance is consistent with prior studies such as Hafsi and Turgut (2013) and Roitto (2013) who also reported negative significant association between board age and non-financial performance. The results seem to support the assertion expressed in Mahadeo and Soobaroyen (2012) that chairpersons of SOEs are politically nominated who in most cases lack experience. Interview respondents assert that the productivity level may go down as one ages. The result is not a surprise and may suggest that the elders may not welcome new ideas from relatively younger members who are energetic and risk takers. The result contradicts the proclamation made by resource dependence theory that older board chairs are more experienced individuals with more skills on how to lead the enterprise to achieve enterprise objectives. Equally, stewardship theory's notion that elders generally are perceived as cautious and reluctant to take up risky activities, thus are likely to be a good steward of the firm's resources is not endorsed. Likewise, the idea that older chairpersons may be regarded as morally upright under legitimacy theory cannot be verified.

### **8.2.8 Combined corporate governance provisions**

Result on the relationship between combined corporate governance provisions and financial performance shows positive but insignificant relationship which is consistent with Mardnly et al. (2018) but inconsistent with prior studies who documented positive significant relationship between combined the two variables (Abdallah & Ismail, 2017; Owusu & Weir, 2016). The differences in findings of the

current study and prior studies may be explained by differences of the number of items that make up the index. While this study use seven items in the index, Abdallah and Ismail (2017) used 43 items in their corporate governance index while Owusu and Weir (2016) used 33 items in their corporate governance index. On the other hand, findings of non-financial measure show that combined corporate governance provisions have positive and significant relationship with non-financial performance. The result is consistent with those of Ntim and Soobaroyen (2013). Given that combined corporate governance provisions is made up of seven corporate governance provisions and that board skill is the only variable that is positive and significantly related, it can be deduced that the positive significance of combined corporate governance provisions is driven by board skill. Thus, supporting resource dependence theory but fails to support agency theory, stakeholder theory, legitimacy theory and stewardship theory.

#### **8.2.9 Control variables**

The coefficient of SOEs age is positive and significantly related to financial performance consistent with the finding of Afrifa and Tauringana (2015), Kim et al. (2019) and Ullah et al. (2019). The result corresponds to the claim made by respondents that SOEs which have been in operation for several years may have gained experience on how to achieve their objectives. The result is however different from the insignificant findings reported by Arora and Bodhanwala (2018) and Assenga et al. (2018). Results also indicate positive significant association between SOEs age and non-financial performance. This result is consistent with the result obtained by Khairiddine et al. (2020) and Orazalin (2019) who observed positive significant relationship between age and non-financial performance. The result is however contrary to the positive but insignificant finding revealed by Garas and ElMassah (2018) on the impact of age and non-financial performance. The results of prior findings are drawn from a sample of listed firms which is different from the sample of the current study which has been drawn from non-listed SOEs. The two sample firms operate in different regulatory framework and may explain differences in results. The findings may imply that as the SOEs ages, it acquires innovative skills over the years that helps boost its performance, hence confirming legitimacy theory.

The coefficient of SOE size is negative and significantly related to financial performance. The finding is consistent with prior findings (Assenga et al., 2018; Campbell and Mínguez-Vera, 2008; Ghazali, 2010; Hassan et al., 2017; Ntim, 2013; Reddy et al., 2011). This may imply that there are administrative difficulties in managing larger resources for SOEs to realize positive progress in financial performance. However, the result is contrary to those results documented by Gupta et al. (2019) and Mardnly et al. (2018) who reported positive significant relationships between firm size and financial performance. The differences in results may be explained by differences in the sample period. While the current study relied on a four year study period, Gupta et al. (2019) relied on 7 sample year period while Mardnly et al. (2018) had 5 years. Relatively longer sample period is likely to improve accuracy of parameter estimates within group variation

On the non-financial performance measure, result indicates that SOEs size has positive significant relationship with non-financial performance which is consistent with the results obtained by Ashfaq and Rui (2019) and Orazalin (2019) but contradict Khaireddine et al. (2020) and Fahad and Rahman (2020) found that there is a positive but insignificant relationship between firm size and non-financial performance. Differing results may be due to the different measures of non-financial performance where the current study employs the combined provisions of ethics, health and safety initiatives, environmental, social investments initiatives as well as its individual subcomponent as measures of non-financial performance, yet Khaireddine et al. (2020) and Fahad and Rahman (2020) disaggregate and measure each component separately without examining the combined impact. It can be deduced that agency theory and legitimacy theory offers contradictory insight on the impact of SOEs size and performance.

The finding of negative but insignificant association between leverage and financial performance is consistent with those of Arora and Bodhanwala (2018) who also discovered negative but insignificant relationship between leverage and EPS. The finding is however inconsistent with other previous studies such as Gupta et al.(2019), Reddy et al. (2011) and Ullah et al. (2019) who reported positive significant relationship between leverage and financial performance and

Assenga et al.'s (2018) and Campbell and Mínguez-Vera's (2008) negative significant association between leverage and financial performance as well as Al-Matari's (2019) positive insignificant association between leverage and Tobin's Q.

Similarly, result shows negative but insignificant relationship between leverage and non-financial performance consistent with Fatma and Chouaibi (2021) and Pucheta-Martínez and Gallego-Álvarez (2019) who found that leverage do not have any influence on non-financial performance. The result does not support findings that suggest positive relationship between leverage and non-financial performance (Ullah et al., 2019). Also in contrast, is Khan et al.'s (2013) observation that there is negative significant association between leverage and CSR performance. Differences in results may be explained by the phenomenon of soft budget constraints in SOEs where SOEs are less concerned about the proper utilization of debts because of the notion that they can be bailed out from bad investment by the government (Goldeng et al., 2008; Kanyane & Sambo, 2021; Li et al., 2014; Menozzi et al., 2012). This phenomenon explains why studies taken under SOEs commercial undertakings such as Gupta et al.(2019), Reddy et al. (2011) and Ullah et al. (2019) though likely to be affected by the soft budget constraint, are able to achieve better debt utilization compared to non-commercial SOEs as the case is in the current study. Commercial SOEs are keen to utilize their debts towards justified cause. In conclusion, the results suggest that debt taken by non-commercial SOEs are not meaningful in accelerating financial and non-financial performance hence legitimacy theory is not confirmed.

### **8.3 Discussion of the results of primary data (Questionnaire) on the impact of CG provisions on financial and non-financial performance.**

#### **8.3.1 Board meetings**

The results on the impact of the frequency of board meetings yielded different findings on financial and non-financial measures; while positive but insignificant relationship was reported with financial performance, negative significant relationship was reported between frequency of board meetings and non-

financial performance. The reported positive but insignificant result is inconsistent with the findings of positive significant relationship reported from secondary sources in prior studies (Al-Matari, 2019; Arora & Sharma, 2016; Gupta et al., 2019) as well as negative but insignificant relationship documented by Bhat et al. (2018) and Hassan et al. (2017). The result suggests that there is not enough statistical evidence to conclude that frequency of board meetings influence financial performance.

Furthermore, the reported negative significant relationship is coherent with the result of Ștefănescu (2013) but in contrast with prior studies who established significant positive relationship between frequency of board meetings and non-financial performance (Hussain & Rigoni, 2018, Khaireddine et al., 2020). The findings also differs with those of Lagasio and Cucari (2019) who observed negative but insignificant relationship between the two variables. Result suggests that as more meetings are held, non-financial performance decreases, implying that board members may be engaging in other unproductive discussions as opposed to those that are likely to impact non-financial performance positively. Therefore, agency theory is not supported.

### **8.3.2 Gender diversity**

The result of the impact of gender diversity on both financial and non-financial performance suggest insignificant results. Impact of gender diversity yielded positive but insignificant association with financial performance and negative but insignificant relationship with non-financial performance. The positive but insignificant result is in line with the result reported by Rakhman (2019) but contradict positive significant relationships observed by Assenga et al. (2018), Berezinets et al. (2017) and Darko et al. (2016) and the negative significant relationship presented by Adams and Ferreira (2009), Gupta et al. (2019) and Rose (2007) as well as Reddy et al.'s (2011) negative but insignificant impact between gender diversity and financial performance.

