Science Journal of Business and Management
2017; 5(4): 136-148
http://www.sciencepublishinggroup.com/j/sjbm
doi: 10.11648/j.sjbm.20170504.12
ISSN: 2331-0626 (Print); ISSN: 2331-0634 (Online)

Influence of Corporate Governance on Organizational Performance of State Corporations in Kenya

Jenifer W. Muriuki[*], Thomas Cheruiyot, Joyce Komen

School of Business, Moi University, Eldoret, Kenya

Email address:
kiraundi@yahoo.com (J. W. Muriuki)
[*]Corresponding author

To cite this article:
Jenifer W. Muriuki, Thomas Cheruiyot, Joyce Komen. Influence of Corporate Governance on Organizational Performance of State Corporations in Kenya. *Science Journal of Business and Management*. Vol. 5, No. 4, 2017, pp. 136-148. doi: 10.11648/j.sjbm.20170504.12

Received: May 12, 2017; **Accepted**: May 20, 2017; **Published**: June 19, 2017

Abstract: Decision making failures in Kenyan Parastatal Boardrooms has more to do with independence of mind and competences as well as behaviors of directors sitting around the boardroom tables. This includes how they work together, their degree of transparency and accountability as decision-making groups and the team production culture in task performance. This study seeks to explore the influence of corporate governance on organizational performance of state corporations in Kenya. A survey design was used to arrive at the expected outcomes in this study. Out of a population of 187 State Corporation, a sample size of 125 was considered with 375 respondents. Data was collected using questionnaires. Descriptive and inferential statistics were computed using statistical package of social sciences. Linear regression model was used to determine the relationship between corporate governance and organizational performance. The study revealed that the Board Strategic Involvement, board CEO-Chair Collaboration and Board Members knowledge & skills respectively are statistically significant (P-value=0.000). This implies that the three variables together influence organization performance of state corporations and account for 68% variation on performance. Board Leadership and Board Team production Culture (together) were not statistically significant at 5% level.

Keywords: State Corporation, Organization Performance, Board, Customer Satisfaction, Corporate Governance

1. Introduction

Kenya has experienced turbulent times with regard to its corporate governance in the last two decades resulting to generally low corporate profits. As a result of this state corporations in the country have attracted a great deal of attention regarding their performance and the way they are being Governed (Ramon 2001). Scandals on corruption and lack of transparency have put the role and the functioning of Boards of Directors in the spotlight. There is need therefore for good corporate governance that recognizes the need for checks and balances in the process of managing these organizations. In most state corporations in Kenya, their lacks accountability, authority stewardship leadership direction and control. Empowering boards of directors of Kenyan corporations to exercise effective monitoring of management continues to be a formidable challenge for the Kenya Government. Little attention however has been drawn to board procedures especially in board selection and evaluation procedures. Given the myriad problems facing board appointments today, questions regarding why they exist, what they are appointed to do and if they can be improved, have not been addressed. This study therefore, adds new knowledge on what boards need to do in terms of action in order to discharge their responsibilities more effectively, moreover, the Kenya Government seems to have failed in the way boards are designed and appointed in Kenyan state corporations. The parastatals board selection criterion is shrouded with political royalty hence there is need for a paradigm shift in this area. The purpose of this study was to assess the influence of corporate governance on organizational performance of the State Corporations in Kenya. The study was guided by the following specific objectives

i. To examine the effect of board chairperson leadership on organizational performance of state corporations in Kenya.
ii. To evaluate the impact of board of directors strategic involvement on organizational performance of state corporations in Kenya.
iii. To assess the contribution of CEO-Board chair collaboration to the performance of state corporations in Kenya.
iv. To evaluate the effect of Board team production culture on the performance of state corporations in Kenya.
v. To exemplify the contribution of board skills and knowledge to the performance of state corporations in Kenya.

2. Literature Review

2.1. Definition of Corporate Governance

Corporate governance is seen as the process and structure used to direct and manage the business affairs of the company towards enhancing business prosperity and corporate accountability with the ultimate objective of realizing long-term shareholder value, whilst taking into account the interest of other stakeholders. Classes et al. (2002) maintain that better corporate frameworks benefit firms through greater access to financing, lower cost of capital, better performance and more favorable treatment of all stakeholders. The definition of corporate governance may vary in different contexts or different countries (Solomon and Solomon, 2004). In very simple terms, corporate governance refers to how a corporation is governed (National Association of Corporate Directors, 2006). Laws, regulations or formal policy play a significant role in determining this, of course. In this context, corporate governance mechanisms are economic and legal institutions that can be altered through the political process – sometimes for the better (Shleifer and Vishny, 1997). Company law, along with other forms of regulation (including stock exchange listing rules and accounting standards), both shape and are shaped by prevailing systems of corporate governance. The impact of regulation on corporate governance occurs through its effect on the way in which companies are owned, the form in which they are controlled and the process by which changes in ownership and control take place (Jenkinson and Mayer, 1992). Emphasis on corporate governance can be traced down to the early 1990s in the UK. A number of corporate scandals, particularly the companies linked to the late Robert Maxwell, which necessitated the setting up of the Cadbury Committee in 1992, occasioned this. This Committee substantially reviewed corporate governance issues in the banking sector and recommended, among other issues: the separation of posts of the Chairman and the Chief Executive Officer, appointment of a significant number of independent non-executive directors on boards and establishment of Audit Committees, Procurement and Staff committees contends Dimsdale, (1994).

