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THE EFFECT OF BOARDS CORPORATE GOVERNANCE ON THE FINANCIAL PERFORMANCE OF COMMERCIAL STATE CORPORATIONS IN KENYA

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Abstract

Commercial State Corporations in Kenya have been experiencing a myriad of problems, including corruption, nepotism, gross financial mismanagement and a lack of good corporate governance structures. From the Public Investment Committee reports of 2011, out of 34 financial reports of Commercial State corporations examined by the Auditor General – Corporations, only 13 managed a clean bill of health from the Auditor and Controller General Report. The Government has subsequently put in place certain controls, such as requiring all Boards of state corporations to sign performance contracts with the government through their parent line ministries and for the chief executive officers to then sign performance contracts with their respective Boards, and the appointments of Audit committees among other measures. These processes have yet to be studied to see their effects on the overall financial performance of commercial state corporations in Kenya.In this context, this study attempts to provide empirical evidence on the connection between corporate governance and firm performance among state owned corporations in Kenya which is a developing country. The study seeks to answer the questions: What is the relationship between corporate governance and financial performance of commercial state corporations. The objectives that the study will seek to determine will be to establish the effect of the board size, board compositions, position of executive chairman, board remuneration and board operations on the financial performance of commercial state corporations. The study will be conducted through a survey questionnaire for collection of data. It will look into corporate governance practices and factors that lead into such practices and their impact on financial performance in selected number of commercial state corporations. The population of interest in this study will consist of all the state-owned commercial corporations in Kenya. There are 34 commercial state corporations as obtained from the Presidential Task Force on Parastatal Reforms Report (2013). The study proposes to investigate a total of 34 commercial state corporations.

Keywords: Corporate Governance, Financial Performance, Board Size, Board Composition, Board Chairman, Board Operations and Board Remuneration

Introduction

Corporate governance has become an issue of global significance especially due to the collapse of corporations worldwide such as Enron Corporation, Maxwell Corporation that was owned and managed by the owner Mr. Robert Maxwell, Bank of Credit and Commerce International (BCCI). This has necessitated formation of various commissions with a mandate to try and find out the reasons for the apparent financial collapse of such big corporations worldwide. Such commissions have produced several reports that include for example the Financial Aspects of Corporate report (Sir Adrian Cadbury, 1992) popularly known as the Cadbury report of 1992. Further to this, other Commissions were constituted to look at various aspects of corporate governance such as the Turnbull Report (1998) which looked at the Internal Controls of corporations.

The Cadbury report came up with distinct recommendations on the corporate governance of corporations which included, The separation of duties and offices of the Chief Executive Officer(CEO) and the office of the Chairman of the Board of Directors, Recommendation that during the constitution of the Board of Directors, there should be included Non-Executive Directors who have no ties to either the executive directors or the corporation, i.e. Independent Directors, The recommendation that the Board should also appoint an Audit Committee of the Board to provide oversight to the management, and the formation of a Remuneration committee of the Board to regulate pay packages of the directors and management. Here at home several corporations have also collapsed financially such as the former Kenya Co-operative Creameries (KCC) which has now been revived through Government Budgetary allocations as The New KCC, the former Kenya National Assurance Co, and the Kenya National Trading Company (KNTC) among others. Thus as a result, there is need to strengthen corporate governance practices so as to promote sustainable development and financial self-independence of these corporations. State corporations had since independence assumed an increasingly significant role in national development. But recent economic liberalization and globalization of world economies have caused turbulence in the business environment in which they operate. Hitherto protected organizations (state corporations) have found themselves in unfamiliar trading/operating environments. Their operations, past inefficiencies and markets are no longer protected nor guaranteed.

As stated in the Cadbury Committee Report 1992, corporate governance is the system by which companies are directed and controlled. The report's proposals and its code of best practice emphasized the importance of independent and non-executive directors, and the need for the establishment of board audit and remuneration committees. It also called for the separation of the chair of the board from the chief executive of the firm. The argument being advanced at that time was that governance was about performance as well as conformance. What was needed was a vibrant alternative way to ensure that power was exercised, over every type and form of corporate entity and strategic alliance around the world, in a way that ensured both effective performance and appropriate social accountability and responsibility. Much of the debate on Corporate Governance has concentrated in Europe and United States of America. The rest of the world, until recently has had lukewarm embracement of this debate. In Africa, study of effect of corporate governance has been few and far. In South Africa a commission similar to the Cadbury Committee of England was formed to recommend codes for Corporate Governance by firms quoted on the Johannesburg Stock Exchange. It culminated in The King's Committee Report and Code for Corporate Governance in South Africa (1994).

