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Influence of Board Role on the Performance of State Owned Enterprises in Kenya

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Abstract:
The study sought to establish the influence of board role on the performance of state owned enterprises in Kenya. Specifically the study: analyzed the effect of board leadership, assessed the effect of board monitoring, determined the effect of board stewardship, and evaluated the effect of board reporting on performance of state owned corporation in Kenya. The research used descriptive research design. The study population consisted of 130 state owned corporations by Taskforce on Corporation Reforms. A sample of 97 state owned corporations was selected using stratified random sampling. A questionnaire composed of open and closed ended questions was used to collect primary data. Quantitative data was analyzed using Statistical Package for Social Sciences (Version 24). In addition, a multivariate regression model was generated to assist in determination of the relative importance of each of the four variables to performance. The regression showed that board reporting had the highest influence on performance with a coefficient of 0.514, followed by board leadership with a coefficient of 0.507, followed by board monitoring with a coefficient of 0.4332, and board stewardship with a coefficient 0.269. The study recommends that board of directors in state owned corporations to use the four variables of board role in improving performance of the organizations.

Keywords*: Board leadership, board monitoring, board stewardship, board reporting, performance*

1. Introduction

The role of board on performance has emerged as a major area of focus in the last two decades in multidisciplinary areas of research – business, management, economics and law- mainly propelled by corporate failures and scandals that have attracted global attention. It is such lessons that have generated issues of corporate governance in a widest sense resulting to an increasing emphasis on corporate governance codes and recommendations aimed at facilitating transparency and accountability of the management processes within organizations. Good corporate governance practices' role in enhancing the performance of government linked and funded institutions governance structures has been highlighted in the recent past and focus on ensuring that strategies are of interest to all stakeholders and relevant sectors (Waduge, 2011).

The board of directors, an internal mechanism of governance is widely considered as the most important mechanism in corporate governance (Hermalin & Weisbach, 2003; Namoga, 2011; Shleifer & Vishny,1997) and its responsibilities including: monitoring and controlling the top management team (Hitt, Ireland & Hoskinsson, 2009), service role and strategic role (Zahra & Pearce, 1989) that are premised on the theories (Maassen, 1999) of agency, resource dependency, stakeholder, stewardship, institutional, managerial hegemony is critical in determining the performance of the boards and organizations (Ochieng, 2016; Balta, 2008; Ongore, 2008).

State Owned Enterprises (SOEs), or parastatals, are businesses that are owned and managed by the government for the purposes of meeting both commercial and social goals (Centre for Governance and Development, 2005). The SOEs contribute significantly to the Kenyan economy in terms of not only offering products and service to the citizens of Kenya but also by offering employment (Koigi, 2011). Although, the exact performance may not be well backed through matched investments, the SOEs sector share of GDP was 11% between 1986 and 1990 (Centre for Governance and Development, 2005) and they have accounted for about 20% of the wage employment in the public sector (Kenya National Bureau of Statistics, 2006).

1.1. Statement of the Problem

Board role have been considered to have a significant influence on performance of organizations (Koech, 2018). This is despite the fact that prior studies on corporate governance and particularly on board of directors attributes and the relationship with organizational performance have not been consistent whether empirically, methodologically, or even theoretically (Daily, Dalton & Cannella, 2003; Van Ness, Miesing & Kang, 2009). Most studies focused on effect of board role in private organization and little studies have focused on effect of board role on state corporations. Also majority of the studies on effect of board role on performance of state corporations focused on developed countries with little studies in developing countries. The study sought to analyze the effect of board role on performance of state corporations in Kenya.

1.2. Research Questions

- To find out the influence of board leadership on performance of State Owned Enterprises (SOEs) in Kenya
- To establish the influence of board monitoring on performance of State Owned Enterprises in Kenya
- To determine the influence of board stewardship on performance of state owned enterprises in Kenya
- To find out the influence of board reporting on the performance of state owned enterprises in Kenya

2. Literature Review

2.1. Theoretical Literature

Stakeholder theory argues that management has duties and responsibilities to constituencies other than shareholders, which include duties to employees, suppliers, customers, local community and general public (Donaldson, 1990; Donaldson & Davis, 1991; Hills & Jones, 1992). As such management has organization objectives to pursue beyond the owners main interest of generation of maximum returns and increasing the value of the firm. The main difficulties with this perspective is the challenge in balancing stakeholders objectives and making the necessary trade-offs in practice and thus granting management excuses to justify self-interests. Indeed, according to Jensen (2001), these could have been the causes of the early demise of corporate governance philosophy of state owned enterprises and the failure of the socialist and communist experiment in the last century. In terms of board of directors, the stakeholder theory views boards as the means through which organizations are able to take into account the legitimate interests of various individuals and groups of stakeholders who can affect (or be affected by) the undertakings of the organization (Donaldson & Preston,1995; Freeman,1994).