As is the trend in other countries, corporate governance has gained prominence in the Kenyan context. Notwithstanding the corporate governance concerns globally, the Kenyan environment is mainly shaped by corporate experiences, particularly corporate failures or poor performances of public and private corporations. For instance, affirming this fact, the former Governor of the Central Bank of Kenya (CBK), presenting a paper on Kenyan corporate governance experience in the banking sector commented bad corporate governance has led to the failure of 33 banks in Kenya in 1985 (Banki Kuu News, 2000). Organizations do not operate in a vacuum. Every organization, large and small, private or public has contractual and non-contractual relationships with individuals and entities Biggart and Hamilton (2002). These might include the community in which the company operates its customers, employees, shareowners and suppliers (powell 1981). In order for the inclusive approach to be implemented these stakeholder groups need to be defined and recognized by the company, and then the values by which the company will carry out its daily transactions with these stakeholders must be identified and communicated (Newell, 2005). This is not a one-way street, by contrast, the only way the company can achieve its goals is to ensure that it has mutually beneficial relationships with its stakeholders. Communication on performance, targets and commitments is the key to building trust in Organisations (Burt 1983). According to Collier (2004), the challenge for both Africa and the international community is to change the political and economic governance of such resources so that the future is not a repetition of the past, as it is these factors which above all are vital in producing the massive divergence in outcome as to whether revenues from country resources are to be an enormous opportunity for a low-income African country or the opposite (Di Maggio 1985). An important player in developing the appropriate corporate governance framework in Kenya is the Centre for Corporate Governance (CCG) Kenya, an affiliate of the Commonwealth Association for Corporate Governance (CACG. In 2005, in line with the emphasis on the need to improve the quality of reporting and governance by Kenyan companies, the CCG issued a draft Corporate Governance Guidelines on Reporting and Disclosures in Kenya. The emphasis of the draft guidelines is on non-financial disclosures, such as ownership, board (composition, qualifications, committees, meetings) auditor independence and corporate social responsibility (CCG, 2004).

2.2. Theoretical Framework for Corporate Governance

The main theories reviewed in this section are the Agency theory, stakeholders' theory, stewardship theory, signaling theory and the resource dependence theory. Managers of large, modern publicly held corporations are typically not the owners. In fact, most of today's top managers own only nominal amounts of stocks in the corporations they manage. The real owners (shareholders) elect boards of directors who hire managers as their agents to run the firm's day-to-day activities. Once hired, such questions as "how trustworthy are these executives?" "Do they put themselves or the firm first?" can be asked (Wheelen and Hunger, 2004). There are several theories developed to deal with such questions.

2.2.1. Agency Theory

Chen, Chen and Wei, (2004) showed that the effect of good corporate governance on expected returns is more profound for firms with higher free cash but poor investment opportunities and for firms with lower insider ownership, consistent with agency costs of free flows as proposed by Jensen and Meckling (1976) Agency theory. The principal-agent model starts from an assumption that the social purpose of corporations is to maximize shareholders' wealth (Coelho *et al.*, 2003). The principal-agent model regards the central problem of corporate governance as self-interested managerial behavior in a universal principal-agent relationship. Agency problems arise when the agent does not share the principal's objectives. Furthermore, the separation of ownership and control increases the power of professional managers and leaves them free to pursue their own aims and serve their own interests at the expense of shareholders. Historically, definitions of corporate governance also took into consideration the relationship between the shareholder and the company, as per "Agency Theory", i.e. director-agents acting on behalf of shareholder-principles in overseeing self-serving behaviors of management. However, broader definitions of corporate governance are now attracting greater attention (Solomon and Solomon, 2004). Indeed, effective corporate governance is currently understood as involving a wide number of participants. The primary participants are Management, shareholders and the boards of directors, but other key players whose interests are affected by the corporation are employees, suppliers, customers, partners and the general community.

In such a principal-agent relationship, there is always "inherent potential for conflicts within a firm because the economic incentives faced by the agents are often different from those faced by the principals" (ISDA, 2002). According to ISDA (2002), all companies are exposed to agency problems, and to some extent develop action plans to deal with them. These include establishing such measures as: "controls on the actions of agents, monitoring the actions of agents, financial incentives to encourage agents to act in the interest of the principals, and separation of risk taking functions from control functions" (ISDA, 2002).

2.2.2. Stewardship Theory

The stewardship theory, on the other hand suggests that managerial opportunism is not relevant. The aim of management is to maximize the firm's performance since that speaks of the success and achievements of Management. Donaldson (2006) argue that managerial opportunism does not exist because the manager's main aspiration is "to do a good job, to be a good steward of corporate assets". This clearly replaces the lack of trust to which the agency theory refers with the respect for authority and inclination to ethical behavior. The resource dependence approach, developed by Pfeffer and Salancik (2008), emphasizes that non-executive directors enhance the ability of a firm to protect itself against the external environment, reduce uncertainty, or co-opt resources that increase the firm's ability to raise funds or increase its status and recognition. Firms attempt to reduce the uncertainty of outside influences to ensure the availability of resources necessary to their survival and development. The board is hence seen as one of a number of instruments that may facilitate access to resources critical to company success, and this applies to Kenyan State Corporations.

2.2.3. Stakeholder Theory

Similarly, the stakeholder approach also considers the provision of resources as a central role of board members. The main resource stakeholder proponents refer to is consensus. According to this view, the board should comprise representatives of all parties that are critical to a company's success. This will result in the firm's ability to build consensus among all critical stakeholders (Analytica 1992). The board of directors is hence seen as the place where conflicting interests are mediated, and where the necessary cohesion is created. The stakeholder theory argues about the importance of a firm paying special attention to the various stakeholder groups in addition to the traditional attention given to investors (Gibson, 2000). These various groups of stakeholders, which include customers, suppliers, employees, the local community and shareholders, are deemed to also have a stake in the business of a firm. The representation of all stakeholder groups on boards is therefore necessary for effective Corporate Governance Warning 1973, Clackson 1994) NSSF, NHIF State Corporations in Kenya are examples. Three premises underpin stakeholder theory, firstly, organizations have stakeholder groups that affect and are affected by them, secondly, these interactions impact on specific stakeholders and the organization, and thirdly, perspectives of salient stakeholders affect the viability of strategic options (Haberberg and Rieple, 2001). Applications of stakeholder theory can be functionalist or radical, but it is the scope of the radical perspective to provide a more balanced, realistic and ethical view of organizational relationships (Friedman and Miles, 2002) and to pave the way for an era of socially responsible governance that is the focus of this study.

2.3. The Board of Directors Influence on Corporate Performance

Boards of directors are a crucial part of the corporate structure. They are the link between the people who provide capital (the shareholders) and the people who use that capital to create value (the managers) Duffon and Jackson (1987). This means that boards are the overlap between the small, powerful group that runs the company and a huge, diffuse, and relatively powerless group that simply wishes to see the company run well (Business Roundtable, 2005). The single major challenge addressed by corporate governance is how to grant managers enormous discretionary power over the conduct of the business while holding them accountable for the use of that power (Turnbull 1995). A company's owners may number in the tens of thousands, diffused worldwide (Mace 1986).