In Kenya there has been an attempt to code Corporate Governance through the Centre for Corporate Governance but this has only concentrated on the Private sector organizations with nothing yet for public funded organization. Another source of Corporate Governance comes

from the Capital Markets Authority Act which has developed Corporate Governance guidelines for Public Listed Companies at the Nairobi Securities Exchange. Empirical studies done (Wang'ombe, 2003: Mwangi, 2002; Mucuvi, 2002; Gakuo, 2001; Jebet, 2000) have been done on corporate governance in Kenya, only a few have looked at the corporate governance practices as the elements that determine the financial performance of organizations. Wang'ombe looked at Co-operative societies in Nairobi, Mwangi did his study on the Insurance industry, and Mucuvi on the Motor industry'), no study has looked at the public sector organizations or State Corporations which form a great part of the Kenyan economy.

The Financial Collapse of such vibrant and common names in the Kenyan Corporate scene of Kenya National Assurance Company (KNAC), Nyayo Bus Corporation, African Tours Hotels and Lodges, the Kenya National Trading Corporation, in the 1980's to 1990's was very worrying. These were very solid organizations in their own industry segments, KNAC was a giant in the Insurance Sector controlling up to 90% of the insurance market in Kenya in the 1970's and 80's (Commissioner of Insurance Annual Reports (1980) while KMC which was a monopoly in meat production for export. That they collapsed financially despite their perceived strengths should have awoken the Government of Kenya to determine the reasons for their collapse. Their financial collapse could have been linked to a lack of good Corporate Governance practices where the appointment of the Boards was not transparent, Board Chairmen doubled up as Chief Executive Officers or a lack of the various checks and balances such as the Audit and Remuneration committee of the Boards (Efficiency monitoring Unit, Office of the Prime Minister, 2011)

There have been few past studies that have focused on Commercial State Corporations in Kenya on the issue of Corporate Governance. Globally those that have been done have concentrated on organizations in the developed world (McKensey et al., 1997; Longeneck& Pringle, 1981; Zahra & Pearce, 1989; Jonnergard&Svensson, 1995; Maassen, 1999). Hence there is need to develop an empirical study based on a developing country like Kenya. This study therefore sought to fill the major gaps in knowledge by examining the effect of corporate governance on the financial performance specifically among Commercial State Corporations in Kenya.

Objective of the study

The general objective of this research study was to determine the effect of corporate governance practices on the financial performance of Commercial State Corporations in Kenya.The study was guided by the following specific objectives

i. To find out the effect of the Board size on the financial performance of Commercial State Corporations.
ii. To investigate the effect of Board compositions on the financial performance of Commercial State Corporations.
iii. To investigate the effect of the position of Executive Chairman of the Board on the financial performance of Commercial State Corporations.
iv. To investigate the effect, the Board remuneration on the financial performance of Commercial State Corporations.
v. To find out the effect of Board operations on the financial performance of Commercial State Corporations.

Theoretical Review

The theory on corporate governance stems from the thesis "The Modern Corporation and Private Property" by Berle and Means (1932). The thesis highlights a fundamental agency

problem in modern firms where there is a separation between management and ownership. It has long, been recognized that modern firms are run by professional managers (agents), who are accountable to dispersed shareholders (principals). The scenario fits into the well-discussed principal-agent paradigm. The question is how to ensure that managers follow the interests of shareholders in order to reduce cost associated with principal-agent theory. To do that, the principals have to deal with two-problems. First they face an adverse selection problem: that is, they must select the most capable managers. Second, they are also confronted with a moral hazard problem: that is how to adequately motivate the managers to put forth the appropriate effort and make decisions aligned with shareholders' interests.

A comprehensive theory of the firm under agency arrangements was developed by Jensen and Meckling (1996), who show that the principals (the shareholders) can assure themselves that the agent will make the optimal decisions only if appropriate incentives are given and only if the agent is monitored. Incentives include such things as stock options, bonuses and prerequisites which are directly related to how well the results of management's decisions serve the interests of shareholders. Monitoring consists of bonding the agent, systematic reviews of management prerequisites, financial audits, and placing specific limits on management decisions. These involve costs, which are an inevitable result of the separation of corporate ownership and control. Such costs are not necessarily bad for shareholders, but the monitoring activity they cover needs to be efficient.