2.2. Empirical Literature

There is a prevailing assumption that effective board role is a requirement for good organizational performance as it positively influences organization performance (Koech 2018; Ongore, 2008). Boards are generally viewed to perform three critical roles that include monitoring and control role, service role and strategic role (Aggarwal, 2013) and these roles are anchored on the board theories (Maassen,1999) and do actually overlap. The monitoring role is largely anchored on agency theory (Fama & Jensen, 1983) and has been popularized by emergency of corporate scandals (Kiel & Nicholson, 2003; Namoga, 2011).

Board monitoring role has also increased as a result of coercive pressures arising from legislation of board duties (Kiel & Nicholson, 2003) and especially so with capital markets that require boards to enhance oversight roles over management (Vagliasindi, 2008). Critics of this role, argue that boards are weak in monitoring and do exercise passivity in times of satisfactory performance and as such their monitoring may only be necessary when there are critical issues (Namoga, 2011). The service role of the board is premised on the resource dependency and stakeholder theories (Pfeffer & Salancik, 1978). In terms of resources, organizations appoint external directors to enhance access to resources such as: appointing executives of financial institutions to enhance access to credit, lawyers to provide legal advice, government officers to enhance lobbying (Daily *et al.,* 2003, Maassen, 1999). Board members also serve in managing relationships with key stakeholders perhaps explaining why some government owned institutions emphasize representation of stakeholders to accommodate wide interests (Namoga, 2011).

Strategic role of the board assumes that the boards are critical in providing guidance to management in formulation and implementation of strategies (Mulili, 2012) by applying their professional expertise throughout the strategy decision making process (Koech, 2018). In this case boards are expected to review, evaluate and analyze propose changes to strategies (Zahra & Pearce, 1989) applying their broad range of experience (Kiel & Nicholson, 2003). The strategic activities of boards are best captured by Zahra and Pearce (1989) as: provision of advice to the CEO and management; refinement of strategic plans; initiation of own analysis or suggestions for alternatives; probing of managerial assumptions about the organization and environment; and ensuring alignment on strategic direction.

3. Methodology

Descriptive research design was used. There are 7 state owned corporations that are universities, 11 state owned corporations in training and research corporations, 22 state owned corporations in service industry, 6 state owned corporations in tertiary education and training corporations, 29 state owned corporations in regulatory, 33 state corporations in commercial and 22 state corporations in financial (Taskforce on Corporations Reforms 2013). The study focused on 130 state owned enterprise in Kenya. The sample size was determined using Krejcie and Morgan (1970) sampling frame which

recommends the appropriate sample for any given population. Given the population above and in accordance with Krejcie and Morgan (1970), formula the sample size of the study was 97. The study applied stratified sampling technique to determine the number of re. The study applied stratified sampling to establish the number of respondents in each class.
Krejcie and Morgan (1970) formulae used was as follows:

$$S = \frac{X^2NP(1-P)}{d^2(N-1)+X^2P(1-P)}$$

Where S = required sample size
X^2 = the table value of chi-square for 1 degree of freedom at the desired confidence level (3.841).
N = the population Size
E= precision level at 0.05
N= sample proportion of success
P= the population proportion (assumed to be .50 since this would provide the maximum sample size).
d= the degree of accuracy expressed as a proportion (.05).

Category	Sampling Frame	Sample
Public Universities	7	5
Training and Research Corporations	11	8
Service Corporations	22	17
Tertiary Education and Training Corporations	6	4
Regulatory	29	21
Commercial /Manufacturing	33	25
Financial	22	17
Total	130	97

Table 1: Sample size

3.1. Data Collection Instruments and Procedure

The questionnaire consisted of both open and closed ended questions to allow respondents to express their opinions. The researcher prepared a questionnaire with brief instructions which allowed the respondents to tick their opinion and express their views with regards to the questions. The research instrument had a Likert scale in the constructs. The method used to collect data by the research was drop and pick later method and consistent calling to the respondents.

4. Findings and Discussions

The target was 97 State corporations in Kenya; however, the completed and usable questionnaires were 61 making a response rate of 62.8 percent which was considered good for data analysis based on Sapsford & Japp, (2006) a response rate of 60% and above is good and reliable for data analysis.

4.1. Board Leadership

The findings reveal that the board of directors was involved in strategic decision (mean = 3.211 out of 5). Also the board usually ratifies strategic proposals which are formed solely by the top management (mean = 3.35 out of 5). The study revealed that he board usually asks probing questions which lead to revisions of strategic proposals formed by the top management (mean = 4.05 out of 5). Further, the board usually helped the top management to form strategic decisions within and between board meetings (mean= 3.75 of 5). Most state owned corporations were considered to be truly living on their mission (mean = 4.3 of 5) and to be guarding their assets resources and investments well (mean =3.8 out of 5). The mandate of the boards was captured as being clear (mean = 3.8 out of 5).