The board is entitled to rely on the advice, reports and opinions of management, counsel, auditors and expert advisers (Judge Reinstart 1997). Given the board's oversight role, shareholders and other constituencies can reasonably expect that directors will exercise vigorous and diligent oversight of a corporation's affairs. The board's oversight function carries with it a number of specific responsibilities in addition to that of selecting and overseeing the CEO (Jesen and Meckling 1997). These responsibilities include: Planning for management development and succession. Understanding, reviewing and monitoring the implementation of the corporation's strategic plans, Understanding and approving annual operating plans and budgets, focusing on the integrity and clarity of the corporation's financial statements and financial reporting. Advising management on significant issues facing the corporation, Reviewing and approving significant corporate actions, Reviewing management's plans for business resiliency, Nominating directors and committee members and overseeing effective corporate governance as well as legal and ethical Compliance Miliken 1999). i.e. avoidance of static and abstract categorizations, and attention to multiple interactions. This framework involves: measures of cultural dispersion, the degree to which cultural characteristics are dispersed throughout an organization Sociologically, psychologically, historically and art factually; measures of cultural potency the power of the culture itself to influence behavior; studies of 'how specific culturally conditioned processes contribute to outcomes'; and the recognition of multiple, mutually casual interactions (Barney et al 1996). Hardly surprisingly, he notes that 'if it all sounds complex, it is unavoidably so', but believes that his framework 'reflects the richness of culture performance relationships' (Scott 1998).

2.4. The Key Variables Under Study

2.4.1. Board Chair Leadership

The Board chairperson in Kenyan state corporations is generally leader for the Board members at the Board meetings. The Board of directors therefore has few face-to-face meeting and after time constraints as in most cases members with permanent secretary serves in other Board as pointed out by Forbes and Milliken (1999). Consequently, the quality of that person, leadership in the Boardroom could be predicted to have a major impact on the effectiveness within which Board members perform their duties. The Board chairperson is responsible for decision making and are in implementation or leadership and capabilities or the chairperson affect the work of the Board of directors (Cadbury 2002, Leblac 2005). The Board chairperson should contribute to a cohesive culture should be among the Board members. (Forbes and Milliken 1999) stimulate creative processes in the Boardrooms. The Board chairperson should encourage a critical and questioning attitude in the Boardroom. (Minichill and scheming 2005). It also means that the Board will make decision independent of the C.E.O. Moreover, the Board chairperson should contribute to establish effort Norms-the standards and structures about preparations, participation and commitment (Forbes and Milliken 1999). He or She should encourage members to make independent preparations and investigations prior to the meeting (Huse, Minichili and scheming 2005) It is therefore doubtful that a strong, engaged Board will have a weak chairperson or that an ineffective Board will have a strong and competent leader as the Board chairperson (Leblanc 2005). This will contribute positively to achieving performance and Transparency in the Boardroom and the organization with the Kenya Revenue Authority (KRA).

2.4.2. Board Team Production Culture

The team production approach emphasizes that Board should represent stakeholders that add value assume unique task and posses strategic information relevant for firm operation (Englander 2005). The font input are expert firm knowledge in strategic decision making process is key to creating competitive advantage. The team production perspective consequently stands for shareholders supremacy model where Boards are permanently seen as representative of shareholders interests. However if the Board of director should work, as effective team, then the Board chair must take an active role as a leader in the Boardroom (Cascio 2004). The team productive culture can be characterized by cohesiveness, creativity, openness and generosity criticality and involvement and preparedness (Forbes and Muliken 1999, Huse Scbmony 2005, Stiles and Taylor 2002). As a team leader, the Board chairperson should be able to build consensus among Board members (Huse 2007). To create a team production culture the Board chairperson must the ability to motivate and use the conferences from each Board member and an open and trustworthy leadership style or the chair effects Board processes and customer because the Board is a social system containing a mix or personalized and relationship (Cascio 2004, Furral Furr 2005). In Board team production culture consideration i.e. given to the dimensions namely, cohesiveness creativity, openness and generosity, criticality preparedness and involvement.

2.4.3. Board Strategic Involvement

A Constructive team production culture can strengthen the roles and contributions of each team member and enhance Board ability to be involved in shaping the organization mission and strategies (Kaufman and Englander 2005). A better understanding of the role and contribution by each team member can moreover facilitate active involvement and commitment by all the members of the Board (Demb and Neubauer 1992). Thus, A constructive team production culture may support the effectiveness of the Board as a whole and bring out the potential that is in the Board as a team (Forbes and miliken 1999). Board effectiveness is about how actual Board task performance meets Board task expectations (Huse 2005). Effective Boards add value and contribute to the direction and performance of the Organization by their involvement in strategic decision making (forbes and Milliken 1999, judge and zeithamil 1992). Experienced Directors bring important and specialized know-how and Expertise into Strategic Decision Making, something which is required for engaging in serious deliberations with management as well as evaluating multiple decisions and options (Kaufman 2005). Involvement in initiating and formulating strategic decisions means shaping the context, content and conduct of strategies and not only ratifying and monitoring strategic decisions (Mcnutty and Pettigrew 1999). This enables the protection of stakeholders interests through problem identification and problem definitions in the early stages of the strategic decision-making process (Rindova 1999). Board involvement in strategic decision-making however requires actions engagement by the members of the board. The Board strategic involvement in the four stages in the strategy namely initiation, ratification, implementation and control.

2.4.4. CEO-Board Chair Collaboration

The CEO-Board chair friendship ties imply trust or expectation of personal loyalty (Krackhardt 1992) Similarly Segal 1979 noted that certain social obligations are normatively part of the friendship. This friendship relations is governed by communal norms whereby individuals are obliged to care for each other's welfare rather than exchanged-based with reciprocation of benefits norms (Clark and Mills 1982). Thus, friendship ties between CEO and outside directors should increase the boards' loyalty to the CEO. (John and Shaw 1997). Although the independent Board Model suggests that such loyalty should diminish board-monitoring activity, the collaboration model agrees that perceived friendship ties may increase CEOs advice-seeking behavior by enhancing his or her trust in the boards supports while also increasing the board's perceived social obligation to provide assistance. Further CEOS financial incentives may enhance the benefits of friendship ties with the directors. From an Agency Perspective, incentive alignment motivates a CEO to use corporate resources to the advantage of shareholders (Jesen and Murphy 1990).