Agency Theory

Agency theory having its roots in economic theory was exposited by Alchian and Demsetz (1972) and further developed by Jensen and Meckling (1976). Agency theory is defined as "the relationship between the principals, such as shareholders and agents such as the company executives and managers". In this theory, shareholders who are the owners or principals of the company, hires the agents to perform work. Principals delegate the running of business to the directors or managers, who are the shareholder's agents (Clarke, 2004).

The agency theory shareholders expect the agents to act and make decisions in the principal's interest. On the contrary, the agent may not necessarily make decisions in the best interests of the principals (Padilla, 2000). Such a problem was first highlighted by Adam Smith in the 18th century and subsequently explored by Ross (1973) and the first detailed description of agency theory was presented by Jensen and Meckling (1976). Indeed, the notion of problems arising from the separation of ownership and control in agency theory has been confirmed by Davis, et al., (1997).

In agency theory, the agent may be succumbed to self-interest, opportunistic behavior and falling short of congruence between the aspirations of the principal and the agent's pursuits. Even the understanding of risk defers in its approach. Although with such setbacks, agency theory was introduced basically as a separation of ownership and control (Bhimani, 2008). Holmstrom and Milgrom (1994) argued that instead of providing fluctuating incentive payments, the agents will only focus on projects that have a high return and have a fixed wage without any incentive component. Although this will provide a fair assessment, it does not eradicate or even minimize corporate misconduct. The positivist approach is used where the agents are controlled by principal-made rules, with the aim of maximizing shareholders value. Hence, a more individualistic view is applied in this theory (Clarke, 2004). Indeed, agency theory can be employed to explore the relationship between the ownership and management structure. However, where there is a separation, the agency model can be applied to align the goals of the management with that of the owners. Due to the fact that in a family firm, the management comprises of family members, hence the agency cost would be

minimal as any firm's performance does not really affect the firm performance (Eisenhardt, 1989).

The model of an employee portrayed in the agency theory is more of a self-interested, individualistic and are bounded rationality where rewards and punishments seem to take priority (Jensen &Meckling, 1976). This theory prescribes that people or employees are held accountable in their tasks and responsibilities. Employees must constitute a good governance structure rather than just providing the need of shareholders, which maybe challenging the governance structure. In agency theory, a well-developed market for corporate controls is assumed to be non-existant, thus leading to market failures, non-existence of markets, moral hazards, asymmetric information, incomplete contracts and adverse selection among others. Various governance mechanisms have been advocated which include monitoring by financial institutions, prudent market competition, executive compensation, debt, developing an effective board of directors, markets for corporate control, and concentrated holdings. Developing an effective board of directors remains an important and feasible option for an optimal corporate governance mechanism hence this studies objective to establish the effect of Board compositions on the financial performance of Commercial State Corporations.

Stewardship Theory

Stewardship theory has its roots from psychology and sociology and is defined by Davis, et al., (1997) as "a steward protects and maximizes shareholder's wealth through firm performance, because by so doing, the steward's utility functions are maximized". In this perspective, stewards are company executives and managers working for the shareholders, protects and make profits for the shareholders. Unlike agency theory, stewardship theory stresses not on the perspective of individualism (Donaldson & Davis, 1991), but rather on the role of top management being as stewards, integrating their goals as part of the organization. The stewardship perspective suggests that stewards are satisfied and motivated when organizational success is attained.

Agyris (1973) argues agency theory looks at an employee or people as an economic being, which suppresses an individual's own aspirations. However, stewardship theory recognizes the importance of structures that empower the steward and offers maximum autonomy built on trust (Donaldson & Davis, 1991). It stresses on the position of employees or executives to act more autonomously so that the shareholders' returns are maximized. Indeed, this can minimize the costs aimed at monitoring and controlling behaviours (Davis et al., 1997).

