

**EFFECT OF GOVERNMENT APPOINTMENT OF BOARD OF DIRECTORS
ON PERFORMANCE IN SELECTED STATE OWNED CORPORATIONS
IN NAIROBI KENYA.**

BY

ROSEMARY K. A. BARASA

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DECLARATION

I declare that this dissertation is my original work and has not been previously published or submitted elsewhere for award of a degree. I also declare that this contains no material written or published by other people except where due reference is made and author duly acknowledged.

Student Name: _____

Reg, No. _____

Sign: _____

Date: _____

I do hereby confirm that I have examined the master's dissertation of

ROSEMARY K. A. BARASA

And have certified that all revisions that the dissertation panel and examiners recommended
have been adequately addressed.

Sign: _____

Date: _____

Dr. Okong'a (PhD)

Lecturer KCA University

Dissertation Supervisor

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ABSTRACT

Although the Government of Kenya laid down elaborate general principles to govern State Owned Entities (SOE) and enable them run as business, from the outset, not everything has been going on according to plan owing to the political nature of appointment of Board members. With the law being silent on the criteria of appointment of BOD, a loophole was created through which unqualified, inexperienced and corrupt people found their way to the Boards of SOE. The firm performance of most SOEs started declining in the year 1980s, a status that continued to the extent that it reached 0.3% in the 1990s. For instance, in the year 2013, 15% of the total public employees work for SOE but at a very high cost to the economy due to mismanagement by the Board of Directors. Many SOEs are a drain on the taxpayer virtually depending on the state to be bailed out. The poor firm performance of the SOES was at times perceived to be a result of or attributable to political nature of appointment of Board members. The appointed BOD members are less qualified and have no experience in running such entities, leading decline in firm performance of these SOE, a serious threat to the economy. There is gross mismanagement and outright abuse of office by the BOD of these SOEs. In making the appointments, the guiding principle was not based on criteria with regard to basic considerations; experience and minimum academic qualifications. With the law being silent on the criteria of appointment of BOD, a loophole emerged through which unqualified, inexperienced and corrupt people find their way to the Boards of SOE. Academic literature, studies, journals, and theories indicate that the firm performance of SOEs is attributable to; criteria for appointment of BOD, Board Effectiveness, Diversity in Appointment of BOD, and Government supervision. Various studies have been conducted globally, regionally, and locally on firm performance of, criteria for appointment of BOD, Board Effectiveness, Diversity in Appointment of BOD, and Government. However, there is scanty information on the firm performance of SOEs in Kenya as being attributable to; criteria for appointment of BOD, Board Effectiveness, and Government supervision jointly. This was the knowledge gap that the present study has endeavored to fill. The target population was 110 senior Management staff. Middle level managers and lower cadre management staff of the selected SOEs in Nairobi Kenya was obtained using purposeful sampling, by the aid of a pre-designed questionnaire. This was analyzed using descriptive statistics as well inferential statistics. A computer package namely Statistical Package For Social Sciences (SPSS) was used to analyze the data. The study revealed that the firm performance was moderate in Kenyan GOEs. So, the BOD does not play an active role in promoting the effectiveness of the firm performance in these GOEs. It was established that; Board effectiveness had medium effect on performance of SOEs; the criteria for selection of BOD highly influences the firm performance; and the Government supervision highly influences the firm performance. The study recommends the Boards should ensure that they create an enabling organization culture to ensure that there is a diverse range of skills such as accountancy, management, among others and experience within the Board composition. In addition, the regulatory

bodies should examine whether there is a link between the Board composition and skills mix with its overall performance as seen by profitability over the years, or lack of it in case of losses. There is need for consultation between the appointing authority and the Board on members' appointments prior identification, selection and appointment of Board members by Government and finally that there is an interview process for Board members to ensure suitability to serve on the Board.

Key words: Board of Directors Performance & Board Selection

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Last but not least, I want to take responsibility for any errors, omission or commission that may be in this piece of work.

DEDICATION

This piece of work is dedicated to my children, Laurancia, A. Barasa, Benjamin A. Barasa and Eric Barack Barasa, for their love and tremendous support. Thank you all and may you also be inspired to support each other to achieve more of your own dreams.

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ABBREVIATIONS AND ACRONYMS

| | |
|------------|---|
| BOD | Board of Directors |
| CEO | Chief Executive Officer |
| CG | Corporate Governance |
| CMA | Capital Markets Act |
| DY | Dividend Yield |
| EPS | Earnings per Share |
| GDP | Gross Domestic Product |
| GOE | Government owned Entity |
| IT | Information Technology |
| ROA | Return on Assets |
| ROE | Return on Equity |
| ROI | Return on Investment |
| SOE | State Owned Enterprises or State Owned Entities |

OPERATIONAL DEFINITION OF KEY TERMS

Board Effectiveness is the ability of the Board to ensure there are structures in place to promote the integrity, reputation and responsibility of a corporate towards all its stakeholders (Robinah, 2008).

Criteria for appointment of BOD is the manner in which identification, selection and placement is carried out by the appointing authority (Ileri, 2013).

Diversity in Appointment of BOD is the mix of gender, ethnicity and skills that are possessed by the members of the Board (Ileri, 2013).

Firm Performance is the results generated by using available resources to achieve set goals (Hansen & Wernerfelt, 1989).

Government supervision is the oversight role of the Government over the state organ as provided under the relevant law (Ileri, 2013).

State Corporation is a statutory body established under an Act of Parliament with majority share ownership held by the Government or other state corporations or their subsidiaries (Miring'u & Muoria, 2011).

State Owned Enterprises (SOE) in Kenya, applies to a wide range of bodies that operate in the state dominated sector of the economy. A SOE is an enterprise over which the state has significant control, whether wholly with a full majority or a significant minority ownership (Gross, 1991; Republic of Kenya, 1965).

CHAPTER ONE

INTRODUCTION

1.1 Background of Study

Board of Directors constitutes people appointed to act as agents and stewards of the owners of capital in State Owned Entities (SOEs). The owners of the capital in SOEs is the Government while the BOD is an agent of the appointing authority , usually the President. An agency relationship arises whenever one individual relies on another and that, the person undertaking the duties is the agent and the affected party is the principal. The aim of the Government in appointing the agent is to ensure that the Kenyan Citizens receive the necessary goods or services at the same time allowing the agent (BOD) perform their duties (Wicaksono, 2008). Heath and Norman (2004) have been able to show that although an agent may performs tasks that are for their principal's interest and may not be in the agent's interest, it is sometimes better for them to receive some incentives (Jensen & Meckling, 1976).

The history of SOEs in Kenya can be traced to the colonial times (Grosh, 1991).When Kenya attained independence, the Government retained SOEs and has continued to create others although there is little to show, in tangible terms for their existence apart from one or two who provide essential services. Such SOEs include the Kenya Power and Lighting Company Ltd., Kenya Seed Company Ltd., Kenyatta National Hospital, as well as the Kenya Refineries Ltd. The rest can be said to be business offshoots of Government entrepreneurial adventure.

The recently released Kenyan Report of the Presidential Task Force on Parastatal Reforms (2013), concluded that Government Owned Entities (GOEs) continued to play

key role in the development process of Kenya in five key areas, among them; promote and /or accelerate economic growth that would drive the social and economic transformation of Kenya to a globally competitive and prosperous country with a high quality of life by 2030. The report recommended the merging of some of the GOEs, with a view to making them more sustainable, which attests to their unprofitable nature and /or at best, duplication of roles in the public sector. Indeed this has come as a relief to many Kenyan tax payers as it is seen as an attempt at checking the rampant wastage that has been experienced in many GOEs.