2.4.5. Board of Directors' Knowledge and Skills

Effective board performance is driven by the extent to which the directors bring relevant knowledge to the boardroom and this knowledge and skills must be actively used to function effectively (jackson 1992). Knowledge and skills are characterized in two main dimensions namely functional area knowledge and skills and firm- specific knowledge and skills. Functional areas include law, accounting and marketing that aid in information gathering and problem solving (Ancona and Cardwell 1988). Firm specific knowledge and skills refer to detailed information about the organization an intimate understanding of its operations and internal management issues and to deal effectively with strategic issues (Nonaka 1994). They should be able to understand cause-effect relationship involving the needs of customers, sources of risks to the organizations and impediments to output quality (Mc Greth 1995).

3. Research Methodology

3.1. Research Design

The study utilized a descriptive cross sectional survey research design. Zikmund (2003) posits that surveys provide quick and accurate means of accessing information on a population at a single point in time. A descriptive cross-sectional survey collects data to make inferences about a population of interest (universe) and have been described as snapshots of the populations from which researchers gather data. A survey assists the researcher to establish whether significant associations among variables exist at one point in time, depending on the resources available and the target population (Owen, 2002).

3.2. Sampling Procedure and Sample Size

The Explanatory survey method was adopted to obtain the relevant data which was used to determine the linkages between variables of the study, with the aim of testing the hypothesis formulated from the literature review. The sample was calculated using the sample formula (Fisher, Laing and Stoeckel (1985), as follows;

$$n=\frac{Z^2pq}{e^2}=\frac{(1.96)^2(0.50)(0.5)}{(0.50)^2}=384$$

$$n_f=\frac{n}{1+\frac{n}{N}}=\frac{384}{1+\frac{384}{187}}=125$$

Where:

n_f= is the desired sample size (when the population is less than 10,000).

N= the Population (in this case 187 state corporations).

n = the desired sample size (if the target population is greater than 10,000)

z = the degree of confidence (in this case 95% confidence interval, ά=1.96)

p = the proportion in the target population estimated to have characteristics being measured. 50% chosen as recommended by Fisher et al., (1985)

e = the level of statistical significance (set at 5%).

Random sampling by making a complete list of all the elements in a population, assigning each a number and then drawing a set of random numbers which identifies *n* members of the population to be sampled was used to select 125 state corporations with 375 respondents. From each state corporation of the sample size, three respondents were selected that included any of the following; Board chair, the CEO and any other board member.

3.3. Data Collection Method and Procedures

Firstly, the researcher obtained a letter from the university to enable her get permit from the council for science technology and innovation, which was then issue a research authorization permit. The questionnaires were then administered to each respondent physically, not in soft copies. Two research Assistants preferably university students were employed to assist the researcher in dropping them to the corporations with instructions on how to fill them. Data used was collected from primary sources through use of self –administered, structured questionnaires with a self-explanatory cover letter. All the questionnaires were self-explanatory. Questions will be accompanied by a 5-point interval rating scale that is the likert ranging from strongly agree to strongly disagree.

3.4. Data Analysis

Data collected was coded and purified to remove unnecessary outliers or missing variables and categorized according to questionnaires items using frequency distribution tables and percentages. Multiple regression analysis was used to analyze the contribution of each independent variable to the independent variable and to test the hypotheses. The following represents the regression equation according to the general model used to represent the relationship between the dependent variable (Y) as a linear function of the independent variables (X) with representing the error term (cooper and Schindler 2006).

$$Y=B_0+B_1X_1+B_2X_2+B_3X_3+B_4X_4+B_5X_5+e$$

Where Y=Organizational performance
X_1=Board chair leadership
X_2=Board strategic involvement
X_3=Board knowledge and skills
X_4=CEO-Chair collaboration
X_5=Board team production culture
B_0=Constant of regression
B_j=Regression coefficient corresponding to j^{th} predictor
e=Error term

Data was summarized and descriptive statistics of mean and standard deviation calculated for the respective variables the results were then regressed against the independent variable which in this case is performance, this was possible through use of Statistical Package for Social Science (SPSS).

4. Results and Discussion

4.1. Response Rate

A total of 375 questionnaires were distributed to the selected respondents of State Corporation in Kenya. Out of the 375 questionnaires distributed, a total of 309 questionnaires were duly filled representing 82.4% response rate. This was an acceptable rate and could be attributed to the fact that the questionnaires were physically delivered to the respondents through drop and pick method. It is evident that 100% response rate was achieved to all state corporations with strategic functions. This was because majority of them are located within the capital city of Kenya.

4.2. Assessment of Corporate Governance

The study set out to establish the degree of corporate governance amongst state corporations in Kenya. The respondents had been asked to indicate the extent to which their state corporation boards focused on Leadership, Team production culture, strategic Involvement, CEO-Chair collaboration and member's knowledge/skills to represent corporate governance. Different sets of questions anchored on a five point Likert-type scale ranging from 1=Do not Know to 5= Strongly Agree were used to measure the five corporate governance. The state corporation aggregate score of board Leadership, board Team production culture, board strategic Involvement, board CEO-Chair collaboration and board member's knowledge/skills were computed for each as a simple average of the mean scores of the dimensions (sets of questions) responses. In addition, standard error of mean (SE) was computed. Standard error of mean is a measure of reliability of the study results. It is equal to the standard deviation of the population divided by the square root of the sample size calculated as: SE= (SD) (of the population)/square root (n). Standard deviation shows how far the distribution is from the mean. A small standard error implies that most of the sample means will be near the center population means thus the sample mean has a good chance of being close to the population mean and a good estimator of the population mean. On the other hand, a large standard error illustrates that the given sample mean will be a poor estimator of the population mean (Harvill, 1991).

Corporate governance is seen as the process and structure used to direct and manage the business affairs of the company towards enhancing business prosperity and corporate accountability with the ultimate objective of realizing long-term shareholder value, whilst taking into account the interest of other stakeholders. Table 1 Summarizes the Individual Measures of Corporation Governance.