On the other end, Daily et al., (2003) argued that in order to protect their reputations as decision makers in organizations, executives and directors are inclined to operate the firm to maximize financial performance as well as shareholders' profits. In this sense, it is believed that the firm's performance can directly impact perceptions of their individual performance. Indeed, Fama (1980) contend that executives and directors are also managing their careers in order to be seen as effective stewards of their organization, whilst, Shleifer and Vishny (1997) insists that managers return finance to investors to establish a good reputation so that they can re-enter the market for future finance. Stewardship model can have linking or resemblance in countries like Japan, where the Japanese worker assumes the role of stewards and takes ownership of their jobs and work at them diligently.

Moreover, stewardship theory suggests unifying the role of the CEO and the chairman so as to reduce agency costs and to have greater role as stewards in the organization. It was evident that there would be better safeguarding of the interest of the shareholders. It was empirically found that the returns have improved by having both these theories combined rather than separated (Donaldson & Davis, 1991). This is the basis of this study's research objective; to establish the effect of the position of Executive Chairman of the Board on the financial

performance of Commercial State Corporations and to establish the effect the Board remuneration on the financial performance of Commercial State Corporations.

Stakeholder Theory

Stakeholder theory was embedded in the management discipline in 1970 and gradually developed by Freeman (1984) incorporating corporate accountability to a broad range of stakeholders. Wheeler et al., (2002) argued that stakeholder theory derived from a combination of the sociological and organizational disciplines. Indeed, stakeholder theory is less of a formal unified theory and more of a broad research tradition, incorporating philosophy, ethics, political theory, economics, law and organizational science.

Stakeholder theory can be defined as "any group or individual who can affect or is affected by the achievement of the organization's objectives". Unlike agency theory in which the managers are working and serving for the stakeholders, stakeholder theorists suggest that managers in organizations have a network of relationships to serve – this include the suppliers, employees and business partners. This group of network is important other than owner-manager-employee relationship as in agency theory (Freeman, 1999). On the other end, Sundaram and Inkpen (2004) contend that stakeholder theory attempts to address the group of stakeholder deserving and requiring management's attention. Whilst, Donaldson and Preston (1995) claimed that all groups participate in a business to obtain benefits. Nevertheless, Clarkson (1995) suggested that the firm is a system, where there are stakeholders and the purpose of the organization is to create wealth for its stakeholders.

Freeman (1984) contends that the network of relationships with many groups can affect decision making processes as stakeholder theory is concerned with the nature of these relationships in terms of both processes and outcomes for the firm and its stakeholders. Donaldson and Preston (1995) argued that this theory focuses on managerial decision making and interests of all stakeholders have intrinsic value, and no sets of interests are assumed to dominate the others. This theory is therefore the basis of this study's objective; to establish the effect of the Board size on the financial performance of Commercial State Corporations.

Measuring Firm Performance

Firm performance was studied and measured by different researchers (Shah et al., 2011; Matolcsy& Wright, 2011; Yasser et al., 2011) using different measures. Matolcsy& Wright (2011) measured firm performance by ROA (Return on Assets = EBIT / Average total Assets – in book value -), ROE (Return on Equity = net profit / equity -in book value-), Change in market value of equity, Change in market value of equity, adjusted for dividends and risk). Yasser et al., (2011) used return on equity (ROE) and profit margin (PM) for the measurement of firm performance. Market based measures of companies' performance were done by Shah et al., (2011) by Market value of equity divided by book value of equity and Tobin's Q (market value of equity + book value of debt/total of assets - in book value -), whereas financial reporting perspective was measured by ROE and Return on investment (net result + interest) / (equity +total debt).

Bhagat and Black (1999) measured dependent variable firm performance by Tobin's Q, Return on assets (Operating income/Assets), Turnover ratio (Sales/Assets), Operating margin (Operating income/Sales), Sales per employee and also by Growth of Assets, Sales, Operating income, Employees and Cash flows. The study focused on those measures that were strategically important for the success of the company. In that direction, the study would measure the financial performance of the companies by looking at profitability (Return On Assets, Return on Equity and Dividend Yield).

Conceptual Framework

Conceptual framework is a scheme of concept (variables) which the researcher operationalizes in order to achieve the set objectives, (Mugenda&Mugenda, 2003).