Findings of negative but insignificant relationship contradict findings from prior studies that revealed positive significant relationship between gender diversity

and non-financial performance (Ibrahim & Hanefah, 2016; Orazalin, 2019; Pucheta-Martínez Gallego-Álvarez, 2019; Ullah et al., 2019) and the negative significant relationship reported by Cucari et al. (2018), Fahad and Rahman (2020) and Muttakin et al. (2015). The results could mean that respondents do not perceive female members of the board as putting enough pressure to improve both financial and non-financial performance. Agency, stakeholder and resource dependence theories' proposition on the role of female board membership on non-financial performance is not confirmed.

### **8.3.3 Board skill**

The results on the impact of board skill and yielded difference results on both financial and non-financial performance. The result suggests positive significant relationship between board skill and financial performance consistent with those reported by Guney et al. (2020), Hassan et al. (2017), Pribadi, et al. (2020) and Ujunwa (2012) but contradict Assenga et al. (2018) and Ehikioya (2009) who reported insignificant results.

Positive but insignificant result reported between board skill and non-financial performance is consistent with the findings of Khan et al. (2019). However, the results are different from positive relationship reported by Harjoto et al. (2015) and Katmon et al. (2019) and Subramanian et al.'s (2016) negative significant result between board skill and non-financial performance. The insignificant result may be explained by what the respondents narrated, claiming that there is more that is needed in governance besides academic qualifications. This means that while academic qualification is relevant to the performance of SOEs, it must be accompanied by other values. This point was further echoed by another respondent who observed that one may have the right skill but fail to use it to bring positive change due to political and self-interest of elected officials. This point illustrate that PhD qualification may be overshadowed by political interest and in itself may not achieve much in terms of performance. It means therefore, that one must have integrity to overcome the potential political interest that may surface. In general, the results support resource dependency theory's proposition on the impact of board skill on performance.

#### **8.3.4 Board sub-committees**

Also, the result show that the impact of board sub-committees is positive but insignificantly related to financial performance but positively and significantly related to non-financial performance. Positive but insignificant result is consistent with Bozec (2005). However, the finding is inconsistent with other studies (Dato et al., 2018; Puni & Anlesinya, 2020) that found positive significant impact of board sub- committees on financial performance. The result also differs with Berezinets et al.'s (2017) negative but insignificant result on the association between nomination, audit, and strategic committee on Tobin's q.

Positive significant result reported between board sub-committees and non-financial performance is consistent with the result of Mahmood (2018) and Pucheta-Martínez and Gallego- Alvarez (2019) which indicates that the impact of board sub-committee is positive and significantly associated with non-financial performance. The finding also contradicted positive but insignificant link between board sub-committee and non-financial performance reported by Masud et al. (2018). Plausible explanation for the positive and significant result may be the fact that it is the board sub- committees that do most of the work for the board such as coming up with concept notes in partnership with management that are submitted to the full board for consideration. On the basis of conflicting results, the argument of agency theory on the role of board sub-committees on non-financial performance is inconclusive.

#### **8.3.5 Board size**

The result suggests negative significant relationship between board size and financial and non-financial performance. The results are supportive of prior studies that demonstrates negative significant results between board size and financial performance (Locke & Duppati, 2014) but contradict positive significant association reported by Al-Matari (2019) and Ehikioya (2009).

Equally, negative significant relationship result reported between board size and non-financial performance contradicts Masud et al. (2018) and Pucheta-Martínez and Gallego- Alvarez (2019) who presented positive significant relationship between board size and non-financial performance. Possible explanation for this

result is that, in Kenya, board appointments are typically anchored on political affiliation and favouritism especially among individuals who have lost their election/ re-election bid. Majority of respondents from the interview are of the view that board appointments are not done in a transparent manner. The findings fail to establish the proposition of agency, stakeholder, and resource dependency theories that a larger board improves monitoring capacity, networking and expertise which may result into a better performance.

### **8.3.6 Board independence**

Likewise, the result has indicated negative significant link between board independence and financial and non-financial performance. Result of negative significant relationship between board independence and financial performance is in line with the result found by Darko et al. (2016) but is different from positive significant influence reported by Al-Matari (2019), as well as positive but insignificant result by Assenga et al. (2018) and Bhat et al. (2018).

Also, the negative significant result reported between board independence and CSR performance is similar to the result obtained by Pucheta-Martínez and Gallego-Álvarez (2018) but contradicts positive significant findings between board independence and non-financial performance revealed by prior studies (Ashfaq & Rui, 2019; Khaireddine et al., 2020; Kaymak & Bektas, 2017). The result could mean that non-executive directors are subjected to political manipulation. Thus, their presence only negates performance. The findings do not support the argument advanced by agency theory, stakeholder theory and legitimacy theory on the role of board independence on non-financial performance.

### **8.3.7 Board chair age**

Negative significant result on the association of chairperson age and financial performance contradicts Cheng et al.(2010) who established positive significant relationship between chairperson age and financial performance. Meanwhile, negative significant relationship result observed between board chair age and non- financial performance have also been witnessed in prior literature that

examined the impact of directors age in general and non-financial performance ( Hafsi & Turgut, 2013; Roitto, 2013). The results mirror the observation of the respondents in the interview who argue that sometimes older chairpersons could become a hindrance to the performance if they are not open to new ideas and if they stick to the old mentality of knowing it all. The results refute the proclamation made by resource dependency , stewardship and legitimacy theories that aged board chairs are valuable resources to the organisation and good stewards.

### **8.3.8 Control variables**

With regard to control variables, the result is non-conclusive on the impact of SOE age on both financial and non-financial performance since the findings reveals negative but insignificant relationship. Negative but insignificant result reported between SOE age and financial performance is consistent with prior studies such as Arora and Bodhanwala (2018) and Assenga et al. (2018).

Similarly, the negative but insignificant result observed between SOE age and non-financial performance contradict positive significant relationship revealed by Khaireddine et al. (2020) and Orazalin (2019). These results suggest that audit committees chairpersons do not perceive the SOE age as relevant in determining financial and non-financial performance.

Also, results of the impact of SOEs size demonstrate positive significant relationship to both financial and non-financial performance. The result illustrates consistency of finding with prior studies who also found positive significant result between the firm size and financial performance (Gupta et al., 2019; Mardnly et al., 2018). Similarly, the positive significant result between SOEs size and non-financial performance is consistent with the studies of Ashfaq and Rui (2019), Fahad and Rahman (2020) and Orazalin (2019) but not in line with the findings of Khaireddine et al. (2020) who detected negative but insignificant relationship between firm size and environmental performance. This means that audit committee chairpersons agree that size of SOE in terms of resources is necessary for both financial and non-financial performance. This assertion also resonates with what directors reported in their interview that SOEs with own resources can plan and strategize in a timely fashion to improve performance.

Lastly, the results exhibit positive significant relationship between leverage and financial and non-financial performance. Positive and significant result between leverage and financial performance is in line with those of Gupta et al.(2019), Reddy et al. (2011) and Ullah et al. (2019) but in contrast with the findings of Assenga et al. (2018) and Campbell and Mínguez-Vera (2008) who established negative significant association between the variables.

Likewise, positive and significant relationship between leverage and non-financial performance corroborates findings of Ullah et al. (2019) but inconsistent with Khan et al. (2013) who observed negative significant association and Pucheta-Martínez and Gallego-Álvarez (2019) and Fatma and Chouaibi (2021) who found insignificant association. These results imply that when SOEs take more debts, there is a corresponding increase on both financial and non-financial performance which is contrary to the views of the directors who argue that high indebtedness may hinder the entity from achieving its goals such as those related to financial and non-financial performance asserting that debt must be paid first before engaging in any financial and non-financial activity, thus reducing the available financial resources available to sustain the entities' objectives. On the basis of positive and significant results, legitimacy theory is confirmed.

#### **8.4 Chapter Summary**

The chapter has discussed research findings of the relationship between corporate governance provisions and financial and non-financial performance based on secondary data and the relationship between corporate governance provisions and financial and non-financial performance based on primary data. The chapter has also given highlights on the responses of SOEs directors on their perceptions of corporate governance and financial and non-financial performance. The interview responses have been used to explain the study's findings from both secondary and primary data. It is observed that while corporate governance provisions may mimic best global practices, the country's leadership culture determines how those governance provisions works to achieve performance outcome.