In recent years, good governance among corporations has been receiving a lot of interest among regulators and other stakeholders including Directors (Leblanc, 2014). The Kenyan scene has not been different as it has received its own share of the stakeholder concerns which have been raised following corporate failures in SOEs and even stock brokerage firms which should have been the guardians of good governance. This research was influenced by these concerns and sought to investigate why this scenario abound in spite of all the clear purpose for the existence of GOEs in Kenya, with the existing elaborate supervisory mechanism that Government has laid down such as performance contracting and budgetary controls through Treasury and regular audits through the Kenya National Audit Office (KNAO).

It is important to note that each GOE operates with a Board of Directors, which is appointed by the President. The Board of Directors (BOD) is the apex decision-making organ of the GOEs and is charged with running its affairs. Since Board appointments are made by Cabinet Secretaries (former Ministers) who derive their power from the President under the State Corporations Act, it has been found that there are no strict

guidelines for such appointments in terms of qualifications and relevant experience. However, specific Boards have at times been perceived to having been selected using different criteria, which, all the same, is not known to the public. The appointing process is rather subjective, making it hard to tell the extent of objectivity in appointment, in terms of qualifications, skills and general suitability of the appointees. Although the responsibility rests upon the appointing authority to ensure the appointment of Board members in GOEs yields the desired goal, which is firm performance, little has gone into ensuring that the right people are appointed to the Boards of SOEs in Kenya, which has led to massive resource mismanagement. Board members should comprise persons of good standing and integrity to ensure Board effectiveness, merit; and the requisite skills mix, experience and qualification (Ouko, 2010), in order to ensure Board effectiveness, which enhances financial performance of the SOE.

Diversity in appointment of Boards as a concept has not been well articulated in Kenya's laws (Eshiwani, 2006). To ensure that the SOE achieves diversity in the BOD, it should recognize the value of individual skills among the Board members, which is important in the appointment for a firm's financial performance and decision making as well as policy formulation.

1.2 Statement of Problem

Although the Kenyan Government has been involved in formation of State Owned Entities (SOEs) since independence (Republic of Kenya, 1965), and there was some successful SOEs, not all of them did well according to plan due to the politics involved in the appointment of Board members (Gross, 1991). The performance of most SOEs started declining in the 1980s (Himbara, 1993), and have continued to do so up to

the 1990s (Ileri, 2013). The scenario resulted into a heavy cost to the economy, due to mismanagement by the Boards of Directors (Ouko, 2010). Majority of SOEs are run by BOD members who are less qualified and experience in running such entities (Tangri, 1999), leading to a decline in firm performance, hence posing a serious threat to the economy.

Academic literature, studies, journals, and theories indicate that firm performance of SOEs is attributable to: criteria for appointment of BOD (Ileri, 2013), Board Effectiveness (Ongore&K'Obonyo, 2011; Robinah, 2008), and Government supervision (Ileri, 2013). However, there is scanty information on the firm performance of SOEs in Kenya as being attributable to; criteria for appointment of BOD, Board Effectiveness, Diversity in Appointment of BOD, and Government supervision. It is against this background that the study was conducted to fill this knowledge gap in an effort to recommend ways of improving firm performance of SOEs in Kenya, and the world at large.

1.3 General Objectives

The study seeks to investigate the effect of Government Appointment of Boards of Directors on the performance of the SOEs in Kenya.

1.3.1 Specific Objectives

To determine the effect of Government appointments of Boards of Directors on the firm performance of SOEs, the study will be guided by the following specific objectives:

- i) To find out the extent to which criteria for appointment of BOD influences firm performance of the State Owned Entities in Kenya.

- ii) To determine the extent to which Board Effectiveness influences firm performance of the State Owned Entities in Kenya.
- iii) To find out the influence of Government supervision on firm performance of the State Owned Entities in Kenya.

1.4 Research Hypothesis

The research seeks to test the following research hypotheses, which were derived from the specific objectives and conceptual framework:

H₀: Criteria for appointment of BOD does not significantly influence firm performance of the State Owned Entities in Kenya.

H_a: Criteria for appointment of BOD significantly influence firm performance of the State Owned Entities in Kenya.

H₀: Board Effectiveness does not significantly influence firm performance of the State Owned Entities in Kenya.

H_a: Board effectiveness significantly influences firm performance of the State Owned Entities in Kenya.

H₀: Diversity in appointment of BOD does not significantly influence firm performance of the State Owned Entities in Kenya.

H_a: Diversity in appointment of BOD significantly influences firm performance of the State Owned Entities in Kenya.

H₀: Government supervision does not significantly influence firm performance of the State Owned Entities in Kenya.

H_a: Government supervision significantly influences firm performance of the State Owned Entities in Kenya.

1.5 Justification of the Study

Most of the existing literature did not link the aspect of Board selection; appointment and ultimately, skills mix, to organization's performance, but has rather concentrated on the agency relationships and minority protection. In this research, the ability of the Board of Directors to perform as an offshoot of its skills mix, mode of selection and appointment and to assess its impact on performance of a State Corporation was examined. The research recognized that apart from Boards having their own performance evaluation processes, there was the Performance Contracting (PC) with Government of Kenya, a requirement for all SOEs to show that their performance had improved in the last one year under review. However, the study proposed that in the key elements of this process, there should be a system to evaluate individual contribution to sound decisions or a system to measure annually how well directors discharge their responsibilities collectively.

Further, the study would benefit academicians and scholars and contribute to general knowledge in the field of corporate governance and more specifically, the Board appointment criteria and its impact on firm performance of the SOEs in Kenya. Lastly, researchers would benefit from the study for it would trigger further research in corporate governance on Board of Directors appointment in SOEs particularly the Government reporting mechanism.

1.6 Significance of the Study

The significance of this study was to provide empirical evidence on SOEs, that could be used to prove that there is significant relationship between Government

appointment of members of the Board of Directors and the performance of the SOEs. Furthermore, the study proposed best practice in Board appointments and achievement of optimal skills mix for SOEs.

1.7 Scope of the Study

This study, which focused on Government Owned Entities (GOE) sought to examine whether there was a link between the Board composition and skills mix, with its overall performance, as seen by profitability over the years, or lack of it in case of losses. The study concluded by proposing best practice in SOEs Board of Directors appointment.

1.8 Limitations of Research

The organizations selected and research hypotheses, as a result of the research design, limited the general nature of the findings. Most aspects of Board dynamics were left for further research. However, to ensure that the findings of the research applied to all of appointment of Directors by the Government, which affected all SOEs in Kenya irrespective of their nature and purpose. This made the research findings universally relevant.

The second limitation arose while collecting data in one of the organizations, where respondents might have been known to the student. This was be addressed by making the name of the respondent optional in the data collection instrument. This study might also have be affected by the research sampling methods used such as the questionnaire and other subjective aspects associated with sample population and other research tools. The researcher might have encounter systematic errors in the respondents, which might have

caused bias the data collected. The respondents might 'agree' or 'disagree' in a statement or a series of statements because they regarded their agreement or disagreement to be socially or culturally acceptable, thereby not giving their true opinions.

The third limitation of the research is the fact that there is a limited number of companies in Kenya with published data that can easily be accessed for this study and even fewer, which are limited by guarantee, among state corporations similar to the SOEs, which is our focus.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter presents a review of literature important to the study as from renowned scholars, authors and other research findings. It summarizes literature that has been reviewed and will be reviewed for the purpose of the study, which is firm performance of SOEs with regard to BOD appointments. The literature covers theoretical framework and an overview of the literature of previous studies, findings and recommendations showing the research gap to be filled. Lastly, the conceptual framework of the study and summary are provided.

2.2 Theoretical Framework

The present study identified various theories, concept and literature, which was found to be useful and beneficial. This literature was very helpful in developing a conceptual framework for the present study. The study is built around the agency theory and public interest theory.