Table 1. *Summary of Individual Measures of Corporation Governance.*

Thematic Areas	N	Mean	SE
Board Leadership	303	4.67	0.048
Board Team Production Culture	303	4.63	0.058
Board Strategic Involvement	303	4.22	0.073
Board CEO-Chair collaboration	303	4.68	0.054
Board members Knowledge and skills	303	4.43	0.062
Average Score		4.51	0.057

The pertinent results in Table 1 show overall mean score for the Corporate govemance measures was 4.51, SE=0.057. Board Leadership and Board CEO-Chair collaboration had the highest mean scores of 4.67 each. This implies that the board leadership is essential in discharge of board mandates. This implies that most of the board members are knowledgeable and experienced in leadership.

4.3. Organization Performance

4.3.1. Customer Satisfaction

Customer satisfaction includes measures such as customer expectation of the service delivery, actual delivery of the customer experience, and expectations that are either exceeded or unmet. Customer satisfaction represents the effectiveness of the firm in delivering value to its target customers. Table 2 summarizes the level of customer satisfaction as perceived by Board members.

Table 2. *Customer Satisfaction.*

Description	N	Mean	SE
There is high suitability and compatibility of our services to procedures and meet customer needs	303	4.43	.068
To a larger extent our customers are aware of our services and products. Our customer's complaints are highly prioritized and remedies transparently and effectively.	303	4.45	.060
Our organization uses new and modern technique like E-service to respond effectively to our customers' needs.	303	4.25	.097
The organization is response to market driven products and services.	288	4.29	.074
The senior managers and employees have initiative to attend to customer needs and develop the services rendered to the customers	303	4.50	.056
Average Score		4.38	.071

The results in Table 2 show that the average scores for customer satisfaction was 4.38, SE=.071. For customer satisfaction to be high, promises and expectations must be met. This implies that customer satisfaction is an important measure of organization performance. As far as the individual responses are concerned, the senior managers and employees have initiative to attend to customer needs and develop the services rendered to the customers had the highest score (mean score=4.50, SE=.056). Loyal customers will not only provide most of the corporate profits but will cover the losses incurred in dealing with less loyal customers.

4.3.2. Market Growth

In this study, organization performance was also measured by market growth using parameters such as number of branches open to provide services, Number of client saved by the state corporation and number of project completed by the state corporation. Since the collected data was to assess the increase (if any) recorded over the period of five years. The study computed composite index using data for the year 2010 as the base year period. The index was computed for the year 2011, 2012, 2013 and 2014 and the results are provided in Table 3.

Table 3. *Market growth Index of State Corporation.*

	Year	Index	% Increase
Number of Branch offices	2011	103.6	3.6
	2012	114.3	14.3
	2013	119.8	19.8
	2014	120.8	20.8
	Year	Index	
Number of client	2011	140.9	40.9
	2012	161.6	61.6
	2013	565.1	465.1
	2014	694.4	594.4
	Year	Index	
Number of project Completed	2011	140.6	40.6
	2012	157.6	57.6
	2013	151.6	51.6
	2014	171.0	71

The results in Table 3 shows an increase in the number of branch offices open across the country. This could be attributed by the fact that 2010 Kenya constitution emphasis devolution of services across the country. In 2011 the number of branches grew by 3.6% and by 2014 the rate was 20.8%. Moreover, the number of client was increase at very high rate especially in year 2013 and 2014. This was contributed by devolution of services in the counties. About the number of project completed by the State Corporation, the increase has been steady ranging from 40.6% in year 2011 to 71% in year 2014. Some of the project consider include cash transfer programme or any project meant to benefit general public.

4.4. Regression Analysis and Hypothesis Testing

The study was based on the premise that there is no relationship between Board leadership, team production culture, strategic involvement and organization performance. To establish the statistical significance of the respective hypothesis, simple and multiple regressions analysis was conducted at 95% confidence level.

4.4.1. Board Leadership and Organization Performance

The first objective of study was to examine the effect of board chairperson leadership on organizational performance of state corporations in Kenya. Respondents had been asked to indicate the extent to which agree or disagree on specific Board Leadership statements. Organization performance measures were composed of customer satisfaction, market growth and return on investment. To assess the Board leadership and organization performance, the following hypothesis was tested.

Ho_1: There is no significant effect of the Board chairperson leadership on organizational performance of corporations in Kenya.

The relevant results are presents in Table 4.

Table 4. *Regression Results of Board Leadership and Organization Performance.*

(a) The Goodness of Fit

R	R Square	Adjusted R Square	Std. Error (SE) of the Estimate
.374	.140	.131	.34231

(b) The Overall Significance

	Sum of Squares	df	Mean Square	F	Sig.
Regression	5.602	1	5.602	48.458	0.000
Residual	34.450	298	.116		
Total	40.052	299			

(c) The Individual Significance

	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error (SE)	Beta		
(Constant)	2.762	.437		6.315	.000
Board Leadership	.372	.093	.374	3.992	.000

A Predictors: (Constant), Board Leadership; B Dependent Variable: Organization Performance

The results in Table 4 show that Board leadership has a statistically significant effect on organization performance. It explained 14% of its variation (R^2=0.140). The regression coefficient value of the computed score of Board leadership was 0.372 with a t-test of 3.992 and significant level of P-value=0.000. This implies that one unit increase of board leadership, increases organization performance and vice versa. Therefore, board leadership is very critical in order to realize organization performance. The hypothesis that there is no statistically significant effect of the Board chairperson leadership on organizational performance of corporations in Kenya is not support by the current study. The regression equation to estimate the organization performance of State Corporation in Kenya was states as;

$$Y=2.762+0.372X_1$$

Where Y=Organization Performance; X_1=Board Leadership

4.4.2. Board Team Production Culture and Organization Performance

To establish the relationship between board team production culture and organization performance, the relevant hypothesis was formulated as follows:

Ho_2: There is no significant effect of Board team production culture on organization performance of state corporations in Kenya.

The results obtained are summarized in Table 5.

Table 5. *Regression Results of Board Team Production Culture and Organization Performance.*

(a) The Goodness of Fit

R	R Square	Adjusted R Square	Std. Error (SE) of the Estimate
.598	.358	.351	.29601

(b) The Overall Significance

	Sum of Squares	df	Mean Square	F	Sig.
Regression	14.497	1	14.497	167.677	.000
Residual	26.023	301	.086		
Total	40.520	302			

(c) The Individual Significance

	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error (SE)	Beta		
(Constant)	1.978	.342		5.788	.000
Board Team production Culture	.546	.074	.598	7.426	.000

A Predictors: (Constant), Board Team production culture; B Dependent Variable: Organization Performance

The results in Table 5 revealed that the board team production Culture explains 35.8% of the variation in organization performance. The relationship between the board team production Culture and organization performance is statistically significant (F=167.7, 0.000). This implies that one unit increase in board team production culture, increases organization performance by 0.546. The regression equation used for prediction of organization performance was stated as follows;

$$Y=1.978+0.546X_2$$

Where Y= Organization Performance; X_2= Board Team Production Culture

The hypothesis that there is no significant effect of board team production culture on organization performance of state corporations in Kenya was not supported by the current study.