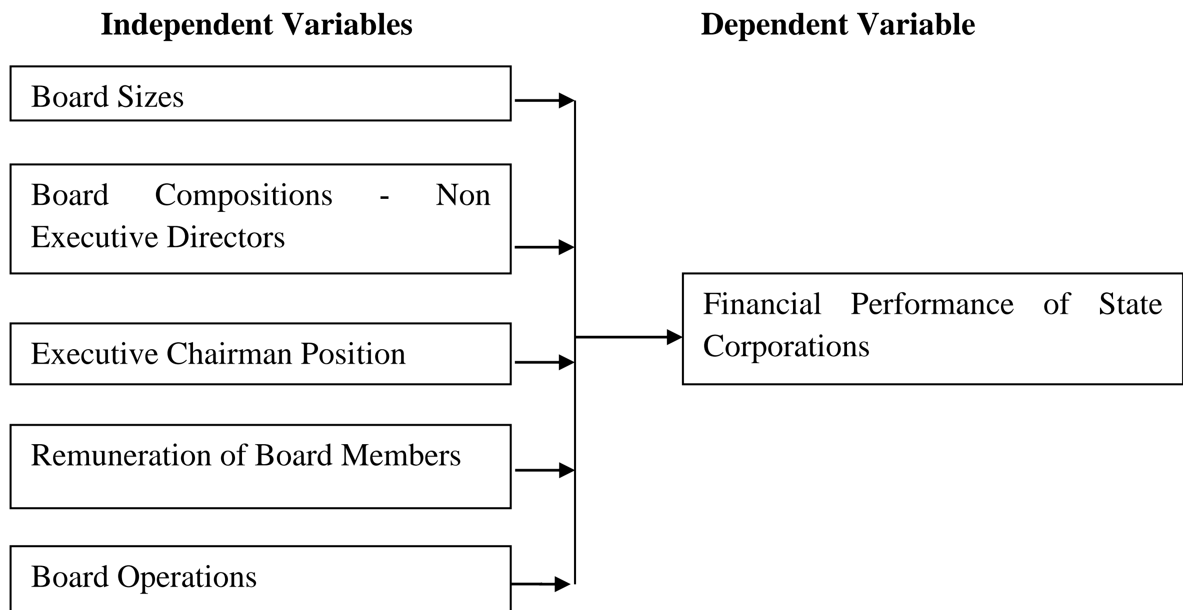

Figure 1 : Conceptual Framework

Research Methodology

This study employed a descriptive research design to achieve the study's objectives. A descriptive research is used to obtain information concerning the current status of the phenomena. A descriptive research assisted the researcher to find out the answer of who, what, where and how (Saunders, Lewis &Thornhill, 2007). The choice of the descriptive study design is based on the fact that the research was interested on the state of affairs already existing in the field and no variable was be manipulated. This study was therefore able to generalize the findings to a larger population. The population of interest in this study was all the CEO's or their representatives in the Commercial State Corporations in Kenya. There are 34 Commercial state corporations as obtained from the Presidential Task force on Parastatal reforms (2013). Appendix IV. The population was made up of CEOs and Finance Manager of all the listed 34 Commercial State Corporations in the Presidential Task force on Parastatal reforms (2013). This will brought the population number to 68 respondents. The study selected the CEOs and Finance Manager of all the listed 34 Commercial State Corporations for the study. This brought the sample size to 68 respondents. The researcher picked on this method because of these selected respondents' responsibility in the organization's; this brought the sample size to 68 respondents.

The researcher used questionnaires as well as secondary data in the form of documents. Documentary sources were used since they are easily available to the researcher and could help in pointing out other issues that were not clear in the primary data. The research was done in such a way that the researcher prepared a questionnaire to collect data from the respondents. The researcher also sought permission from the management of the sampled organizations and afterwards got a letter from the University's postgraduate department as a confirmation of the purpose of the research. The researcher then distributed the questionnaires and a brief introduction for the purpose of the research to the respondents and collected the questionnaires once the respondents finished filling them in.

The study employed descriptive statistics to analyze the obtained data. Statistical Package for Social Sciences (SPSS) was used to analyze the data. This package is known for its efficiency and ability to handle large amounts of data. Given its wide spectrum for statistical procedures purposefully designed for social science, it developed appropriate holding frame to come up with reliable results according to the responses in the questionnaires.

Results and Findings

Descriptive and inferential statistics have been used to discuss the findings of the study. The study had a sample size of 68 respondents in collecting data, all the target respondents filled in and returned the questionnaires resulting in a 100% response rate. This is an excellent rate for data analysis according to Mugenda and Mugenda (2008) who indicated that a response rate of 100% percent is excellent for data analysis. This was possible because the researcher works in a state corporation and was able to use his contacts to get access to all the respondents.