2.2.1 Agency Theory

The agency theory was important in exploring the relationships of the principal being the Government and its agencies and the agent being the Board of Directors of the SOEs in influencing the performance of the SOEs (Wicaksono, 2008). An agency connection arises whenever one individual act on behalf of another, whereby there is

some control by the principal. In certain instances, agency can result in adverse selection, whereby the principal's interests may not be pursued by the agent to his full capability in performing duties assigned to him or her. It arises when the agent's action is not being observed or supervised by the principal (Wicaksono, 2008).

There are arguments that agency poses certain challenges in SOEs are more serious compared to the private organizations owing to the characteristics of Government ownership (Trivedi, 2011). There is also the inability for SOEs to offer management any ownership incentives in the business that they are in charge of mainly due to multiplicity of agents and state organs supervising or overseeing the affairs in the SOEs at the same time the perception that voting public see themselves as the principals of the state (Gicheru, 2001). It has been found that there may be multiplicity of objectives in the public sector as well as non-economic (Stieglitz, 1985). Sometimes a non performing BOD can claim that the loss of business was not due to inefficiency or incompetence but rather that there were too many competing goals to meet although such claims might not be valid and hard to prove. It is virtually impossible for an outsider to judge the validity of those claims, sometimes because the directors are appointed by the State, which is not the principal since it gets its mandate from the electorate, thereby making both the government and the directors are agents of citizens who elected them, which makes it difficult for directors to act in the best interests of SOEs as their nature may sometimes demand that they place political interests above the business interests so as to satisfy the demands of the voters (World Bank, 1995).

Certain Governmental institutions must by law play and oversight role over SOEs (Trivedi, 2011) and responsible for the supervision of such SOEs. In Kenya, the financial

oversight role of the SOEs performance is vested under the Ministry of Finance but other agencies such as the Inspectorate of State Corporations and the Kenya National Audit Office (KNAO) have some oversight responsibility over all SOEs, whenever public funds are invested. Parliament can also summon an entity over use of public funds and resources.

2.2.2 *Public Interest Theory*

The public interest theory holds that SOEs are essentially meant to provide services to the people at reasonable prices. Therefore, when those entrusted with the duty to oversee SOEs fail, for this reason, public interest theorists argue that politicians and technocrats are not good overseers of SOEs (Nobel Buchanan, 1978) since their personal interest overrides the public interest making them to hold onto once they get it for of exploitation. Directors are supposed to work in public interest when exercising control over SOEs, using Government policies to ensure that SOEs are efficiently, competitively and sustainably managed. Towards this, public interest theorists view politicians as being motivated by factors such as salaries, prerequisites of the office, public reputation, power and patronage (Vagliasindi, 2008). The Public interest theory offers little room to government officials or politicians to change their ideological thinking, but can be important for the power seeking motivations of decision makers and offers little insight into how their motivations are developed or altered over time (Ayee, 2005).

2.3 *Review of Empirical Literature*

The present study reviewed various past global, regional, and local studies, which were found useful to it. This review of these studies was based on the study objectives.

2.3.1 *Firm Performance of State Owned Entities*

A research by Krambia and Psaros (2006) studied the implementation of Corporate Governance principles and their results revealed only a minimal impact, unless it is supported by other initiatives. Further, Cyprus was making serious attempts to enhance good governance listed companies. This is to say that there was no tangible firm performance in the companies, attributable to Board of Directors (BOD) performance. This means that the BOD did not sufficiently contribute towards the firm performance, although they were the decision makers and represented the shareholders. However, the study fell short of explaining how the same is replicated in the performance of SOEs, a gap that the present study will fill.

Duztas(2008) study conclude that there was a strong bond between some practices of the BOD and performance. This could be used to inform a business about opportunities for improvement. The study showed that Corporate Governance (CG) at the BOD level should not be practiced just for the regulations but in consideration for opportunity it provided market expansion. Additionally, this study showed that Corporate Governance can enhance performance of a company or firm and could be attractive to investors whose target was to invest in companies having better CG practices.

The study by Duztas (2008) demonstrated the importance of the number of members of a Board compared to external directors on transparency of companies. This cushioned stakeholders from any problems stemming from the question of agency. Investors understood the merits of the Corporate Governance Index from its benefits of better governance as given the study. Ultimately; the study also depicted the vital role played that Information Technology (IT) played in enhancing transparency and disclosure practices. However, the study focused mainly on Board structure and transparency and

disclosure in companies and suggested that similar studies could extend the model Board appointments. It was assumed that the data they disclosed was as precise as possible. To fill these gaps, the present study will investigate the effects of Board appointments on firm performance of SOEs in Kenya by the use of a hypothetical model.

Another study by Jun-Koo and Le (2011) examines the role of Government in corporate governance and their effect on firm performance. The study revealed that unlike non-Government outside directors, Government directors on the Board are more likely to skip Board meetings than non-Government directors especially when there is no significant business bond with the Government. Additionally, when they were compared to firms without Government directors, firms with Government directors experience lower annual operating performance. The study results conclude that Government directors were less effective when it came to performance and offering sound advice to the GOEs. The study by Jun-Koo and Le (2011) explicitly shows that BOD influence the firm performance of SOEs but it is not clear at what level the appointment of BOD plays a role in the performance of the firm. The present study will therefore investigate the effects of appointment of BOD on firm performance of SOEs in Kenya to bridge the gap.

The study by Miring'u and Muoria (2011) examine the effect of Corporate Governance on performance in commercial state corporations in Kenya. The study established that if well governed firms can achieve high firm performance. I also found that SOEs fail to achieve good results due to mismanagement and irresponsibility by directors and employees. The findings confirm that the Board size the minimum number of directors in SOEs board was three members with the average membership being ten members and concluded that was a positive relationship between number of Board

members, their composition and profitability as reflected in the return on assets of all SOEs.

2.3.2 Influence of Criteria for Appointment of BOD

Gavin and Geoffrey (2004) study focuses on Board size, policy and decision making as indicators of Corporate Governance in relation to Board roles, contingency, Board effectiveness and financial performance of government owned universities in Uganda. The study concluded that performance of the SOEs is influenced by the Board appointment.

Ileri (2013) study examines how failure to incorporate good corporate governance in the appointment process of BOD, contributed to poor performance of SOEs. The study investigated the factors that have contributed to poor performance and corporate governance. It has been demonstrated that extraneous factors such as political patronage, ethnicity and corruption have been in play in the appointment of Board members. This is an offshoot of the President wielding too much discretionary powers, which he uses to appoint his political cronies, as well as members of his ethnic community. Appointments of this nature do not add much value to SOEs, which explains why many SOEs have been afflicted with poor firm performance. In Kenya, little is known about the criteria of appointment to SOEs' Boards, as no information is provided to the public on the processes and procedure used in filling up positions in the Boards. The study therefore recommends that there should be; legislation to consolidate and harmonize laws in the appointment process, amendment of all laws that regulate SOE, and de-politicization of the appointment process. The study shows that there is no criteria for BOD appointment to SOEs, which has adversely compromised the firm performance of these entities.

2.3.3 Influence of Board Effectiveness

In a study which analyzed the extent to which Board composition affects teams and organizational processes as well as effectiveness and performance of the selected financial institutions in Uganda, it was found that the firm performance was influenced by the Board composition, Solomon *et al.*, (2003).

In another study which examined the relationship between corporate governance and financial performance in four public universities in Uganda, to establish the relationship between corporate governance, Board roles, contingency, Board effectiveness and financial performance of public universities, Robinah (2008), the results concluded that Corporate Governance had a significant positive relationship with Board roles, Board roles had a significant positive relationship with Board effectiveness, and contingency had a significant positive relationship with Board roles and effectiveness.

The study obtained useful information on the factors relating to Board performance. But since the study was conducted on public universities in Uganda, which were funded by Government, it recommended that there was a need for a similar study to be carried out in other SOEs.