# **CHAPTER NINE**

## **SUMMARY, CONCLUSIONS, CONTRIBUTIONS AND SUGGESTION FOR FUTURE RESEARCH**

### **9.1 Introduction**

This chapter presents the summary of the research methods, findings, conclusions, contributions, implications and suggestions for future research. The chapter is organised as follows: Section 9.2 presents summary of research objectives and methods, followed by research findings and conclusions in section 9.3. Section 9.4 discusses contributions of the study. Section 9.5 highlights implications of the research findings and conclusions. Section 9.6 presents limitation of the study and finally section 9.7 offers suggestions for future research directions.

### **9.2 Research objectives and methods**

The general objective of this study was to establish the relationship between corporate governance and financial and non-financial performance of SOEs in Kenya. To address the general research objective, the research was organised into four specific objectives. The first objective was to determine the relationship between individual provisions of corporate governance (Board meetings, gender diversity, board skill, board sub-committees, board size, board independence, and board chair age) and financial and non-financial performance of SOEs in Kenya. The second objective was to determine the relationship between combined corporate governance provisions and financial and non-financial performance of SOEs in Kenya. Third was to investigate the perceptions of SOEs audit committee chairpersons whether corporate governance provisions influence financial and non-financial performance of SOEs in Kenya. Lastly, the study sought to explore the perception of board of directors through the interviews how various corporate governance provisions influence financial and non-financial performance of SOEs in Kenya.

The following research methods were employed to address the specific research objectives:

1. In determining the relationship between individual provisions of corporate governance and financial and non-financial performance of SOEs in Kenya., the research employed fixed-effects balanced panel regression of identified corporate governance provisions and regressed them on each performance measures using EVIEWS version 11.
2. In determining the relationship between combined corporate governance provisions and financial and non-financial performance of SOEs in Kenya, the research employed fixed-effects balanced panel regression and regressed combined corporate governance provisions on each of the performance measure using EVIEWS version 11.
3. In order to get the perception of SOEs audit committee chairpersons on the influence of corporate governance provisions on financial and non-financial performance of SOEs in Kenya, closed-ended questionnaire survey designed on a five -point Likert scale was sent to audit committee chairpersons between 8<sup>th</sup> May to 8<sup>th</sup> August 2020. The survey results were collapsed into “ top-two and bottom-two boxes” approach and then subjected to a two-way t-test between the mean score of each item and its neutral score using the Statistical Package for the Social Science (SPSS) version 24.
4. Finally, Interviews were conducted with six board of directors of SOEs to shed more light on the impact of various corporate governance provisions on financial and non-financial performance of SOEs in Kenya.

### **9.3 Research findings and conclusions**

#### **9.3.1 Relationship between individual corporate governance provisions and financial and non-financial performance**

The regression result suggests that corporate governance provisions (board meetings, board skill and board gender diversity) have positive significant impact on financial performance of SOEs in Kenya, while other corporate governance provisions were found not to be significant, depicting either positive but insignificant association (board sub-committees age) or negative but insignificant relationship (board size, board independence, & board chair age).

It can be concluded that agency theory proposition on the need for frequency of board meetings on financial performance is validated. Besides, the propositions of resource dependency theory, agency theory and stakeholder theory that having gender diversity on board enhances financial performance is validated. Further, the argument of resource dependency theory on the importance of board skill on financial performance is confirmed. Whereas these conclusions affirm similar findings of previous studies, several other studies are also contradicted. The contradiction in conclusions may be as a result of multiplicity of factors such as different measures of financial performance. While prior studies put emphasis on return on assets, return on equity, Tobin's  $q$  and market price per share (Adams & Ferreira, 2009; Gupta et al., 2019; Rose, 2007), the current study employs capital budget realization ratio as a measure of financial performance. Capital budget realization ratio is a better financial performance measure in SOEs than other measures previously used since it reflects the extent to which citizens benefit from social welfare programs. Also, the reported differences in conclusions may be due to different ways in which variables are operationalized in a study. For instance, in this research, board skill was operationalized using the percentage of board of directors with PhD qualifications, yet other previous studies invoked the application of various indices such as Blau's index and herfindahl index that takes into account various levels of academic qualifications such as PhD, master's degree, bachelor's degree, and diploma. Finally, the differences can also be as a result of the sample size used in the study. For

instance, while Bhat et al. (2018) and Hassan et al. (2017) sampled 9 and 32 SOEs in their studies respectively, the current study sampled 45 SOEs which is relatively larger compared to the two mentioned studies.

On the non-financial performance, regression result indicates that board meetings, board sub-committees and board chair age have negative significant impact on non-financial performance of SOEs in Kenya. However, board skill shows positive significant relationship with non-financial performance, while other corporate governance provisions are found to have positive but insignificant relationship (Board size and board independence) and negative but insignificant relationship (Gender diversity) with non-financial performance. It can be concluded that agency theory argument on the impact of frequency of board meetings and board sub-committees on non-financial performance is not confirmed. While agency theory argues that frequency of board meeting affords directors time to scrutinize the activities of the management and get valuable information to run SOEs, board of directors of Kenya's SOEs are often perceived as political allies with no major incentive to be objective in carrying out their oversight function in the public interest. Equally, whereas agency theory recommends establishment of specialised board sub-committees where decisions are first finetuned before presenting them to the whole board for final deliberations, analysis of the annual reports of the sampled SOEs in the current study reveals lack of establishment of CSR committee across all the sampled entities. This means that there is lack of enforcement mechanisms of CSR policies by SOEs, yet CSR forms part of social obligation for which SOEs are created to fulfil (Garde et al., 2017).

Similarly, the suggestion of stewardship and resource dependency theory on the influence of board chair age on non-financial performance is not established. This result could be due to several reasons. First, lack of fair and competitive process in filling vacancies of board chair persons in Kenya as demonstrated by the newspaper article where a nominee rejected the offer for appointment of a board chair, citing lack of fair recruitment process (Daily Nation, 2021). Secondly, there is a section on follow-up of recommendations made by the Auditor General within the audit reports of SOEs which summarises key issues discovered during

the audit process. Analysis of the annual reports of the sampled SOEs demonstrate that there is either lack of implementations of prior audit reports' recommendations or slow pace of their implementations. This means that there is a continuous circle of repeating the same audit issues raised in prior years. All these happens at the watch of a board chair who is in charge of providing overall leadership to SOEs. Thirdly, examination of the audited financial statements of SOEs in Kenya for the sampled entities over the sample period shows that majority of the SOEs received qualified audit opinions. This revelation cast doubts on the board chair person as a steward and as a resourceful person to safeguard and promote enterprise performance generally. Finally, while chapter one, section 1.4 (f) of MCCG, states that the board chair person is mandated with leading the annual board evaluation process and that in chapter two, section 2.4 (1b) requires that summary of the result of the evaluation should be disclosed in the annual reports, analysis of the annual reports of the sample SOEs over the sample periods found none of such disclosures. Therefore, it can be inferred that haphazard appointment of board chairperson of SOEs may be the reason for short comings observed above and subsequent invalidation of the propositions of stewardship, legitimacy and resource dependence theories. Nonetheless, resource dependence theory proposition on the impact of board skill on non-financial performance is confirmed consistent with prior studies (Katmon et al., 2019; Harjoto et al., 2015). This imply that there is a consideration of board skill and competency in the appointment.

The differences in conclusion of the impact of individual corporate governance provisions on non-financial performance of the current study and a host of several other studies may mainly be due to two factors. First, current study sampled non-listed SOEs from Kenya, a developing country in Africa whose CSR practice is embedded on MCCG that is applied on the basis of "comply or explain" basis. This means that SOEs lacks the motivation to engage in meaningful CSR activities. Besides, the governance structures that are expected to enforce such CSR practices have not matured since their establishment in 2015. Therefore, the research findings from such a sample are likely to deviate from research findings from earlier studies drawn either from listed firms (Ibrahim & Hanefah, 2016; Orazalin, 2019) that use CSR as a competitive tool or research findings

from developed economies (Ashfaq & Rui, 2019; Khairredine et al., 2020) with mature corporate governance structures and whose CSR practices are largely legislated and mandatory. Lastly, while the previous studies such as Hussain and Rigoni (2018), Khairredine et al. (2020) Lagasio and Cucari (2019) and Ofoegbu et al. (2018) employed binary coding of awarding 1 when related item is disclosed and zero otherwise, current study differentiate between different levels of disclosures awarding between 0 to 4, where zero represent no disclosure, and 4 representing disclosure of CSR information supported by explicit assessments of performance.