4.4.3. Board Strategic Involvement and Organization Performance

The study has set to evaluate the impact of board of directors' strategic involvement on organizational performance of state corporations in Kenya. The following hypothesis was formulated:

Ho_3 There is no significant influence of board strategic involvement on organizational performance of state corporations in Kenya

To determine the relationship between the board strategic involvement and organizational performance, a linear regression analysis was conducted. The pertinent results are summarized in Table 6.

Table 6. *Regression Results of Board Strategic Involvement and Organization Performance.*

(a) The Goodness of Fit

R	R Square	Adjusted R Square	Std. Error (SE) of the Estimate
.566[a]	.320	.313	.30457

(b) The Overall Significance

	Sum of Squares	df	Mean Square	F	Sig.
Regression	12.970	1	12.970	141.703	.000[a]
Residual	27.550	301	.092		
Total	40.520	302			

(c) The Individual Significance

	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error (SE)	Beta		
(Constant)	2.872	.241		11.892	.000
Board Strategic Involvement	.388	.057	.566	6.827	.000

Predictors: (Constant), Board Strategic Involvement; B. Dependent Variable: Organization Performance

The results in Table 6 indicate that the board strategic involvement had a statistically significant influence on organizational performance as they account for 32% of the variation in performance (R^2=0.320). The overall model reveals a statistically significant relationship between board strategic involvement and organizational performance (F=141.7, P-value=0.000). The regression coefficient also show that the board strategic involvement are statistically significant (β=0.388, P-value=0.000). This implies that one unit change in board strategic involvement, increases organizational performance by 0.388. The regression model for this result was stated as follows;

$$Y=2.872 + 0.388X_3$$

Where Y= Organization Performance; X_3= Board Strategic Involvement

The hypothesis that there is no significant influence of board strategic involvement on organizational performance of state corporations in Kenya was not supported by the current study.

4.4.4. Board CEO-Chair Collaboration and Organization Performance

The study had set to assess the relationship between the board CEO-Chair Collaboration and organization performance of state corporations in Kenya. The following hypothesis was formulated;

Ho_4: There is no significant contribution played by the CEO-Board chair collaboration to the organization performance of state corporations in Kenya

To determine the relationship between the board CEO-Chair Collaboration and organization performance, a linear regression analysis was conducted. The pertinent results are summarized in Table 7.

Table 7. *Regression Results of Board CEO-Chair Collaboration and Organization Performance.*

(a) The Goodness of Fit

R	R Square	Adjusted R Square	Std. Error (SE) of the Estimate
.764[a]	.584	.580	.23823

(b) The Overall Significance

	Sum of Squares	df	Mean Square	F	Sig.
Regression	23.664	1	23.664	422.582	.000[a]
Residual	16.856	301	.056		
Total	40.520	302			

(c) The Individual Significance

	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error (SE)	Beta		
(Constant)	.910	.306		2.974	.004
Board CEO-Chair collaboration	.777	.066	.764	11.789	.000

A. Predictors: (Constant), Board CEO-Chair Collaboration; B. Dependent Variable: Organization Performance

The results in Table 7 indicate that the board CEO-Chair Collaboration had a statistically significant influence on organization performance as they account for 58.4% of the variation in performance (R^2=0.584). The overall model reveals a statistically significant relationship between board CEO-Chair Collaboration and organization performance (F-computed=422.6>$F_{(1,99,0.05)}$=3.9371, P-value=0.000). The regression coefficient (0.777) shows that the board CEO-

Chair Collaboration are statistically significant (P-value=0.000). This implies that the board CEO-Chair Collaboration influences organization performance of state corporations. The hypothesis that there is no significant contribution played by the CEO-Board chair collaboration to the organization performance of state corporations in Kenya is not supported. The following regression equation can be used in prediction of organization performance.

$$Y=0.910 + 0.777X_4$$

Where Y= Organization Performance; X_4= Board CEO-Chair Collaboration

4.4.5. Board Members Knowledge/Skills and Organization Performance

To establish the relationship between Board Members Knowledge/Skills and Organization Performance, the relevant hypothesis was formulated as follows;

Ho_5: There is no significant impact of board skills and knowledge to the performance of State Corporation in Kenya

The results obtained are summarized in the Table 8.

Table 8. *Regression Results of Board Members Knowledge/Skills and Organization Performance.*

(a) The Goodness of Fit

R	R Square	Adjusted R Square	Std. Error (SE) of the Estimate
.393[a]	.154	.146	.34201

(b) The Overall Significance

	Sum of Squares	df	Mean Square	F	Sig.
Regression	6.219	1	6.219	53.894	.000[a]
Residual	34.039	295	.115		
Total	40.257	296			

(c) The Individual Significance

	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error (SE)	Beta		
(Constant)	3.100	.337		9.196	.000
Board Members knowledge & skills	.318	.076	.393	4.210	.000

A. Predictors: (Constant), Board Members Knowledge & skills; B. Dependent Variable: Organization Performance

The research finding in Table 8 reveals that board members knowledge/skills had a statistically influence on the organization performance. It explained 15.4% of its variation (R^2=0.154). The regression coefficient value of the computed score of board members knowledge/skills was 0.318 with a t-test of 4.210>1.661 (t- critical) and significance level of P-value= 0.000. This implies that one unit increase board members knowledge/skills, increases the organization performance by 0.318. In addition, the overall is statistically significant as indicated by F-statistic=53.9 with P-value=0.000. This suggests that the members' skills and knowledge in the state corporation board influence organization performance significantly. The hypothesis that there is significant impact of board skills and knowledge to the performance of State Corporation in Kenya is supported by the current study. The regression equation that can be used in this study was stated as follows:

$$Y=0.910 + 0.318X_5$$

Where Y= Organization Performance; X_5= Board members knowledge and skills

4.5. Corporate Governance and Organization Performance

To establish the relationship between corporate governance and Organization Performance and results are shown in Table 9.