4.2. Board Monitoring

The boards were not generally involved in the monitoring of the progress of strategic decisions (mean = 3.98 out of 5). The board of directors in the state owned enterprises accepted the evaluation of the strategic decisions they formulated without probing questions (mean =4.2246 out of 5). The boards also accepted the evaluation of strategic decisions by the top management after asking probing questions (mean = 3.4022 out of 5). Additionally, the boards determined the timing and criteria of the evaluation but that information was supplied by the top management and it was rarely challenged by the board (mean=4.13 out of 5). The study established that boards of state owned corporations collected additional information on the progress of the strategic decisions apart from the top management reports (mean =3.92 out of 5).

4.3. Board Stewardship

The study further revealed that the board usually forms the strategic decisions separately from the top management (mean = 3.9312 out of); and the appointment of the CEO led to the best mix of board of directors (mean 3.89 out of 5). The corporation asset resource and investments are well stewarded and safeguarded (mean = 4.05 out of 5). The boards usually collected its own information about the progress of the strategic decision in addition to the top management reports (mean =3.74 out of 5).

4.4. Board Reporting

The findings indicated that board committees of the organizations were utilized in enhancing; board oversight (mean = 3.85 out of 5); spearheaded a culture of learning and innovation in the corporation (mean = 3.76 out of 5) received information timely (mean = 3.9 out of 5); and also undertook annual performance evaluations (mean=4.00 out of 5). These findings are consistent with the findings of Muli (2015) and Letting (2011)

4.5. Inferential Statistics

4.5.1. Regression Results for Board Role on Performance

The fourth objective was to establish the relationship between board role and performance which was measured by customer satisfaction index. The study used regression to test the relationship between board role and performance. The R= 0.751 and R^2 value of 0.564 or 56.4% shows that 56.4% of the variation in performance is explained by variation in leadership, monitoring, stewardship, reporting. 43.6% of variation in performance is explained by other factors not in the model or by chance.

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.751[a]	.564	.532	.534

Table 2: Model Summary for Board Role

F-test was carried out to test the null hypothesis that there is significant impact of board role on performance. The findings showed that the model used was statistically significant as shown by F-statistic =4.456 (p=0.000). The results of ANOVA test show that the F value is 4.456 with a significance of p value = 0.000 which is less than 0.05, meaning that null hypothesis was rejected and concluded that there is a significant relationship between board role and performance

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	178.127	4	44.531	4.456	.000
	Residual	556.282	56	9.933		
	Total	734.309	60			

Table 3: Analysis of Variance

The results indicated that holding all factors (board leadership, board monitoring, board stewardship and board reporting) at constant zero performance of the state owned enterprises will be 1.183. The data findings also show that the β value of board leadership was 0.507 and is significant at p value (0.018) since it is less the level of significance of (0.05). This therefore implies that one unit increase in board leadership will result 0.507 units increase in performance. The β value of board monitoring was 0.432 and is significant at p value (0.013) since it is less than the level of significance of (0.05). This therefore implies that one unit increase on board monitoring results to 0.432 unit increase on performance. The β value of board stewardship was 0.269 and is significant at p value (0.016) since it is less than the level of significance of (0.05). This therefore implies that one unit increase on stewardship will result to 0.269 unit increase on performance The β value of reporting was 0.514 and significant at p value (0.012) since it is less than the level of significance of (0.05). This therefore implies that one unit increase on reporting results to 0.514 unit increase on performance. These findings corroborate earlier studies on importance of board role by Miringu, (2012) and Koech (2018) specifically the involvement of boards in strategic decision making (Letting, 2011; Muli, 2015).

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	1.183	.476		2.485	.018
	Board leadership	.507	.187	.637	2.711	.005
	Board monitoring	.432	.164	.558	2.634	.013
	Board Stewardship	.269	.127	.460	2.118	.016
	Board reporting	.514	.089	.669	5.743	.000

Table 4: Coefficients for Board Role on Performance of State Owned Corporations
a. Dependent Variable: Performance

5. Conclusions

This study establishes that board reporting had the largest effect on performance. This study shows that one unit change in board reporting results in 0.514 units increase on performance. Board leadership was subsequent with a coefficient of 0.507, followed by board monitoring with a coefficient of 0.432 and board monitoring with 0.269. This study concludes that board leadership, board monitoring, board stewardship and board reporting all have a positive effect on performance of state owned corporations.

6. Recommendations

The study recommends the state-owned corporations to use all the four variable consistent to improve on performance. The study recommends performance when the board are involved in making strategic decisions. The study recommends board monitoring when the top management are making top most decisions. The board recommends board stewardship when safeguarding the corporation asset. Lastly, the study recommends board reporting by ensuring communication is timely.

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