### **9.3.2 Relationship between CCG provisions and financial and non-financial performance**

Regression result suggest positive but insignificant relationship between combined corporate governance provisions and financial performance. Therefore, there is little statistical evidence to either validate or invalidate agency theory, stakeholder theory resource dependency theory, stewardship theory and legitimacy theory's claim on the impact of combined corporate governance provision on financial performance.

The differences in conclusion of the current study and prior studies may be explained by the differences in the number of items that make up the corporate governance index in different studies, while this study use seven items in the index, Abdallah and Ismail (2017) used 43 items in their corporate governance indices while Owusu and Weir (2016) used 33 items. The choice of the number of elements/ corporate governance provisions to include in a governance index vary and depends on their relevance and availability of data. It can therefore be argued that there is no sufficient evidence to suggest that combined corporate governance provisions anchored on the five theories have an impact on financial performance.

With regard to non-financial performance, regression result revealed positive significant relationship between combined corporate governance provisions and non-financial performance of SOEs in Kenya. Given that combined corporate governance provisions is made up of seven individual corporate governance provisions and that board skill is the only variable that is positive and significantly

related to non-financial performance, it can be concluded that the positive significance of combined corporate governance provision is driven by board skill. Thus, supporting resource dependence theory.

### **9.3.3 Perception of SOEs audit committee chairpersons on the influence of corporate governance provisions on financial and non-financial performance.**

The results reveal that out of the seven corporate governance provisions, board skill is the only significant variable that positively impact financial performance, while board size, board independence and board chair age negatively and significantly impact financial performance. Moreover, the results of other corporate governance provisions on financial performance were insignificant (Board sub-committees, gender diversity and board meetings). Therefore, it can be concluded that based on the survey result, it is only the resource dependency theory that is supported in relation to the impact of board skill on financial performance. This means that agency theory, stakeholder theory, stewardship theory and legitimacy theory propositions on the impact of Board size, Board independence and Board chair age on financial performance are not supported. Again, possible reasons for this result could be due to lack of fair and competitive process in filling vacancies of board members of SOEs in Kenya, lack of follow-up or slow pace of implementations of audit report recommendations made in prior years, lack of proper oversight functions by the boards evidenced by qualified audit opinions issued to majority of SOEs and lack of transparency in communicating the outcome of board evaluation results to enable SOEs stakeholders to assess and take any corrective action.

On the non-financial performance, the results suggest positive significant relationship with board sub-committees while board meetings, board size, board independence and board chair age are negative and significantly related to non-financial performance. However, the impact of remaining corporate governance provisions ( Board skill & board gender diversity) on non-financial performance are insignificant. Thus, agency theory is supported in relation to the impact of board sub-committees on non-financial performance, while resource dependence theory, stakeholder theory, stewardship theory and legitimacy

theory finds no support. Different conclusions arrived at in this research differ with most previous studies' findings because of the application of survey questionnaire (Primary data), which measures the perceptions and may be influenced by social desirability bias (Thompson et al., 2018), even though effort were made to reduce such possibility. Prior studies mainly applied secondary data (Al-Matari, 2019; Arora and Sharma, 2016; Gupta et al., 2019). Besides, the survey result is based on cross-sectional data which does not capture the dynamics of CG over the years.

#### **9.3.4 Perception of SOEs directors on the influence of corporate governance provisions on financial and non-financial performance**

This study sought to find out whether individual corporate governance provisions influence financial and non-financial performance of SOEs in Kenya. The result of the interview shows various viewpoints of the respondents on the corporate governance challenges facing SOEs in Kenya. The central issue that arose in the interview with the SOEs directors was the political interference in the appointment of board of directors. Respondents lamented at how board appointment were done without following due process. In conclusion, respondents perceive board appointment as opaque whose ripple effect cascades to water down other provisions of corporate governance since the board of directors are the central nerve of SOEs performance.

#### **9.4 Contributions of the study**

The study makes several contributions to the academic literature on the relationship between corporate governance provisions and financial and non-financial performance. First, this thesis contributes to the extant literature by examining both individual and combined CG provisions on their influence on financial and non-financial performance of SOEs in Kenya in the same study. Prior studies demonstrate paucity of literature that incorporate both provisions in the same study (Mardnly et al., 2018; Mishra et al., 2021; Owusu & Weir, 2016). The result confirms researcher's conjecture that despite the call for combined corporate governance provisions in the assessment of performance (Arora & Bodhanwala, 2018; Brown et al., 2011; Ho, 2005; Owusu & Weir, 2016), evidence suggest that individual provisions of corporate governance that constitute the

CCG provisions have different impact on financial and non-financial performance as demonstrated by the result of this thesis.

Second, this thesis adds to relatively few available studies in SOEs on the relationship between corporate governance provisions and financial and non-financial performance (Darko et al., 2016; Grossi et al., 2015; Menozzi et al., 2012). SOEs have heavily borrowed corporate governance practices from the non-SOEs (Ellwood & Garcia-Lacalle, 2016), thus, necessitating a study to gauge the extent to which such corporate governance provisions may or may not apply in influencing financial and non-financial performance in SOE context. This study has brought forth such applicability.

Third, this study responded to a call for more studies relating corporate governance and performance in a developing country in general (Darko et al., 2016; Menozzi et al., 2012; Simpson, 2014), and specifically in the Kenyan context. Findings of the impact of corporate governance on financial and non-financial performance in developed countries may not be applied in developing countries due to differences in corporate governance culture (Brown et al., 2011; 2015; Arora & Sharma, 2016). It was therefore necessary to confirm this assertion by conducting this study especially given the fact that MCCG was adopted using foreign governance codes in developed countries such as CACG, OECD and UNCTAD. This research has affirmed that while corporate governance provisions in MCCG mirrors some corporate governance arrangements in developed countries, there are unique and peculiar governance challenges in Kenya that makes some governance arrangements unworkable.

Fourth, this study contributed by showing the link between corporate governance provisions and financial and non-financial performance of SOEs in a single study to reflect the dual objectives of SOEs (Edoun, 2015; Khongmalai et al., 2010). Specifically, to the best of the researcher's knowledge, this thesis examined for the first time the link between corporate governance provisions and CBRR as a measure of financial performance in SOEs context, which differs from measures such as ROA, ROE, Tobin's q and earnings per share which have dominated prior studies (Bhasa, 2015; Gupta et al., 2019; Reddy et al., 2011)

and which do not reflect social performance of SOEs. The study also differs with those of Argento et al. (2019) and Garde et al. (2017) who only focused on non-financial performance of SOEs.

Fifth, unlike prior studies that have mostly relied on secondary data to examine the relationship between corporate governance and financial and non-financial performance (Arora and Bodhanwala, 2018; Khairredine et al., 2020; Mishra et al., 2021), but similar to Assenga et al. (2018), Mahmood et al. (2018) and Thompson et al. (2018), this thesis was premised on mixed-methods research approach to provide additional insight, hence a methodological contribution by corroborating the research findings from both secondary and primary data sources. Through the interview inquiry, it became apparent that interference in board selection of SOEs were partly to blame for lack of significant contribution to both financial and non-financial performance. This insight may have not been possible through pure quantitative analysis.

Finally, the study makes theoretical contribution by applying theoretical framework based in non-SOEs (Khairredine et al., 2020; Masud et al., 2018; Ofoegbu et al., 2018 ; Orazalin, 2019) on their applicability in SOEs setting. The results find partial support for agency theory, stakeholder theory, resource dependency theory, stewardship theory and legitimacy theory. The partial support is on the basis of the positive and significant relationship reported from secondary data between frequency of board meetings (agency theory), gender diversity (agency theory, stakeholder theory and resource dependency theory) and board skill (resource dependence theory) and financial performance. Similarly, positive and significant relationship reported from secondary data between board skill (resource dependence theory) and combined corporate governance provisions (agency theory, stakeholder theory, resource dependence theory, stewardship theory and legitimacy theory) and non-financial performance. Also, survey results show positive and significant relationship of board skill (resource dependency theory) and board sub-committees (agency theory) on financial and non-financial performance respectively. Moreover, the study established deficiency of a single theory to fully explain the relationship

between CG provisions and financial and non-financial performance, hence the need for application of multi-theoretical framework.

## **9.5 Implications of the Research Findings and Conclusions**

Research findings and conclusions of this study offers implications to different groups of stakeholders.