Table 9. *Regression Results of Corporate Governance and Organization Performance.*

(a) The Goodness of Fit

R	R Square	Adjusted R Square	Std. Error of the Estimate
.824[a]	.679	.662	.21506

(b) The overall Significance

	Sum of Squares	df	Mean Square	F	Sig.
Regression	9.012	5	1.802	38.969	.000[a]
Residual	4.255	286	.046		
Total	13.267	291			

(c) The Individual Significance

	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	.059	.364		.161	.872
Board Leadership	.063	.071	.064	.889	.376
Board Team production Culture	.001	.085	.001	.012	.990
Board Strategic Involvement	.157	.051	.230	3.060	.003
Board CEO-Chair collaboration	.627	.089	.600	7.061	.000
Board Members knowledge & skills	.130	.054	.161	2.403	.018

The results in Table 9 indicate that the corporate governance had a statistically significant influence on organization performance as they account for 67.9% of the variation in performance (R^2=0.679). The overall model reveals a statistically significant relationship between corporate governance and organization performance (F-computed=38,967>$F_{(1,99,0.05)}$=3.9371, P-value=0.000). The regression coefficients (0.157,0.627 and 0.130) shows that the Board Strategic Involvement, board CEO-Chair Collaboration and Board Members knowledge & skills respectively are statistically significant (P-value=0.000). This implies that the three variables influence organization performance of state corporations. Board Leadership and Board Team production Culture were not statistically significant at 5% level. The following regression equation can be used in prediction of organization performance.

$$Y=0.157X_3+0.627X_4+0.130X_5$$

Where Y= Organization Performance; X_3 = Board Strategic Involvement; X_4 = Board CEO-Chair collaboration; X_5 = Board members knowledge and skills,

5. Conclusion and Recommendation

5.1. Conclusions

The study examined the relationship between board chairperson leadership and organizational performance of state corporations in Kenya. The positive relationship revealed in the study suggested that board leadership is very critical in order to realize organization performance of State Corporation in Kenya. This can lead to improved service delivery to the general public since majority of corporation are about service to the general citizen. For the state corporation to succeed in the competitive environment, they have to be responsive to the needs and wants of their target customers (general public) better than competitors. The study evaluated the impact of board of director's strategic involvement on organizational performance of state corporations in Kenya. The results revealed a statistically significant relationship between board strategic involvement and organizational performance. This implies that there is significant influence of board strategic involvement on organizational performance of state corporations in Kenya. Similarly, the relationship between the board team production Culture and organization performance was statistically significant. This indicates the important of team work in the board for effective and transforming leadership in the state corporation in Kenya. The study assessed the contribution of CEO-Board chair collaboration to the performance of state corporations and found that there is statistically significant contribution played by the CEO-Board chair collaboration to the organization performance of state corporations in Kenya. In fact, this relationship account for the 58.4% of the variation in the organization performance. In addition, the joint effect of Board CEO-Chair collaboration, Strategic Involvement and Board Members knowledge/skills explain 67.6% of the variation in the Organization performance. The study revealed that the Board Strategic Involvement, board CEO-Chair Collaboration and Board Members knowledge & skills respectively are statistically significant (P-value=0.000). This implies that the three variables together influence organization performance of state corporations. Board Leadership and Board Team production Culture were not statistically significant at 5% level.

5.2. Recommendations

On the basis of this study the following recommendation was made; Good Board chair leadership is critical for the realization of Organization performance of State corporation in Kenya. This indicates the important of team work in the board for effective and transforming leadership

Acknowledgement

Special thanks go to my supervisors Professor Thomas Cheruiyot and Dr. Joyce Komen for their tireless efforts in guidance, encouragement, patience and understanding. I acknowledge their skills and insights into the subject of the study. My Special gratitude goes to the NHIF Management for providing an enabling environment during the whole period of the study.

References

[1] Anderson, R. C. and Reeb, D. M. (2004), Board composition balancing family influence in S and P 500 firms. 209/ Administrative science quarterly, 49 (2004): 209-237.

[2] Balakrishnan, S. (1996), Benefits of customer and competitive orientations in industrial markets. *Industrial Marketing Management*, *25 (7),* 257-269.

[3] Barnhart, S. W. and Rosenstein, S. (1998), Board composition, managerial ownership and firm performance: An empirical analysis. The financial review 33: 1-16.

[4] Baron, R. M., & Kenny, D. A. (1986), The moderator-mediator variable distinction in social psychological research: Conceptual, strategic and statistical considerations. *Journal of Personality and Social Psychology*, *51,* 1173-82.

[5] Baysinger, B. D. and Butler, H. N. (1995), corporate governance and the board of directors: Performance effects of changes in board composition Journal of Law, Economics and Organization, 1, 101-124.

[6] Baysinger, B. D. and Hoskisson, R. E. (1990), the composition of boards of directors and strategic control effects on corporate strategy, Academy of management review 15 (1): 72-87.

[7] Bonn, I. and Fisher, J. (2005), corporate governance and business ethics: Insights from the strategic planning experience. Corporate governance volume 13.

[8] Bosch, H. (1995). Corporate practices and conduct. Melbourne: FT Pitman.

[9] Business round table (2005). Principles of corporate governance, a white paper by, www.businessroundtable.org/, January, 8, 2007.

[10] Byrd, J. W. and Hickman, K. A. (1992). Do outside directors monitor managers? Evidence from tender offer bids. Journal of financial economics 32: 195-221.

[11] Chaganti, R. S., Mahajan, V. and Sharma, S. (1985), Corporate board size, composition and corporate failures in retailing industry. Journal of management studies 22: 400-417.

[12] Chiang, H. (2005), an empirical study of corporate governance and corporate performance. The journal of American academy of business, Cambridge 95-110.

[13] Chung, K. H. and Pruitt, S. W. (1994), a simple approximation of Tobin's Q, Financial management, 23 (3), 70-74.

[14] Clark, W. and Demirag, I. (2002), Enron: The failure of corporate governance, Greenleaf Publishing.

[15] Cooper, D. R., & Schindler, P. S. (2003). *Business Research Methods* (8th ed.). New Delhi: Tata McGraw-Hill Publishing Limited.