On general information about the organisations, the study found out that all the Commercial State Corporations in Kenya were within the required limit of 7 to 8 board members, had independent non-executive directors on the board with the largest having 4 independent non-executive directors on the board and the least having 2 members, had significant profits/ surplus or loss/deficit for the last financial year (2014) and were thus operating in profit or loss and all the Commercial State Corporations in Kenya have an executive chairman. The findings agree with Nam and Lum (2005) who argued that the most effective size for a board for corporate governance purposes should be small enough to facilitate the improvement in corporate governance over time.

Board Size of the Organisation

On the size of the board the study found out that that the size of the board affects the performance of all Commercial State Corporations in Kenya. The findings indicated that the majority of the respondents (76.5%) strongly agreed that the size of the board affects the financial performance of the organisation and 23.5% agreed that the size of the board affects the financial performance of the organisation. The number of independent non-executive directors significantly affected the financial performance of Commercial State Corporations in Kenya and that the appointment of independent non-executive directors significantly affects the performance of Commercial State Corporations in Kenya.

The findings indicate that most of the respondents (58.8%) strongly agreed that the number of independent non-executive directors affects the financial performance of the organisation, 25% of the respondents agreed while 16.2% were neutral that the number of independent non-executive directors affects the financial performance of the organisation. The findings also indicatedd that most of the respondents (47.1%) strongly agreed that the appointment of independent non-executive directors affects the financial performance of the parastatal, 35.3% of them agreed, 8.8% were neutral while a further 8.8% of the respondents disagreed that the appointment of independent non-executive directors does not affect the financial performance of the Commercial State Corporations in Kenya

The Position the Board Chairperson and an Executive Chairman

On the position of the board chairperson and the position of the chief executive officer, the study found out that the appointment of an executive chairman, a CEO who is not an executive chairman and the separation of the roles of executive chairman and CEO significantly affects the financial performance of Commercial State Corporations in Kenya. The findings also indicated that most of the respondents (58.8%) strongly agreed that the

appointment of executive chairman affects the financial performance of the organisation, 25% also agreed, 20.3% were neutral while 5.9% of the respondents disagreed. Also most of the respondents (42.6%) strongly agreed that the appointment of a CEO who is not an executive chairman affects the financial performance of the Commercial State Corporations in Kenya, 38.2% also agreed while 19.1% of the respondents were neutral. On the separation of the roles of executive chairman and CEO the findings indicated that most of the respondents (52.9%) strongly agreed that the separation of the roles of executive chairman and CEO affects the financial performance of the Commercial State Corporations in Kenya, 35.3% also agreed while 11.8% were neutral. These findings agree with Pease and McMillan (1993) found that separation of the roles of board chairman and chief executive officer enhances the independence of the board whilst maintaining a series of checks and balances.

Board Composition

On board composition, the study found out that the separation of the board mix of executive, non-executive and independent non-executive directors, the separation of the establishment and appointed of board committees and gender board mix significantly affects the financial performance of Commercial State Corporations in Kenya. These findings agree with Nam and Lum (2005) point that low numbers of independent directors have negative implications for corporate governance and therefore performance. The findings indicated that most of the respondents (57.4%) strongly agreed that the board mix of executive, non-executive and independent non-executive directors affects the financial performance of the Commercial State Corporations in Kenya, 36.8% also agreed while 5.9% disagreed. In addition, the findings indicated that most of the respondents (58.8%) strongly agreed that the establishment and appointed of board committees affects the financial performance of the organization, 33.8% also agreed, 1.5% were neutral while 5.9% disagreed.