### **9.5.1 Theoretical implications of the study**

By studying the relationship between corporate governance provisions and financial and non-financial performance of SOEs in Kenya, this research makes important theoretical implications in the field. This thesis applies theoretical lenses mostly applied in non-SOEs to test their applicability in SOEs in Kenya, a developing country context. It can be deduced that some corporate governance provisions backed by various theoretical arguments are partly applicable in SOEs in Kenya owing to positive and significant results across secondary and primary data sources. On the one hand, frequency of board meetings (agency theory), gender diversity (agency theory, stakeholder theory and resource dependence theory) and board skill (resource dependence theory) are positive and significantly related to financial performance based on secondary data. Similarly, board skill (resource dependence theory) and combined corporate governance provisions (agency theory, stakeholder theory, resource dependence theory, stewardship theory and legitimacy theory) have positive and significant relationship to non-financial performance based on secondary data. Also, survey results show positive and significant relationship of board skill (resource dependence theory) and board sub-committees (agency theory) on financial and non-financial performance respectively.

On the other hand, the importance of board size to financial and non-financial performance is not supported by agency theory, stakeholder theory and resource dependence theory. Moreover, there is lack of supportive evidence on the role of independent directors on financial and non-financial performance despite theoretical argument of agency theory, resource dependence theory and legitimacy theory. Further, the idea that older chairpersons of SOEs being

regarded as resourceful and stewards following the recommendation of both resource dependence theory and stewardship theory is strongly rebutted.

The result of this study advocates for the multi-theoretical framework to study the relationship between corporate governance and financial and non-financial performance. This is because each theory only explains a part of the governance and performance relationship. For instance, the resource dependence theory of corporate governance supports the importance of mixture of skill and gender diversity among board members due to likelihood of attaining divergent skills, expertise and knowledge and quality of debate brought about by different viewpoints that may increase performance (Kagzi & Guha, 2018; Katmon et al., 2019; Masud et al., 2018). Similarly, frequency of board meetings is mostly explained from agency theory (Adams & Ferreira, 2009; Hussain & Rigoni, 2018; Khaireddine et al., 2020), which argues that more meetings afford directors an opportunity to interrogate managements and scrutinise their activities hence reduces agency costs and therefore suggesting that the more frequent the meetings are held, the more the performance increases. Moreover, multiple theories such as agency theory, stakeholder theory, resource dependence theory, stewardship theory and legitimacy theory affirm the case for multi-theoretical framework in explaining the impact of CCG on non-financial performance where single theory becomes inadequate, as witnessed in the current study findings.

## **9.5.2 Practical and policy implications**

### **9.5.2.1 Implication to SOEs Regulators**

The study will be of benefit to policy makers such as State Corporation Advisory Committee, the Office of the Auditor General and the National Treasury that are mandated to overseeing the operations of SOEs in Kenya. The findings of the study relating to the impact of various CG provisions on financial and non-financial performance of SOEs in Kenya are expected to assist the policy makers in the formulation of policies governing the operations of SOEs in Kenya especially on board appointment. Specifically, findings suggest that MCCG provisions should pay more attention to the frequency of board meetings, gender equality in SOEs boards, and board skill due to their positive impact on financial

performance of SOEs in Kenya. Moreover, other than the need for a prescribed age bracket of SOEs chairpersons, the appointment of board chair of SOEs should be through the competitive selection mechanisms to enhance their autonomy and independence since the results suggest that older chairpersons negatively impact the performance in general. Also, policy makers with responsibility over SOEs should re-evaluate why other corporate governance provisions appear not to have an impact on financial and non-financial performance with a view of making the necessary changes. In a nutshell, there is a need to draw clear line between a political party and the SOE boards to allow these enterprises to perform their mandate without being mired in party politics. Finally, the low level of reported capital budget realization ratio and CSR (Ethics, health and safety initiative, environmental issues, and social investment) suggests that SOEs has to do more to improve capital budget absorption and ethics, health, safety initiative, environmental issues, and social investment performances. One possible solution to deal with low CSR reporting may be the establishment of CSR committee in each SOEs.

#### **9.5.2.2 Implications to MCCG guideline setters**

MCCG guideline setters should prescribe the content of CSR activities that should be reported by SOEs. Lack of clear guideline makes the entities to report different items making it difficult for uniformity. Again, the guideline setters should borrow a leaf from South Africa's King Report and make MCCG "comply and explain" as opposed to current "comply or explain". The variation exhibited in both CCG index and CSR performance disclosure index suggest that "comply or explain" principle is not working and therefore, a need for a more stricter enforcement mechanism (Nerantzidis & Tsamis, 2017).

#### **9.5.3 Implication to academic community**

Research findings of this thesis has implication to academic community. Academics may use the findings of the current study as a foundation of future studies through various platform such as extension of current study by using relatively larger sample and recent data to ascertain the impact of individual and CCG provision on financial and non-financial performance of SOEs in other

developing countries since both sample size and the last period of the current study were determined by the data availability as a result of perennial delays of availing SOEs financial statements (World Bank, 2021). It is only after a continuous research inquiry as suggested above, would the result be beyond reproach. Second, academics should take caution that while corporate governance principles in SOEs and non-SOEs are theoretically similar, in practice, such governance structures and arrangements are different in SOEs and research in the field may require stakeholders' involvement to unearth new insights that would shape the academic growth. Lastly, novelty in the application of capital budget realization ratio (CBRR) as a financial performance measure and its subsequent association to corporate governance provisions open new avenues for future research of SOEs in other developing countries.

#### **9.6 Limitations of the study**

This thesis is not without limitations. Each limitation is identified and corresponding area for further study is suggested. First, the development of combined corporate governance provisions index using equal weight of different corporate governance provisions. This is because, some corporate governance provisions may be perceived as having varying degree of importance than others, and therefore the need to weigh items in the index becomes essential (Krutkowski, 2017; Marston & Shrives, 1991).

Second, the study focused on information that were included in the annual financial reports for secondary data. This means that information such as CSR, that may not necessarily translate to a disclosure in annual financial reports (Garas & ElMassah, 2018; Khan et al., 2013), but which may be disclosed in other media like websites were not considered. This is due to lack of prescription in MCCG of the nature of CSR information that should be disclosed in the annual financial reports.

Third, the researcher argues that the relationship between corporate governance provisions and financial and non-financial performance may not certainly be direct. There is a possibility of a moderator or a mediating variable in such a

relationship. For instance, the moderating or mediating role of pressure from donors like World Bank, International Monetary Fund, and Organization of Economic Co-operation and Development (OECD) in strengthening corporate governance standards as a key pre-requisite in obtaining loan facilities (An et al., 2015; Edoun, 2015; Mulyadi, 2017).

Fourth, the qualitative inquiry included limited number of interviewees relative to the sample size of the study hence cannot be generalized to the whole population. Nonetheless, the aim of interviews was to validate significant and insignificant findings and to establish reasons for those relationships, purposive sampling was used, and only the interviewees who were ready to be interviewed were included.

Finally, the single use of CSR framework to analyse non-financial performance may be limiting. However, the rationale for this selection based on the availability of CSR data disclosed in SOEs annual reports.

## **9.7 Suggestions for future research directions**

### **9.7.1 Assign weight**

Future research may consider assigning weight when developing combined corporate governance index. However, this may have the disadvantage of subjectivity (Arora & Bodhanwala, 2018; Mishra et al., 2021; Owusu & Weir, 2016).

### **9.7.2 Other information sources**

Future research may extend current study to uncover information circulated through other channels other than the annual financial reports such as websites. However, annual reports remain the official channels for SOEs to disclose their performance.

### **9.7.3 Moderator and mediating variables**

Future study should aim to establish the moderating or mediating role of donors like World Bank, International Monetary Fund, and Organization of Economic Co-

operation and Development (OECD) in financial and non-financial performance of SOEs Kenya since such institutions play vital role in strengthening governance structures of SOEs as a condition to extend loan to a country (An et al., 2015; Edoun, 2015; Mulyadi, 2017).