Some studies have been carried out and found that there was a relationship between performance of an organization, various characteristics in its ownership and governance as manifest in terms of ownership concentration, identity, Board effectiveness and managerial discretion (Ongore and K'Obonyo, 2011). The study concluded that ownership concentration and the role of Boards was found to be of very little value, mainly due to lack of adherence to Board member selection criteria..

Another study concluded that the ownership structure of an organization played a key role in the way that the BOD set its goals, and ultimately the composition of membership to such Boards (Desender , 2009) .

The study by Ireri (2013) established that there are no clear guidelines on academic and professional qualifications in the selection and appointment process of members to Boards of SOEs, which creates an opportunity for the appointing authority to make Board appointments based on political allegiance, ethnicity and nepotism. This leaves out ethnic diversity in Board appointments, considering that Kenya is composed of over forty tribes. It also undermines the efficiency of the Boards as the requisite expertise and experience is never taken into account while appointing persons to these Boards.

2.3.4 *Government Supervision*

The state as the owner of a business or organization tended to move and replace non performing Chief Officers in SOEs,(Hu and Leung ,2008). It can be concluded that the same would also apply to non-performing Boards of Directors in GOEs. The appointments tended to be political with the hope that the politician connection would send a signal to the poor performers among the SOEs that the Government was watching and would not hesitate to take charge of its own resources if seen to be under any threat. The other reason being that the Government had the necessary administrative structures and expertise take care of its interests in the SOEs .These results provide better understanding of Government interests and their impact on corporate governance. Studies have concluded that organizations can achieve good governance by compliance with legal requirements and observance of government regulations (Bati , 2014).

2.4 Conceptual Framework

The study proposes that the firm performance of SOEs in Kenya is influenced by; criteria for appointment of BOD (Ileri, 2013), Board Effectiveness (Ongore&K'Obonyo, (2011; Robinah, 2008), Diversity in Appointment of BOD (Ileri, 2013), and Government supervision (Ileri, 2013), as captured in figure 1. In this case; criteria for appointment of BOD, Board Effectiveness, Diversity in Appointment of BOD, and Government supervision are the independent variables and firm performance is the dependent variable. However, there are other variables that may affect the firm performance of SOEs, which include; legal framework, economic factors, and political influence. The present study regards these as intervening variables (with a moderating effect) which will be mitigated accordingly.

2.4.1 *Effectiveness Efficiency and Relevance of a Firm*

Effectiveness. Effectiveness in an organization can be looked at from the point of view of a firm being able to achieve the set goals or objectives or produces its desired outcomes that is, mission fulfillment (UNDP, 2010). Scott (2003) proposed that organizational effectiveness can also take the form of a measure of its achievement in terms of performance as compared to a set and predetermined standard. Organizational effectiveness is not limited to one organizational theory or principle. The study will examine what measures the selected state corporations have put in place based on outcomes, processes, and organizational structural features, to produce consistency in results. Although several representations for differentiating among these concepts have been proposed, Scott *et al* (2003) observed that some measurements in effectiveness can be affected by systemic aspects of an organization. The selected SOEs were already under

the Government Performance Contract (PC) which is a monitoring and evaluation tool for GOEs performance. The study tested the effect of PC on firm performance to see its effect on effectiveness in internal systems of the organization.

Efficiency. Efficiency of an organization looks at how the entity utilizes its resources to achieve desired effects in terms of the input to output cost. Its main focus is prudent use of resources in achieving result (UNDP, 2010; Njuguna, 2013). An organization which aims to be profitable would generally be concerned with the efficient utilization of limited resources at all levels of operations.

Relevance. Relevance refers to the ability of an organization to meet the stakeholders' needs as spelt out in its core mandate, for instance each SOE was set up with its special and specific role in the Kenyan economy and that is its purpose. It therefore, follows that each, organizations should aim at not only attaining relevancy but maintaining the same at the moment and also going forward into the future by adapting to the ever changing business environment and create more opportunities under different circumstance (Njuguna, 2013). The study sought to establish how each of the selected GOEs met the needs of its various stakeholders at present and their ability maintain relevance throughout.

2.4.2 Financial Viability of Firm Performance

Financial viability is the ability of an organization to raise the funds required to meet its functional requirements in the short, medium and long term (Lusthaus, 2002). Financial viability can be said to be present if an organization is able to generate enough cash to pay its bills, and in the case of not for profit organizations, to be financially sustainable. Resources are generated through an organization's ability to create, supply

and deliver products, service or programs useful to customers, clients or beneficiaries (Henke, 1992).

The study will examine how each of the selected SOEs has been able to regularly scan business environment and design relevant strategies to optimize its profitability, achieve shareholder value and responsible corporate citizenship, by analyzing its strategic plan in the last 5 years. Most commonly used methods of measuring organizational performance in studies on the top management include ROA, assets growth, market share, share price and sales revenue. In this study, financial performance were operationalized in terms of the Total Assets and Profit before Tax, and the non-financial measures including customer satisfaction, CSR, corporate image, process improvements and employee development. Board performance measurement structures that the Government of Kenya applies in measuring performance, such as the Performance Contracting and Self Evaluation Board mechanism, does not necessarily yield superior performance as anticipated. We shall seek to establish the link between these Performance tools with Board performance. In this study, Board performance means efficiency, effectiveness and profitability.

2.4.3 Operationalization of the Conceptual Model

First, the study proposes that the criteria for the appointment of Board of Directors (BOD) in SOEs influence the firm performance of these Government Owned Entities. The irregular appointment of BOD contributes to poor performance of SOEs (Mwaura, 2007). This is due to the fact that persons appointed to the Board fail to act in the best interests of the corporation by engaging in activities detrimental to the corporation. Irregular appointments have been made because cabinet secretaries exceed

their powers by not admitting that their duties end at the policy formulation level and forgetting that heads of SOEs have been given their jobs by the statutes creating the SOEs. Depending then on the manner a particular director has been appointed, and especially if one was appointed as a favour, such an appointee is threatened with sacking for failure to strictly adhere to the orders of the line Ministers or someone higher up the rank, which greatly contributes to the poor corporate governance of SOE's (Akivaga, 2005). Politicization of the appointment process is a feature of SOEs in Kenya in that the appointment of BOD is guided by politics, ethnicity and patronage. That explains why directors are usually perceived to be political aides of prominent politicians, whose appointment is part of the reward system for patronage (Mathenge, 2010). In many cases, appointments to the BOD have been made without due regard to the requirements of the SCA and the State Corporations (Performance Contracting) Regulations on appointment of chief executives.

The irregular appointment of BOD, politicization of the appointment process, poor regulatory framework for the appointment of directors, and the absence of clear guidelines leads to competing and conflicting interests. It is therefore difficult for SOEs to become efficient. There is no doubt that irregular appointment of BOD has a negative impact on firm performance based on the fact that failure to take action against errant directors will contribute to the downfall of an SOE. This arises from the impunity such directors enjoy, confident that no action can be taken against them.

Secondly, the study further proposed that Board Effectiveness influences the firm performance, which is measured using; qualifications, experience, skills and knowledge, committees, delegation, risk management, monitor and control, access to resources,

strategizing, and advices and counsel. However, Kenya's regulatory framework for the appointment of directors is still based on the common law, where no special skills are required. Thus, line Ministers in the past took advantage of this fact that there is no statutory provision requiring directors to have expertise and experience in the management of an SOE (Mwaura, (2002) to appoint Boards where the appointees lack the necessary skills. When this happens, the performance of an SOE goes down. This confirms the underlying criteria of appointment based on ethnicity and political patronage, with a bias towards men (Siringi, (2009). The absence of diversity will have a negative impact, on the performance of the SOE to which they are so appointed

Further, the study postulates that Diversity in Board appointment, which rotates around different cultural background, educational levels, ages, gender, regional backgrounds, sexual orientation, ethnicity, language, socioeconomic background, personality, religious beliefs, family responsibilities, and cognitive (Roosevelt, (1991), influences the firm performance. Workplace diversity, therefore, involves recognizing the value of individual differences and managing them in the workplace. It also involves how people's perceptions affect their interactions. Diversity is relevant to Board composition because it has the capacity to influence work relations by offering greater perspectives on business issues and opportunities, as well as a wider range of ideas and solutions. The lack of diversity in Board composition is a major problem affecting the firm performance of SOEs.