[16] Cotter, J. F., Shivdasani, A. and Zenner, M. (1997), Do independent directors enhance target shareholder wealth during tender offer? Journal of financial economics 43: 195-218.

[17] Daily, C. M. and Dalton, D. R. (1993), Board of directors leadership and structure: Control and performance implications, Entrepreneurship: Theory and practice, 7, 65-82.

[18] Daily, C. M. and Dalton, D. R. (1994), Bankruptcy and corporate governance: The impact of board composition and structure, Academy management Journal 37: 1603-1617.

[19] Dalton, D. R., Daily, C. M., Ellstrand, A. E. and Johnson, J. L. (1999), Number of directors and financial performance: A meta-analysis, A\academy of management Journal 42 (6): 674-686.

[20] Davidson, W. N., Pilger, T and Szakmary, A. (1998), Golden parachutes, board and committee composition and shareholder wealth, The financial review 33: 17-32.

[21] Davis, J., Donaldson, L. and Schoorman, D. (1997), toward a stewardship theory of management, Academy of management review 1997, Vol. 22 No. 1, 20-47.

[22] Dicke, L. A. And Ott, S. (2002), A test: Can stewardship theory serve as a second conceptual foundation for accountability methods in contracted human services? International Journal of public administration, 25 (4), 463-487.

[23] Donaldson, L. & Davis, j, (1991). Stewardship Theory or Agency Theory; CEO Governance and Shareholder Returns. *Academy of Management Review*, Vol 20, No. 1 pp 65.

[24] Donaldson, L. and Davis, J. H. (1991), Stewardship theory or agency theory: CEO governance and shareholder returns, Australian Journal of management. 16 (1), pp 49-64.

[25] Eisenberg, T., Sundgren, S, and Wells, M. T. (1998), larger board size and decreasing firm value in small firms, Journal of financial economics 48: 35-54.

[26] Finkelstein, S. and Aveni, R. A. (1994), CEO duality is double edged sword: How boards of directors balance entrenchment avoidance and unity command, Academy of management Journal 37, 1079-1108.

[27] Fisher, A. A., Laing, J., & Stoeckel, J. (1985). Guidelines for Overcoming Design Problems in Family Planning Operations Research. *Studies in Family Planning*, 16 (2).

[28] Forbes, D. P. and Milliken, F. (1999), Cognition and corporate governance: Understanding board of directors as strategic decision-making groups, Academy of management review, 3, 489-505.

[29] Gathura, A. N., (2007). Corporate governance structure and performance of manufacturing Firms.

[30] Gatignon, H., & Xuereb, J. M. (1997), Strategic orientation of the firm and new product performance. *Journal of Marketing Research*, *34 (1),* 77-90.

[31] Gitari J. M. (2008). Corporate governance and the financial performance of state corporations: the case of new Kenya cooperative creameries. Unpublished MBA project University of Nairobi.

[32] Gladstein, D. (1984), a model of task group effectiveness, Administrative science quarterly, 29: 499-517.

[33] Golden, B. R. and Zajac, E. J. (2001), when will boards influence strategy? Inclination x power = strategic change, Strategic management Journal 22: 1087-1111.

[34] Hair, J. F., Anderson, R. E., Tatham, R. L., & Black, W. C. (1998). *Multivariate Data Analysis with Readings* (*5th ed.).* Englewood Cliffs, NJ: Prentice Hall.

[35] Harvill, L. M. (1991), An NCME instructional module on standard error of Measurement. *ITEMS, (Summer),* 33-41.

[36] Holderness, C. G and Sheehan, D. P. (1998), the role of majority shareholders in publicly held corporations. Journal of financial economics 20: 317-346.

[37] Javalgi, R. G., Whipple, T. W., & Ghosh, A. K. (2005), Market orientation, strategic flexibility, and performance: Implications for services providers. *Journal of Services Marketing, 19 (4),* 212-221.

[38] Jensen M (2001) Value Maximization, stakeholder Theory and the Corporate Objective Function. European Financial Management 7, 297-317.

[39] Jensen, M and Meckling. W (1976). Theory of the firm: Managerial Behavior, Agency Costs, and Ownership Structure. Journal of Management, Vol. 22 No 3, pp. 409-438.

[40] Jensen, M. C. and Meckling, W. H. (1976), Theory of the firm: Managerial behavior, agency costs and ownership structure. Journal of financial economics, 3, 305-360.

[41] Kang, J. K. and Shivdasani, A. (1995), Firm performance, corporate governance and top executive turnover in Japan. Journal of financial economics 38: 29-58.

[42] Kiel, G. and Nicholson, G. (2003), Board composition and corporate performance: How the Australian experience informs contrasting. Corporate governance Volume 11 No. 3.

[43] Klein, A. (1998), Firm performance and board committee structure. Journal of law and economics: 41 (1): 275-303.

[44] Kothari, C. R. (2003). *Research Methodology*: *Methods and Techniques*. New Delhi New Age Int. Publishers.

[45] Lorsch, J. W. and Zelleke, A. (2005), should the CEO be Chairman? MIT Sloan management review, Vol. 46 (2), 71-74.

[46] Malhotra, N. K., & Dash, S, (2011), Marketing Research an Applied Orientation. New Delhi: Pearson.

[47] Mugenda, M. O. & Mugenda (2003). Research Methods: Qualitative and Quantitative Approaches, Acts Press, Nairobi.

[48] Owen, L. (2002). Introduction to Survey Research Design. *SRL Fall 2002 Seminar Series*: http://www.srl.uic.edu

[49] Private sector initiative report (1998). Principles of corporate governance in Kenya and a sample code of best practice. Kenya Private sector corporate governance trust.

[50] Rechner P. L. & Dalton, D. R. (1991), CEO duality and Organizational performance; a longitudinal analysis. Strategic Management journal 12, 155-160.

[51] Slater, S. F., & Narver J. C. (1994b), Market orientation, customer value and superior performance. *Business Horizon, 37 (2),* 22-28.

[52] State Corporations Advisory Circular (2010). Office of the President, Government Printing Press, Nairobi.

[53] Sundarom, A. K, & Yamach, C. (1999). The Corporate Objective Revisited.

[54] Zikmund, W. G. (2003). *Exploring Marketing Research* (7th ed.). USA: Thomson, South Western.