#### **9.7.4 Study other developing countries over time**

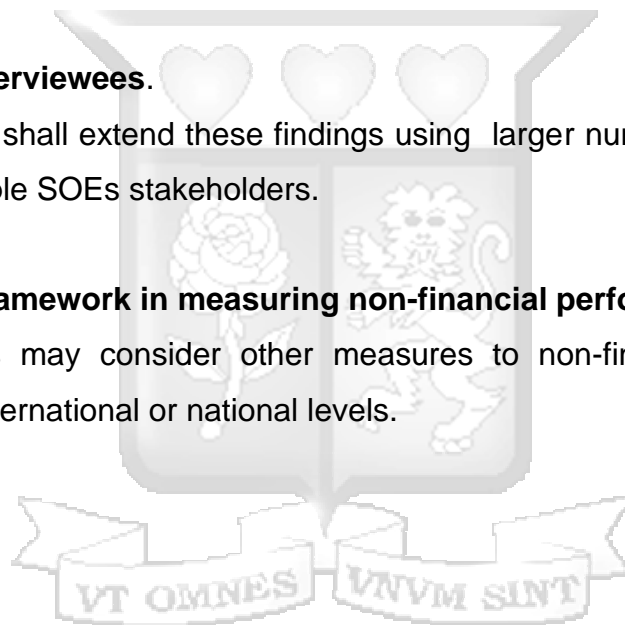
There is need for future studies to replicate current study in other developing countries over time to validate results and affirm theories since, while there may be some shared characteristics among developing countries, it is highly unlikely that research findings may be similar due to differences in historical culture of corporate governance.

#### **9.7.5 More interviewees.**

Future studies shall extend these findings using larger number of interviewees covering multiple SOEs stakeholders.

#### **9.7.6 Broad framework in measuring non-financial performance**

Future studies may consider other measures to non-financial performance approved at international or national levels.



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## APPENDICES

### Appendix I : Audit Committee chairperson's questionnaire



**Strathmore University**  
**Business School**

8th May,2020

Strathmore University Business School,  
Nairobi Kenya,

Dear Participant,

I am a PhD candidate at Strathmore University Business School, undertaking a research on the relationship between corporate governance and financial and non-financial performance of State-Owned Enterprises (SOEs) in Kenya. The purpose of this letter is to request your help in gathering the information required for the research by completing the questionnaire. The information obtained will be used for this academic purpose only. The results of the research may aid SOEs in improving their performance through changes to their corporate governance.

The results of the survey will be confidential and produced in summary form and will disclose no individual or company information in any way.

The questionnaire is best answered by members of the audit committee due to their independence and vast knowledge about the operations of the entire enterprise.

Your assistance and co-operation in this research will be highly appreciated. You can contact me, Albert Ochien'g Abang'a, at the Strathmore University – Business School, via e-mail [aochieng@strathmore.edu](mailto:aochieng@strathmore.edu), or phone 0723006670. You can also contact my supervisors, Professor Venancio Tauringana, at University of Southampton, UK, via e-mail [V.Tauringana@soton.ac.uk](mailto:V.Tauringana@soton.ac.uk) or phone +447484753846 or Prof. David Wang'ombe, at Strathmore University Business School, Kenya, via e-mail [dwangombe@strathmore.edu](mailto:dwangombe@strathmore.edu) or phone +254722685762.

To speak to someone independent about this research, please contact:

The Secretary–Strathmore University Institutional Ethics Review Board, P. O. BOX 59857, 00200, Nairobi, email [ethicsreview@strathmore.edu](mailto:ethicsreview@strathmore.edu) Tel number: +254 703 034 375 or National Commission for Science, Technology and Innovation, P.O BOX 30623,00100, Nairobi, email [nacostilicense@nacosti.go.ke](mailto:nacostilicense@nacosti.go.ke), Mobile number: +254 713788787/ +254 735 404 245. 375. Do you agree to take part in the Study? Please tick the boxes that apply to you;

I AGREE to take part in this research.

I DO NOT AGREE to take part in this research.

Participant's Name:

---

Participant's Signature:

---

Date:

---

Thank you.

**Corporate Governance and capital budget realization and CSR  
performance of State-Owned Enterprises in Kenya**

**Audit Committee chairperson's questionnaire**

**PhD Research: Albert Ochien'g Abang'a  
Strathmore University**



**Section I: Background information**

Kindly answer the following questions by ticking (✓) in the appropriate box or filling the space provided.

- i) What is the name of the state-owned enterprise where you serve as audit committee member?.....
- ii) What is your gender?  Male  Female

iii) Your age (years)	iv) How long have you worked as audit committee member? (years)	v) What is your highest level of education?
a) <input type="checkbox"/> 30-39 b) <input type="checkbox"/> 40-49 c) <input type="checkbox"/> 50-59 d) <input type="checkbox"/> 60-69 e) <input type="checkbox"/> > 70	a) <input type="checkbox"/> < 4 b) <input type="checkbox"/> 4-9 c) <input type="checkbox"/> 10-15 d) <input type="checkbox"/> > 15	a) <input type="checkbox"/> High school b) <input type="checkbox"/> Diploma c) <input type="checkbox"/> Professional d) <input type="checkbox"/> 1 <sup>st</sup> Degree e) <input type="checkbox"/> Masters f) <input type="checkbox"/> PhD

**Section II**

The purpose of this section is to find out your opinion on the effectiveness of various corporate governance provisions and SOE specific characteristics on the capital budget realization (CBR) in Kenya. Please indicate the level of your disagreement or agreement with each of the following statements using the scale of (1-5; where 1=strongly disagree, 2= Disagree, 3= Neutral, 4= Agree, 5= strongly agree).

		1	2	3	4	5
1)	<b>Frequency of meetings</b> -More meetings by the board of directors in a calendar year affords them more time to make better decisions that leads to better CBR performance by the SOEs.					
2)	<b>Presence of female board members</b> -Presence of female members of the board in SOEs ensures proper decision making that improves CBR performance because they bring in a different perspective to the deliberations.					
3)	<b>Academic qualifications of directors</b> - Doctorate academic qualification among individuals on the board of SOEs contributes to better CBR performance because of critical thinking skills for decision making.					
4)	<b>Number of Board sub-committees</b> -Having more specialised Board sub-committees help SOEs improve its CBR performance because each committee brings different expertise in decision making.					
5)	<b>Board size</b> -The more the number of members on SOEs board, the better is CBR performance because they bring more collective experience in their decision making.					
6)	<b>Size of Non-executive directors</b> - The scrutiny of SOEs activities by more independent external members of the board helps the entity to achieve a superior CBR performance because such members have no vested interest in the parastatal.					

7)	<b>Age of chairperson</b> -Having an older chairperson of the board leads to better CBR performance by SOES because they are more mature and may have better experience.					
8)	<b>Age of SOE</b> -CBR performance improves over the years due to experience gained by the entity over the years.					
9)	<b>Assets</b> -The level of CBR performance is influenced by the resources controlled by the organization.					
10)	<b>Leverage</b> -Ability of the organization to use its capital budget funds is determined by the level of its indebtedness such that the higher the debt level, the lower the performance.					

### Section III

The purpose of this section is to find out your opinion on the effectiveness of various CG provisions and SOEs specific characteristics on Corporate Social Responsibility (CSR) performance among SOEs in Kenya. Please indicate the level of your disagreement or agreement with each of the following statements using the scale of (1-5; where 1=strongly disagree, 2= Disagree, 3= Neutral, 4= Agree, 5= strongly agree).

		1	2	3	4	5
11)	<b>Frequency of meetings</b> -More meetings by the board of directors in a calendar year affords more time to make better decisions that leads to better CSR performance.					

12)	<b>Presence of female board members</b> -Presence of female members of the board in SOEs ensures proper decision making that improves CSR performance because they bring in a different perspective to the deliberations.					
13)	<b>Academic qualifications of directors</b> -Doctorate academic qualification among individuals on the board of SOEs contributes to better CSR performance because of critical thinking skills for decision making.					
14)	<b>Number of Board sub-committees</b> -Having more specialised board sub-committees help SOE improve its CSR performance because each committee brings different expertise in decision making.					
15)	<b>Board size</b> -The more the number of members on SOE board, the better is the CSR performance because they bring more collective experience in their decision making.					
16)	<b>Size of Non-executive directors</b> - The scrutiny of SOE activities by more independent external members of the board helps the entity to achieve better CSR performance because such members have no vested interest in the entity.					
17)	<b>Age of chairperson</b> -Having an older chairperson of the board leads to better CSR performance by SOEs because they are more mature and may have better experience.					

18)	<b>Age of SOE</b> - CSR performance improves over the years due to experience gained by the entity over the years.					
19)	<b>Assets</b> -CSR performance is influenced by the resources controlled by SOE.					
20)	<b>Leverage</b> -The level of indebtedness by SOE determines its CSR performance such that the higher the debt level, the lower the CSR performance.					