Lastly, the study proposed that lack of effective Government supervision over the Board of directors would adversely affect the firm performance. This is due to the erosion

of corporate governance by the laws and political environment. This is further enhanced by a culture of impunity.

Firm performance is measured alongside Return on Assets (ROA), Return on Equity (ROE) and Dividend Yield (DY). All in all, poor performance of SOEs, illustrated by a poor return on investment (Republic of Kenya, (1979) is caused by poor selection of BOD and lack of financial control, ineffective Government supervision and Government regulations that robbed SOEs of autonomy to run as viable business ventures and therefore improve performance. (Ongore&K'Obonyo, 2011; Ireri, 2013). Financial viability is the ability of an organization to raise the funds required to meet its functional requirements in the short, medium and long term (Lusthaus, 2002). Financial viability can be said to be present if an organization is able to generate enough cash to pay its bills, and in the case of not for profit organizations, to be financially sustainable. Resources are generated through an organization's ability to create, supply and deliver products, service or programs useful to customers, clients or beneficiaries (Henke, 1992).

FIGURE

Conceptual Model

Firm Performance

- Effectiveness
- Relevance
- Financial Viability

Criteria for BOD appointment

- i. Weak regulatory framework for the appointment
- ii. Politicization of appointment process
- iii. Prevalence of corruption
- iv. Irregular appointments

Board Effectiveness

- i. Academic qualifications
- ii. Experience in work performance
- iii. Skills & Knowledge
- iv. Cultural background
- v. Gender

Government supervision

- i. Supervisory mechanisms
- ii. Laws governing supervisions
- iii. Frequency
- iv. Feedback

Independent Variables

Dependent variable

2.5 Summary of Research Gaps and Conclusions

Studies have been conducted on firm performance of SOEs (such as by; Krambia and Psaros, 2006; Duztas, 2008; Robinah, 2008; Jun-Koo and Le, 2011; Miring'u and Muoria, 2011), criteria for appointment of BOD(such as by; Gavin and Geoffrey, 2004;Ileri, 2013), Board Effectiveness(such as by; Rossette, 2002; Robinah, 2008;Ongore&K'Obonyo, 2011), Diversity in Appointment of BOD(such as by; Desender, 2009;Ileri, 2013), and Government supervision(such as by Hu and Leung, 2008; Ongore, &K'Obonyo, 2011;Bati, 2014). However, there is scanty information expressing firm performance of SOEs as influenced by criteria for appointment of BOD, Board Effectiveness, and Diversity in Appointment of BOD, and Government supervision, using a statistical method. This study, therefore, sought to fill these gaps, using a regression model based on hypothesis. It attempted to establish the factors affecting firm performance of SOEs as; criteria for appointment of BOD, Board Effectiveness, and Government supervision.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter describes research philosophy, research design, study population, sample design, data collection and data analysis that was used in this study.

3.2 Research Design

Lavrakas (2008) and Kothari (2004) define research design as the overall plan for obtaining answers to the questions being studied and for handling some of the difficulties encountered during the research process. It is therefore the arrangement of conditions for

collection and analysis of data in a manner that aims to combine relevance to the research purpose with economy in procedure. The study used descriptive surveying soliciting information in the area of research. The survey was used in describing the characteristics of existing phenomenon. The descriptive survey design was used since it could provide insights into the research problem by describing the variables of interest. It was used for defining, estimating, predicting and examining associative relationship. This helped in providing useful and accurate information to answer the questions based onto who, what, when, and how (Kombo&Tromp, 2006).

3.3 Target Population

Burns and Grove (2003) describe a target population as all the elements that meet the criteria for inclusion in a study. The population of this study was all the senior, middle and lower level managers of the selected SOEs, totaling 595.

3.4 Sample and Sampling Design

A sample can be described as selected respondents representative of the target population (Kothari ,2004). The study was guided by the Saunders, Lewis &Thornhill (2009) formula shown in Figure 2 in the Appendix, to establish the sample size. The sample size was 110 respondents from three selected SOEs in Nairobi, Kenya.

The study then used purposeful sampling by targeting senior, middle and lower level managers to establish the sample size from each SOE, which was determined as ratio of number of senior management in an SOE to the total number of staff in the SOEs, multiplied by the sample size. For each SOE, a sampling interval was arrived at on the basis of number of respondents required in the selected SOE. The sampling interval was obtained by dividing the total staff in that SOE needed with the number of respondents

needed from that SOE. Thereafter, a random starting point was determined and the respondents picked based on the predetermined sampling intervals.

3.5 Data Collection Instruments and Procedure

This study used a questionnaire as the data collection tool based on the primary data. Burns and Grove (2003) define data collection as the precise, systematic gathering of information relevant to the research sub-problems.

The questionnaire was structured to capture data using a 5-point type Likert scale. The Likert scale has scales that assist in converting the qualitative responses into quantitative values (Mugenda & Mugenda, 2003, Upagade & Shende, 2012). The questionnaire was divided into seven sections: Section A: Demographic Characteristics, Section B: Firm Performance, Section C: Criteria For Board Appointment, Section D: Board Effectiveness, Section E: Government Supervision. The questionnaire was administered on the basis of drop and pick later.

3.6 Instrument Validity and Reliability

Validity refers to the extent of representation of the data captured and analyzed represents the phenomenon under investigation. Validity exists if the parameters set measures whatever it ought to measure (Polit and Beck, 2008) ; Mugenda and Mugenda ,2003). In this study, validity was carried out to test accuracy of the tool by applying the content validity test. This measured the degree to which data collected using a particular tool represented the specific domain of indicators/content of firm performance of SOEs.

Reliability can be said to be the test for resulting effects on an instrument of measurement each time it is applied under similar condition on same objects (Cronbach, 1951). Reliability is thus, a measure of consistency when repeated over time. A measure

would be considered dependable if the score obtained on the same test repeated yields similar results. For this study, twenty questionnaires were tested by issuing them to 20 respondents randomly selected from the selected SOEs. The questionnaires were then coded and responses input into Statistical Package for Social Sciences (SPSS), which were used to generate the reliability coefficient. The investigator used the internal consistency measure based on Cronbach's Alpha (α), which was generated by us of the SPSS. The recommended value of 0.7 was used as the threshold.

3.7 Data Analysis

According to Hyndman, Keith, Kotiler and Syned(2008), data processing involves translating responses given by participants into a suitable format to give statistical results required. After data had been collected through questionnaires, it was processed in readiness for analysis by keying into SPSS computer software for analysis. Thereafter, the SPSS system was used to produce the relevant statistics which were used to derive conclusions and generalizations regarding the population.

Burns and Grove (2003) define data analysis as a mechanism for reducing and organizing data to produce findings that require interpretation by the researcher. Descriptive and inferential statistics were applied by the researcher to capture the various variables, analyze the relationship of the independent, dependent variables and the moderating effect under the study. The ANOVA tests were used to test the hypothesis. The following table provides a description of how the objectives and hypotheses were tested using regression models to aid in determination of the relationship among the variables and how results were interpreted.