Remuneration of Board Members

On remuneration of board members, the study found out that the remuneration of the board and its committees significantly affects the performance of Commercial State Corporations in Kenya. Similarly, the study found out that the appointment of a remuneration board committee significantly affects the financial performance of Commercial State Corporations in Kenya. The findings indicated that most of the respondents (39.7%) agreed that gender board mix affects the financial performance of the organization, a further 29.4% strongly agreed, 29.4% were neutral while 1.5% disagreed. Also the majority of the respondents (60.3%) strongly agreed that the remuneration of the board and its committees affects the financial performance of the Commercial State Corporations in Kenya, a further 29.4% agreed, 4.4% were neutral while 5.9% of the respondents disagreed. Finally, the findings indicated that most of the respondents (51.5%) strongly agreed that the appointment of a remuneration board committee affects the financial performance of the organization, 35.3% also agreed, 8.8% were neutral while 4.4 indicated that the appointment of a remuneration board committee does not affect the financial performance of the organization. Other researchers also found out that Executive remuneration incentives are an important governance mechanism that complements the monitoring of managers that is provided by the board of directors (Jensen and Meckling, 1976; Core et al., 2003; Ward et al., 2009). In addition, an effective remuneration committee plays an important role in advising the board regarding appropriate and effective executive remuneration contracting (Gillan, 2006).

Board Operations

The final factor in the research instrument was on board operations where the study found out that the establishment of a board charter and the annual evaluation of the board significantly affects the financial performance of Commercial State Corporations in Kenya. The findings

indicated that the majority of the respondents (73.5%) strongly agreed that the establishment of a board charter affects the financial performance of the Commercial State Corporations in Kenya, 19.1% also agreed, 5.9% were neutral while 5.9% indicated that the establishment of a Board Charter does not affect the financial performance of the Commercial State Corporations in Kenya.In addition the findings indicated that most of the respondents (48.5%) agreed that the annual evaluation of the board affected the financial performance of the Commercial State Corporations in Kenya while a further 42.6% strongly agreed while 8.8% were neutral.

Conclusions

The study concludes that all the Commercial State Corporations in Kenya were within the required limit of 7 to 8 board members, had independent non-executive directors on the board with the largest having 4 independent non-executive directors on the board and the least having 2 members, had significant profits/ surplus or loss/deficit for the last financial year (2014) and were thus operating in profit or loss and all the Commercial State Corporations in Kenya have an Executive Chairman.

On the size of the board the study concludes that that the size of the board affects the performance of all Commercial State Corporations in Kenya, the number of independent non-executive directors significantly affects the financial performance of Commercial State Corporations in Kenya and that the appointment of independent non-executive directors significantly affects the financial performance of Commercial State Corporations in Kenya.

On the position of the Board Chairperson and the position of the Chief Executive Officer, the study concludes that the appointment of an Executive Chairman, a CEO who is not an Executive Chairman and the separation of the roles of Executive Chairman and CEO significantly affects the financial performance of Commercial State Corporations in Kenya

On board composition, the study concludes that the separation of the board mix of executive, non-executive and independent non-executive directors, the separation of the establishment and appointed of board committees and gender board mix significantly affects the financial performance of Commercial State Corporations in Kenya.

On remuneration of board members, the study concludes that the remuneration of the board and its committees significantly affects the performance of Commercial State Corporations in Kenya. Similarly the study concludes that the appointment of a remuneration board committee significantly affects the financial performance of Commercial State Corporations in Kenya.

The final factor in the research instrument was on board operations where the study concludes that the establishment of a board charter and the annual evaluation of the board significantly affects the financial performance of Commercial State Corporations in Kenya.

In conclusion, the study concludes that board size, board composition, position of the Executive Chairman, board remuneration and board operations affects the financial performance of Commercial State Corporations in Kenya

Recommendations

It is recommended from the study that besides these significant findings explaining the effect of corporate governance practices on the financial performance of Commercial State Corporations in Kenya, this research is informative because the findings are consistent with findings of prior research regarding the effect of corporate governance on the financial performance in public institutions.

Although this research is Kenyan-specific, the findings help clarify preceding empirical evidence research regarding the effect of corporate governance on financial performance. There is no publicly available information provided by the government on the level of corporate governance among corporations and it is therefore relevant for more studies to be done on the same. Therefore, the government through its relevant corporation's regulatory departments needs to review the disclosure requirements on corporate governance and how financial performance can be improved.

The study found out that the size of the board, the position of the board Chairperson and the position of the Chief Executive Officer, board composition, remuneration of board members and board operations affect the financial performance of Commercial State Corporations in Kenya. Therefore, the study recommends that further efforts to improve corporate governance systems and structures in State Corporations in Kenya should be done with reference to OECD Guidelines on Corporate Governance of State-owned Enterprises to further improve financial performance.

In addition, the study recommends that future studies be done on the effect of corporate governance in all the state corporations in Kenya and how it affects financial performance the current study cannot be generalised to all the state corporations in Kenya.

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