## Appendix II: CCG provision index

CG aspects	Measurement for coding	Supporting literature
Board meetings	1 if the board held at least 4 meetings in a year, 0 otherwise	Arora and Bodhanwala (2018); MCCG (2015,p.46); and Ntim (2013).
Gender diversity	1 if at least one third of board members are female, 0 otherwise.	Iqbal et al. (2019); MCCG (2015, p.1).
Board skill	1 if at least 1 board member has a PhD qualification, 0 otherwise	Assenga et al. (2018); MCCG; Ujunwa (2012).
Board-sub-committees	1 if the number of board committees is between 1 and 4, 0 otherwise.	Jiraporn et al. (2019); MCCG (2015, p.6).
Board size	1 if the number of board members is between 7 and 9, 0 otherwise	Iqbal et al. (2019); MCCG (2015,p.1).
Independent non-executive directors	1 if at least one half of board members are independent members, 0 otherwise.	Nerantzidis (2016); Ntim (2013).
Board chairperson Age	1 if the chairperson is not older than 60 years of age, 0 otherwise	Temming (2012) and Berezinets et al. (2017).

## **Appendix III: CSR performance disclosure items**

### **Ethics**

ETH1: Policies and practices in relation to corruption

ETH2: Equal opportunities policy

ETH3: Code of ethics ( adoption, implementation, and or enforcement).

ETH4: Policies and practices relating to the treat of labour, union, and human rights.

### **Health and safety initiative**

HESA1: Health program for employees related disclosure.

HESA2: Safety in workplace disclosure

HESA3: HIV-AIDS program

HESA4: Health and safety training

### **Environment**

ENVI1: Overall SOE policy recognizing environmental issues, standards, and achievement.

ENVI2: Detailed environmental themes (e.g, materials, water, and energy) related actions and impacts.

ENVI3: Other activities relating to conservation, aesthetics, and sustainability, among others.

### **Social investment**

SOIN1: Education related programmes for employees

SOIN2: Other community support and poverty alleviation

SOIN3: Training and development policy

SOIN4: Forced labour policy including child labour force.

SOIN5: Internship opportunities for students.

**Scoring procedure:**

0: No disclosure

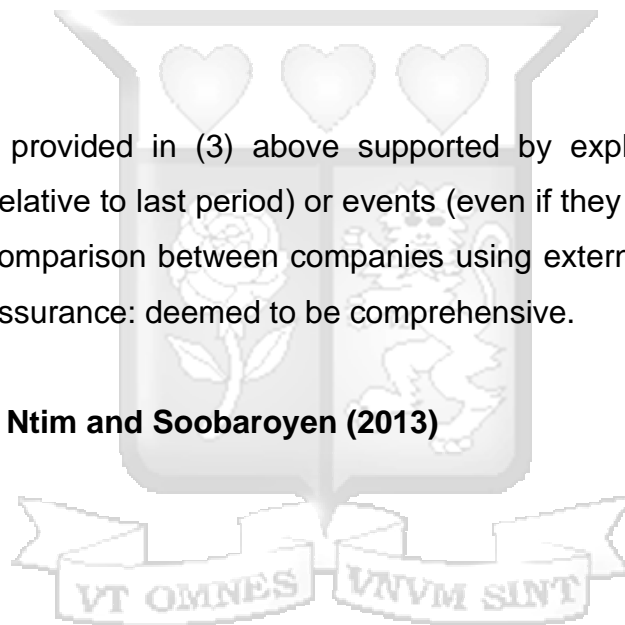
1: General or rhetorical (including instances of ritualistic and repeated) statements: deemed to be purely symbolic with no evidence of actual actions on the ground

2: Narrative explanation of what has been done or implemented: deemed to be a message of commitment (beyond symbolic)

3: Information provided in (2) above supported by quantitative / monetary data: deemed to be substantive by providing evidence of the scale of activities or actions

4: Information provided in (3) above supported by explicit assessments of performance (relative to last period) or events (even if they are “bad” news “and which allows comparison between companies using external reporting models, benchmarks/ assurance: deemed to be comprehensive.

**Adopted from Ntim and Soobaroyen (2013)**



## Appendix IV: Interview questions



**Strathmore University**

**Business School**

1st March ,2021

Strathmore University Business School,  
Nairobi Kenya,

Dear Participant,

I am a PhD candidate at Strathmore University Business School, undertaking a research on the relationship between corporate governance and financial and non-financial performance of State-Owned Enterprises (SOEs) in Kenya. The purpose of this letter is to request your help in gathering the information required for the research by answering the following interview questions. The information obtained will be used for this academic purpose only. The results of the research may aid SOEs in improving their performance through changes to their corporate governance.

The results of the interview will be confidential and produced in summary form and will disclose no individual or company information in any way.

Your assistance and co-operation in this research will be highly appreciated. You can contact me, Albert Ochien'g Abang'a, at the Strathmore University – Business School, via e-mail [aochieng@strathmore.edu](mailto:aochieng@strathmore.edu), or phone 0723006670. You can also contact my supervisors, Professor Venancio Tauringana, at University of Southampton, UK, via e-mail [V.Tauringana@soton.ac.uk](mailto:V.Tauringana@soton.ac.uk) or phone +447484753846 or Prof. David Wang'ombe, at Strathmore University Business School, Kenya, via e-mail [dwangombe@strathmore.edu](mailto:dwangombe@strathmore.edu) or phone +254722685762.

To speak to someone independent about this research, please contact:

The Secretary–Strathmore University Institutional Ethics Review Board, P. O. BOX 59857, 00200, Nairobi, email [ethicsreview@strathmore.edu](mailto:ethicsreview@strathmore.edu) Tel number:

+254 703 034 375 or National Commission for Science, Technology and Innovation, P.O BOX 30623,00100, Nairobi, email **nacostilicense@nacosti.go.ke**, Mobile number: +254 713788787/ +254 735 404 245. 375. Do you agree to take part in the Study? Please tick the boxes that apply to you;

**I AGREE to take part in this research.**

**I DO NOT AGREE to take part in this research.**

Participant's Name:

---

Participant's Signature:

---

Date:

---

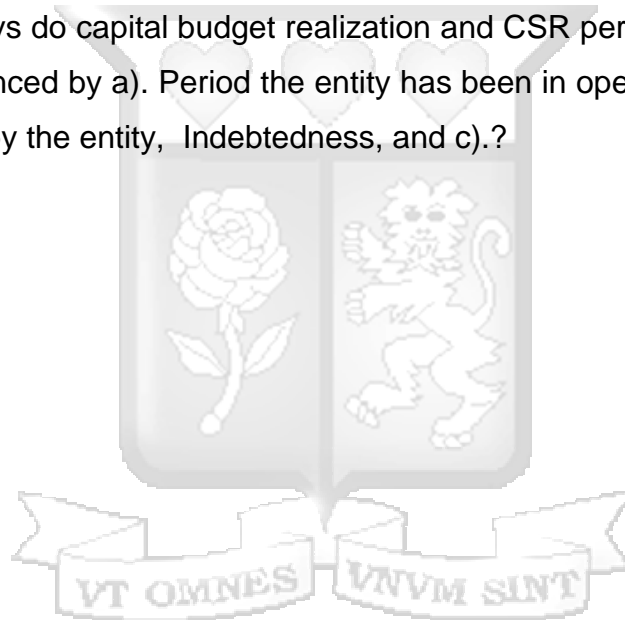
Thank you.

### **Interview questions**

1. Please could you explain how frequency of board meetings affect Kenyan SOEs capital budget fund usage and CSR performance?
2. There is a requirement of one-third-two thirds gender principle under Article 81 (b) of the Kenyan Constitution and the Mwongozo Code of CG. To what extent is that requirement achieved better capital budget fund utilization and CSR performance in SOEs in Kenya?
3. In what ways are Board skills emphasised in the appointment of new board members of the Kenyan SOEs? How does PhD qualification of a board member influence the Kenyan parastatal's capital budget fund utilization and CSR performance?
4. In what ways do board sub-committees impact CSR and capital budget fund performance of Kenyan parastatals.
5. What qualifies an individual to be appointed a board member of SOEs in Kenya? Mwongozo code of corporate governance recommends the size of

the board to be between 7 to 9. In your opinion, in what ways are the board size impact the Kenyan SOEs capital budget realization and CSR performance?