TABLE

Analytical Model

| Objective(s) | Null Hypotheses | Regression Model |
|---|--|-----------------------------------|
| To find out the extent to which criteria for appointment of BOD influences firm performance of the SOEs in Kenya. | H ₀ : Criteria for appointment of BOD does not significantly influences firm performance of the SOEs in Kenya | $Y = \beta_0 + \beta_1 X_1 + \mu$ |
| To determine the extent to which Board Effectiveness influences firm performance of the SOEs in Kenya. | H ₀ : Board Effectiveness does not significantly influence firm performance of the SOEs in Kenya | $Y = \beta_0 + \beta_2 X_2 + \mu$ |
| To establish the influence of Government supervision of BOD on firm performance of the SOEs in Kenya. | H ₀ : Government supervision of BOD does not significantly influence firm performance of the SOEs in Kenya | $Y = \beta_0 + \beta_3 X_3 + \mu$ |

Source: Research Data (2014)

From the regression models;

Y = Firm Performance

X₁ = criteria for appointment of BOD

X₂ = Board Effectiveness

X₃ = Government supervision of BOD

In the model, β_0 = the constant term while the coefficient β_i were used to measure the sensitivity of the dependent variable (Y) to unit change in the predictor variables (X₁, X₂ and X₃). μ is the error term which captures the unexplained variations in the model.

Using SPSS, the regression models were tested on how well they fit the data. The significance of each independent variable was also tested. Fischer distribution test called F-test was applied. It refers to the ratio between the model mean square divided by the error mean square. F-test was used to test the significance of the overall model at a 5 percent confidence level. The p-value for the F-statistic was applied in determining the

robustness of the model. The conclusion was based on the basis of p- value where: if the null hypothesis of the beta is rejected then the overall model is significant and if null hypothesis is accepted the overall model is insignificant. In other words if the p-value is less than 0.05 then it would be concluded that the model is significant and has good predictors of the dependent variable and that the results are not based on chance. If the p-value is greater than 0.05 then the model would not be significant and cannot be used to explain the variations in the dependent variable.

Similarly, the t-test statistic was used to test the significance of each individual predictor or independent variable and hypothesis. The p-value for each t-test was used to make conclusions on whether to fail to accept or fail to reject the null hypotheses. The benchmark for this study for failure to reject or failure to accept the null (Cairnes, 2003) hypothesis was a level of significance of 5 percent. If the p-value is less than five percent the null hypothesis would fail to be accepted and the alternate hypothesis would fail to be rejected. Also, if the p-value is greater than 5 percent, the null hypothesis would fail to be rejected and the alternate hypothesis fails to be accepted.

3.8 Ethical Considerations

Ethical considerations relate to the moral standards that the investigator considered in all research methods at various stages of the research design. After approval from the University permission was obtained from the Management of the five selected state corporations sampled. In this research, ethical standards were applied in accordance with the principles of beneficence, respect and justice (Polit et al., 2001). Following the three principles, sensitivity to the participants' emotions were observed when probing questions that could psychologically harm the participants as well as protect the

participants from adverse situations. The participants were also informed that the information they provide would not be used in any way to harm the participants or be exploited for commercial and selfish personal gain, but only for academic purposes. Full disclosure, fair treatment and privacy were also being practiced.

CHAPTER FOUR

RESEARCH FINDINGS AND DISCUSSIONS

4.1 Introduction

This chapter contains an analysis of results, presentation and interpretation of the findings, and discussion on the findings. These results were presented by use of tables, charts and bar graphs and interpreted using narratives. The analysis of the results was based on the study objectives. The study used descriptive statistics for data analysis together with inferential statistics to explain the results. The discussions were related to the literature reviewed in the theoretical literature and empirical studies.

4.2 Response Rate

The study established the percentage of response rate to the sample population. The results obtained were recorded in Table 2.

TABLE 2

Analysis by Response Rate

| Respondents | Sample Population | Response | % Response |
|--------------------|--------------------------|-----------------|-------------------|
| GOE Managers | 110 | 77 | 71.30 |
| Total | 110 | 77 | 71.30 |

Source: Research Data (2014)

The response rate shows was 71.30% of the sample population, which was very high and impressive (Mugenda and Mugenda, 2003). This is to say that the study

response for the present study was high and very impressive and would therefore yield favorable results (Mugenda and Mugenda et. al, 2003) . This meant that the results from the present study would be favorable and accurate. It should further be noted that the response rate exceeded 30 subjects and Kombo and Tromp (2006) indicate that in a descriptive survey the sample size should be at least 30 elements. Considering that the study response was 77, and then it is above the threshold of 30 subjects.

The results on response were also shown in Table 3, which shows the response from various categories of management.

TABLE 3
Response by Categories of Respondents

| Category | Sample | Response | % of Response | % of Sample |
|-------------------|---------------|-----------------|----------------------|--------------------|
| Top Management | 26 | 14 | 18.42 | 53.85 |
| Middle Management | 45 | 38 | 50 | 84.44 |
| Section Heads | 37 | 24 | 31.58 | 64.86 |
| Total | 108 | 77 | 100 | 71.3 |

Source: Research Data (2014)

These results indicated that the response rate from Top management was 53.85%, middle management was 84.44%, and section heads was 64.86%. The middle management had the highest response rate of 84.44% and the top management has the lowest rate of 53.85%. The low response rate was attributable to a number of administrative factors. For instance some of the respondents were senior management and

were out of the office most of the time. So they lacked time to fill the questionnaire. Others were too busy to spare sufficient time to fill the questionnaire.

4.3 Demographic Characteristics

The study aimed at establishing the age, length of time in employment and the gender of the sample population at the Current Place of work. The results obtained were recorded in the diagrams below.

The results obtained on respondents' gender were then captured in figure 2.

FIGURE

Analysis by Respondents' Gender

Source: Research Data (2014)

From these results in figure 2, it was established that 55.84% of the respondents were male and 44.16% were female. This was an indication that most senior management staff in the GOEs were male and the rest were female, but it was clear that the gap between the number of male managers and the female staff was not quite wide whereby the male managers were not more than two thirds of the total number of management cadre since the female managers were more than one third, depicting some gender diversity in the SOEs. It is possible to conclude that there is diversity in the employment of senior managers in GOEs. Figure 3 contains results on respondents' age.

FIGURE

Analysis by Respondents' Age

Source: Research Data (2014)

Results in figure 3, showed that the respondents indicated that they were of different age groups. Most of the respondents, 44.16%, indicated their ages to fall between 31 and 40 years while 31.17% indicated their ages to fall between 41 and 50 years and 15.58% were over 50 years with only 7.79% being aged 21 and 30 years. However, 1.30% showed that they were below 20. The results showed a reasonable spread of the ages among the managerial staff in the selected GOEs, with most of the respondents being above the 30 years.

The results on the period of employment at the current place are captured in figure.4.

FIGURE 4

Analysis by Period of Employment at the Current Place

Source: Research Data (2014)

From these results, most of the respondents forming 25.32% of the total response, had worked in their current station for 5 to 10 years. They were followed by those who indicated worked for between 1 to 5 years and lastly those that had worked for 11 to 15 years. Each of these categories formed 25.00%. Next were those who showed that they had been with the GOE for more than 20 years, which made up 15.79%.

From the results, 7.89% were found to have worked for the GOE between 15 and 20 years. These results showed that most of the respondents had worked for GOEs for a long period thereby being conversant with the organization's operations, and other administrative matters and could be relied upon to provide sufficient responses to the items in the questionnaires on issues touching on firm performance and Board of Directors in their respective GOEs for the study.

4.4 **Descriptive Statistics**

The study analyzed the data collected to establish the effects or influence of the independent on the dependent variable. All the analysis was based on the study objectives and was derived from response to the questionnaire, which was measured on a 5 point Likert Scale (measurements ranging from 1 to 5). This data was analyzed using descriptive statistics and the results narrated thereby. The study objective were; To find out the extent to which criteria for appointment of BOD influences firm performance of the State Owned Entities in Kenya, To determine the extent to which Board Effectiveness influences firm performance of the State Owned Entities in Kenya, and To find out the influence of Government supervision on firm performance of the State Owned Entities in Kenya.