6. What is the contribution of independent non-executive directors to the Kenyan SOEs' capital budget realization and CSR performance?
7. There have been cases of retirees being appointed to lead SOEs on the basis of experience. Does this experience translate to improved capital budget realization and CSR performance?
8. In what ways do capital budget realization and CSR performance of Kenya's SOE influenced by a). Period the entity has been in operation, b) Resources controlled by the entity, Indebtedness, and c).?



## Appendix V: Population frame

1. Agricultural Development Corporation
2. Capital Markets Authority
3. Commodities Fund
4. Communication Authority of Kenya
5. Council of Legal Education
6. Energy and Petroleum Regulatory Authority
7. Higher Education Loan Board
8. Information Communication Authority
9. Insurance Regulatory Authority
10. Kenya Accreditation Service
11. Kenya Agricultural and Livestock Research Organization
12. Kenya Dairy Board
13. Kenya Film Commission
14. Kenya Institute of curriculum development
15. Kenya Institute for Public Policy Research
16. Kenya Medical Research Institute
17. Kenya Medical Supplies Authority
18. Kenya National Bureau of Statistics
19. Kenya National Highways Authority
20. Kenya National Library Service
21. Kenya Nuclear Electricity Board
22. Kenya Ordinance Factories Corporation
23. Kenya Revenue Authority

24. Kenya Universities and Colleges Central Placement Service
25. Kenyatta National Hospital
26. Kenya Veterinary Board
27. Kenya Vision 2030
28. Media Council of Kenya
29. Medical practitioners and dentist's board
30. Moi Teaching and Referral Hospital
31. National Aids Control Council
32. National Biosafety Authority
33. National Commission for Science, Technology, and Innovation
34. National Drought Management Authority
35. National Irrigation Authority
36. National Museum of Kenya
37. National Quality Control Laboratory
38. Nursing Council of Kenya
39. Policy Holders Compensation Fund
40. Public Procurement Regulatory Authority
41. Retirement Benefit Authority
42. Salaries and Remuneration Commission
43. Unclaimed Financial Assets Authority
44. Machakos University
45. Technical University of Mombasa.

## Appendix VI: Approval letter from Strathmore University Ethics committee

 **Strathmore**  
UNIVERSITY

24<sup>th</sup> March 2020

Mr Abang'a, Albert  
aochieng@strathmore.edu

Dear Mr Abang'a,

**RE: Corporate Governance and performance of State-Owned Enterprises in Kenya**

This is to inform you that SU-IERC has reviewed and approved your above research proposal. Your application approval number is SU-IERC0665/20. The approval period is 24<sup>th</sup> March, 2020 to 23<sup>rd</sup> March, 2021.

This approval is subject to compliance with the following requirements:

- i. Only approved documents including (informed consents, study instruments, MTA) will be used
- ii. All changes including (amendments, deviations, and violations) are submitted for review and approval by SU-IERC
- 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-IERC within 72 hours of notification
- iv. Any changes, anticipated or otherwise that may increase the risks or affected safety or welfare of study participants and others or affect the integrity of the research must be reported to SU-IERC within 72 hours
- v. Clearance for 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 expiry of the approval period. Attach a comprehensive progress report to support the renewal.
- vii. Submission of an executive summary report within 90 days upon completion of the study to SU-IERC.

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

Yours sincerely,

 Dr Virginia Gichuru,  
Secretary; SU-IERC

Cc: Prof Fred Were,  
Chairperson; SU-IERC

STRATHMORE UNIVERSITY INSTITUTIONAL  
ETHICS REVIEW COMMITTEE  
SU-IERC

**24 MAR 2020**

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Email info@strathmore.edu www.strathmore.edu

## Appendix VII: Research license from National Commission for Science, Technology, and Innovation

 <b>REPUBLIC OF KENYA</b>	 <b>NATIONAL COMMISSION FOR SCIENCE, TECHNOLOGY &amp; INNOVATION</b>
Ref No: <b>232264</b>	Date of Issue: <b>09 April 2021</b>
<b>RESEARCH LICENSE</b>	
	
<p>This is to Certify that <b>Mr. Albert Ochlen'g Abang'a</b> of <b>Strathmore University</b>, has been licensed to conduct research in <b>Barigo, Bomet, Bungoma, Busia, Elgeyo-Marakwet, Embu, Garissa, Homa Bay, Isiolo, Kakamega, Kericho, Kiambu, Kilifi, Kisumu, Kitale, Kisumu, Kitale, Kwana, Laikipia, Lamu, Machakos, Mandera, Migori, Mombasa, Murang'a, Nairobi, Nakuru, Nandi, Narok, Nyamira, Nyandarua, Nyero, Samburu, Siaya, Taita-Taveta, Tanzania, Tharaka-Nithi, Trans-Nzoia, Turkana, Uasin-Gishu, Vihiga, Wajir, Westpoko</b> on the topic: <b>Corporate governance and performance of State-Owned Enterprises in Kenya</b> for the period ending : <b>09 April 2021</b>.</p>	
License No: <b>NACOSTI/P/20-4745</b>	
Applicant Identification Number <b>232264</b>	 Director General <b>NATIONAL COMMISSION FOR SCIENCE, TECHNOLOGY &amp; INNOVATION</b>
Verification QR Code	
	
<p><b>NOTE: This is a computer generated License. To verify the authenticity of this document, Scan the QR Code using QR scanner application.</b></p>	

## Appendix VIII: Tests of Normality

	Kolmogorov-Smirnov			Shapiro-Wilk		
	Statistic	df	Sig.	Statistic	df	Sig.
CBRR	0.124	31	0.200*	0.955	31	0.210
CSR	0.154	31	0.060	0.943	31	0.098



## Appendix IX: Independent sample test

Independent Samples Test										
		Equality of Variances		t-test for Equality of Means						
		F	Sig.	t	df	Sig. (2-tailed)	Mean Difference	Std. Error Difference	Interval of the	
									Lower	Upper
Score	Equal variances assumed	1.492	0.23	1.58	29.00	0.13	0.30	0.19	-0.09	0.69
	Equal variances not assumed			1.95	14.48	0.07	0.30	0.15	-0.03	0.63



## Appendix X. Group Statistics

Group	N	Mean	Std. Deviation	Std. Error Mean
Early respondents	24	2.9184	0.4699	0.0959
Late respondents	7	2.6181	0.3192	0.1206



## Appendix XI: One-Sample Test

### PANEL A: Corporate governance provisions and capital budget realization

Variable	t	df	Sig. (2-tailed)	Mean difference
BM	0.166	30	0.869	0.032
GDIV	-0.571	30	0.572	-0.097
BSKILL	2.344	30	0.026	0.387
BDC	1.668	30	0.106	0.323
BDSIZE	-2.617	30	0.014	-0.355
NEDs	-1.882	30	0.070	-0.387
CHAge	-5.330	30	0.000	-0.903
FMAGE	1.662	30	0.107	-290
FMSIZE	2.145	30	0.040	0.419
LEV	3.153	30	0.004	0.581

### PANEL B: Corporate governance provisions and CSR performance

Variable	t	df	Sig. (2-tailed)	Mean difference
BM	-3.230	30	0.003	-0.516
GDIV	0.000	30	1.000	0.000
BSKILL	0.154	30	0.879	0.032
BDC	2.908	30	0.007	0.484
BDSIZE	-3.376	30	0.002	-0.516
NEDs	-2.044	30	0.050	-0.387
CHAge	-5.692	30	0.000	-8.839
FMAGE	-0.360	30	0.721	-0.065
FMSIZE	2.908	30	0.007	0.484
LEV	2.160	30	0.039	0.355

## Appendix XII: Publications

The following journal publications have resulted from this Thesis work:

- i) Abang'a, A.O., & Wang'ombe, D. (2020). Theoretical perspective of corporate governance among state-owned enterprises: a literature review. *International Journal of Critical Accounting*, 11(2), 160–179. <https://doi.org/10.1504/IJCA.2020.105065>.
- ii) Abang'a, A.O., Tauringana, V., Wang'ombe, D. & Achiro, L. O. (2021). Corporate governance and performance of state-owned enterprises in Kenya. *Corporate Governance: The International Journal of Business in Society*, 22(4), 798–820. <https://doi.org/10.1108/CG-01-2021-0007>.
- iii) Abang'a, A. O., & Wang'ombe, D. (2021). Meaning and measures of quality of corporate governance: a literature review. *African J. of Accounting, Auditing and Finance*, 7(3), 187–204. <https://doi.org/10.1504/AJAAF.2021.116835>.