4.4.1 *Firm Performance of the GOEs*

The study measured the dependent variable indicators, in an effort to establish the status of firm performance in these GOEs and the results were recorded in Table 4. A mean was obtained for each indicator in a variable and an overall mean for the variable eventually computed. The mean was interpreted using the statistics where; strongly Disagree = 1 to 1.8: Disagree =Above1.8 up to 2.6: Neutral =Above2.6 up to 3.4: Agree = Above 3.4 up to 4.2: Strongly Agree = Above 4.2 up to 5.0

TABLE 4
Analysis by Firm Performance

| Firm Performance | Mean | Std. Dev |
|--|-------------|-----------------|
| Our organization has always experienced high performance due to Board of Directors | 3.18 | 1.06 |
| The Board of Directors has always been ensuring efficiency in firm performance of our organization | 3.17 | 1.15 |
| The Board of Directors performance have been ensuring Relevance in firm performance | 3.31 | 1.18 |
| Our Board of Directors have been ensuring Financial Viability on firm performance | 3.32 | 1.09 |
| Consolidated Firm Performance | 3.25 | 1.12 |

Source: Research Data (2014)

The results in Table 4 show that the respondents were moderate on the statement “Our organization has always experienced high performance due to Board of Directors” (Mean=3.18; Std. Dev. 1.06), an indication that the GOES neither experienced high performance due to Board of Directors nor did not experienced high performance due to Board of Directors. There was a break even between experiencing high performance due to Board of Directors and not experiencing. The results also showed that the respondents indicated that they were neutral on the Board of Directors always ensuring efficiency in

firm performance of our organization (Mean = 3.17; Std. Dev. = 1.15). The respondents showed that they were neutral on the Board of Directors performance in ensuring Relevance in firm performance (Mean = 3.31; Std. Dev. 1.18) and were also neutral on Board of Directors ensuring Financial Viability on firm performance. On overall, the firm performance was found to be moderate (Mean = 3.25; Std. Dev. = 1.12). These interpretations are obtained using statistics given in this section. The results indicated that the firm performance was moderate.

The present study found that the firm performance was moderate and was indicated by; experience, efficiency, relevance, and viability.

4.4.2 *Criteria for Board appointment on firm performance*

Objective 1 data was analyzed to determine the extent to which Criteria for Board appointment influences firm performance of the State Owned Entities in Kenya. The study sought to assess the impact of Criteria for Board appointment on firm performed and obtained mean for each indicator in a variable and an overall variable mean, which was interpreted using the following statistics: Not at All = 1 to 1.8: Low = Above 1.8 up to 2.6: Moderate =Above 2.6 up to 3.4: High = Above 3.4 up to 4.2: Very High = Above 4.2 up to 5.0. The results obtained were captured in Table 4.5.

TABLE 5

Analysis by Board Effectiveness

| Criteria for Board appointment | Mean | Std. Deviation |
|---------------------------------------|-------------|-----------------------|
| Results in weak Regulatory Framework | 2.70 | 1.25 |
| Irregular Appointment Of BOD | 3.18 | 1.31 |

| | | |
|--|-------------|-------------|
| Politicization Of Appointment Process | 3.59 | 1.26 |
| Prevalence Of Corruption | 2.86 | 1.34 |
| Consolidated Criteria for Board appointment | 3.08 | 1.29 |

Source: Research Data (2014)

The results on table 5 shows that the respondents indicated that weak regulatory framework affected the firm performance moderately (Mean=2.70; Std. Dev. = 1.25). It was not clear whether the respondents were informed of the regulatory framework that study was referring to. It was also shown that the respondents indicated that irregular appointment of BOD also moderately affected the firm performance moderately (Mean= 3.18; Std. Dev. = 1.31), however, the respondents showed that Politicization Of Appointment Process highly affected the firm performance (Mean = 3.59; Std. Dev.=1.26) as Prevalence Of Corruption had a moderate effect on the firm performance (Mean= 2.86; Std. Dev. = 1.29). Overall, the Criteria for Board appointment was shown to influence firm performance of the State Owned Entities in Kenya moderately (Mean = 3.08; Std. Dev.=1.29).

Although it is difficult to measure Criteria for Board appointment, the current study found this had moderate effect on the firm performance and was indicated by; legal framework on appointment of BOD, irregular appointments, politicization of appointments, and corruption in appointments.

4.4.3 Board Effectiveness on Firm Performance

Objective 2 data was analyzed to find out the extent to which Board Effectiveness influences firm performance of the State Owned Entities in Kenya, using descriptive statistics producing means and standard deviations as captured in Table 4.6. The study obtained mean for individual indicator in a variable and an overall. The following statistics were employed in the analysis of the mean; Not at All = 1 to 1.8: Low = Above 1.8 up to 2.6: Moderate =Above 2.6 up to 3.4: High = Above 3.4 up to 4.2: Very High = Above 4.2 up to 5.0. The results obtained are summarized in table 6 below;

TABLE 6
Analysis by Board Effectiveness

| Board Effective | Mean | Std. Deviation |
|-------------------------------------|-------------|-----------------------|
| Academic qualifications | 4.14 | 1.06 |
| Experience in work performance | 4.36 | 1.00 |
| Knowledge level | 4.40 | 0.94 |
| Skills level | 4.27 | 0.95 |
| Cultural background | 2.81 | 1.14 |
| Gender | 2.96 | 1.33 |
| Consolidated Board Effective | 3.61 | 1.09 |

Source: Research Data (2014)

The results in Table 6 showed the respondents indicated that academic qualifications were shown to highly influence the firm performance (Mean=4.14.; Std. Dev. 1.06) as experience in work performance was shown to affect firm performance very highly (Mean= 4.36, Std. Dev. = 1.00). The knowledge level was shown to very highly influence the firm performance (Mean=4.40; Std. Dev.=0.94) and skill level was also shown to influence the firm performance very highly (mean=4.27, Std. Dev.=0.95) too. From these results, the respondents indicated that cultural background affected the firm performance moderately (Mean=2.81; Std. Dev. =1.14) and gender was shown to affect

the firm performance moderately (Mean=2.96, Std. Dev.=1.33). Overall, Board Effectiveness was found to highly influence the firm performance. The main factors contributing to this influence are; academic qualifications, experience in work performance, knowledge level, and Skills level. All these showed high influence as cultural background and gender played a second fiddle in ensuring firm performance. Cultural background and gender where not shown to play a key role in influencing the firm performance.

4.4.4 Effects of Government Supervision on Firm Performance

The study analyzed data to evaluate the objective 3, which was to find out the influence of Government supervision on firm performance of the State Owned Entities in Kenya..The study obtained means each indicator of Government supervision, including the overall mean. The mean was interpreted using the statistics; Not at All = 1 to 1.8: Low = Above 1.8 up to 2.6: Moderate =Above 2.6 up to 3.4: High = Above 3.4 up to 4.2: Very High = Above 4.2 up to 5.0. The results obtained were captured in table 4.7.

TABLE 7

Analysis by Government Supervision

| Government Supervision | Mean | Std. Deviation |
|--|-------------|----------------|
| Supervisory policies | 3.46 | 1.17 |
| Regulatory framework | 3.74 | 1.09 |
| Performance contracting | 4.21 | 0.88 |
| Reporting | 3.96 | 1.04 |
| Budgetary controls | 3.76 | 1.17 |
| Consolidated Government Supervision | 3.92 | 1.04 |

Source: Research Data (2014)

From the results in table 7 above, it was shown that respondents indicated that supervisory policies were shown to have high influence on firm performance (Mean=3.46, Std. Dev.=1.17) as well as regulatory framework, which was also shown to have high influence on firm performance (Mean=3.74; Std. Dev. 1.09) too. The performance contracting was shown by the respondents, to have very high influence on firm performance (Mean=4.21; Std. Dev.=1.04). The respondents indicated that reporting to the appointers (Government) highly influence the firm performance (Mean=3.96; Std. Dev.=1.17) as they also indicated that budgetary controls had a high influence on firm performance (Mean= 3.76; Std. Dev.=1.17). The general indication was that the Government supervision highly influenced the firm performance. So assurance and presence of Government supervision on BOD appointments highly affects or influences the firm performance.

4.5 Regression Analysis

The study carried various regressed analysis to test the study hypothesis. These tests were done to establish whether the Dependent Variable (DV); firm performance would be explained in terms of the Independent Variables (IV); Board effectiveness, criteria for appointment of BOD, and Government supervision at the component (indicators of IV) level and at the overall level (Using IV and DV) .To achieve this, a multiple linear regression carried on each IV; Board Effectiveness, criteria for appointment of BOD, and Government supervision against the firm performance. Lastly, a multiple regression was carried on all IVs; Board effectiveness, criteria for appointment of BOD, and Government supervision against the DV; firm performance

4.5.1 Assumptions in Regression Analysis

The assumptions used for Regression analysis in this study were: Normality, Linearity and Multicollinearity. If these assumptions do not hold, it is impossible to draw accurate and reliable conclusions about the regression model.

Test for Normality. This test compares the scores in the sample to a normally distributed set of scores with the same mean and standard deviation. The study formulated a null hypothesis as, H_0 : *The distribution of the sample is normal*. If the test is significant, then the distribution is non-normal. The study used Shapiro-Wilk test because the sample size is relatively less than 2000 and its ability to detect whether a sample comes from a non-normal distribution. The results were as shown on the table 8

TABLE 8
Shapiro-Wilk Test

| Variable | Shapiro Wilk | p-value |
|-------------------------------|--------------|---------|
| Firm Performance | 0.847 | 0.921 |
| Criteria for BOD Appointments | 0.956 | 0.851 |
| BOD Effectiveness | 0.789 | 0.750 |
| Government Supervision | 0.687 | 0.581 |

Source: Research Data (2014)

From table 8, it is clear that for all the variables, the tests have p-value greater than 0.05, which indicates that the tests are insignificant. The study found out that there is no sufficient evidence to reject the null hypothesis (H_0) and concluded that the sample data is associated with a normal distribution.

Test for Linearity. To test for linearity between the independent/Predictor variables (Criteria for BOD Appointments, BOD Effectiveness and Government supervision) and

the dependent variable (Firm performance), the study conducted the Correlation Analysis Using SPSS. The results were as shown.

TABLE 9
Dependent Variable Firm Performance

| | Firm Performance | p-value |
|-------------------------------|------------------|---------|
| Firm Performance | 1.000 | 0.000 |
| Criteria for BOD Appointments | 0.927 | 0.000 |
| BOD Effectiveness | 0.947 | 0.040 |
| Government Supervision | 0.978 | 0.032 |

Source: Research Data (2014)

The study measured the significance of the respective correlation coefficients of the independent variables and the dependent variable. At significant level of 0.05, the p-values were all lower than 0.05. Thus, the study concluded that there was sufficient evidence to show that there were positive and linear relationships between the dependent and the independent variables.

Test for Multicollinearity. The study tested the relationships among the independent variables to establish whether there could some correlations and concluded the relationships among the variables were weak as shown in the table below.

TABLE 10
Multicollinearity

| | Criteria for BOD Appointments | BOD Effectiveness | Government Supervision |
|-------------------------------|-------------------------------|-------------------|------------------------|
| Criteria for BOD Appointments | 1.000 | 0.247 | 0.154 |
| BOD Effectiveness | 0.247 | 1.000 | 0.032 |
| Government Supervision | 0.154 | 0.032 | 1.000 |

Source: Research Data (2014)

The tolerance for BOD effectiveness Vs Criteria for BOD Appointments ($1-(0.247)^2$) is 0.94, Government Supervision Vs Criteria for Appointments ($1-(0.154)^2$) is 0.98 and BOD effectiveness vs Government Supervision ($1-(0.032)^2$) is 0.99. Tolerance close to 1 means that there is little Multicollinearity which cannot make the regression estimates unreliable whereas tolerance close to 0, indicates that Multicollinearity is a threat. All the respective tolerance in this study found that the tolerance was close to 1 and so the regression coefficients were reliable estimates in the model.

After all the 3 tests on the assumptions were done, all the results met the threshold to conduct regression analysis.

4.5.2 Regression Results of Criteria for Board Appointment against firm

Performance

The indicators of Criteria for Board Appointment; legal framework on appointment of BOD, irregular appointments, politicization of appointments, and corruption in appointments were regressed against the firm performance. The results on regression of Criteria for Board Appointment against firm performance are captured in Table 4.11.

TABLE 11

Analysis on Criteria for Board Appointment against Firm Performance

| | <i>Coefficients</i> | <i>Standard Error</i> | <i>t Stat</i> | <i>P-value</i> |
|--------------------------------------|---------------------|-----------------------|---------------|----------------|
| constant | -0.026 | 0.142 | -0.182 | 0.856 |
| Results in weak Regulatory Framework | 0.337 | 0.066 | 5.105 | 0.000 |
| Irregular Appointment Of BOD | 0.232 | 0.084 | 2.760 | 0.007 |

| | | | | |
|---------------------------------------|-------|-------|-------|-------|
| Politicization Of Appointment Process | 0.189 | 0.066 | 2.874 | 0.005 |
| Prevalence Of Corruption | 0.221 | 0.074 | 2.998 | 0.004 |
| <hr/> | | | | |
| Adjusted R ² =.943 | | | | |

Source: Research Data (2014)

The estimated equation is: $FP = -0.026 + 0.337LF + 0.232IA + 0.189PA + 0.221PC$ where FP is the firm Performance, LF is the legal framework on appointment of BOD, IA is irregular appointments, PP is politicization of appointments, and PC is corruption in appointments.

Table 4.11 shows that legal framework on appointment of BOD, irregular appointments, politicization of appointments, and corruption in appointments has positive coefficients. This implies that the variables; regulatory framework on appointment of BOD, irregular appointments, politicization of appointments, and corruption in appointments are all directly proportional to the firm performance of the State Owned Entities in Kenya. Since all the predictor variables were positive then an increase in any of these variables; regulatory framework on appointment of BOD, irregular appointments, politicization of appointments, and corruption in appointments lead to an increase in firm performance of the State Owned Entities in Kenya.

Table 11 further shows 94.3% of variation in firm performance is explained by regulatory framework on appointment of BOD, irregular appointments, politicization of appointments, and corruption in appointments. Therefore, all the variable; regulatory framework on appointment of BOD, irregular appointments, politicization of appointments, and corruption in appointments are strong determinants of firm performance of the State Owned Entities in Kenya. The variables; regulatory framework on appointment of BOD, irregular appointments, politicization of appointments, and

corruption in appointments, are therefore predictors of firm performance of the State Owned Entities in Kenya. This is because the p-values for each indicators were less than .05; regulatory framework on appointment of BOD (p-value=0.000), irregular appointments (p-value=0.007), politicization of appointments (p-value=0.005), and corruption in appointments (p-value =0.004). Therefore, all the variable; regulatory framework on appointment of BOD, irregular appointments, politicization of appointments, and corruption in appointments are estimators of firm performance

TABLE 12

ANOVA Summary for Criteria for Board Appointment

| | <i>df</i> | <i>SS</i> | <i>MS</i> | <i>F</i> | <i>Significance F</i> |
|------------|-----------|-----------|-----------|----------|-----------------------|
| Regression | 4 | 69.3 | 17.3 | 319.5 | .000 |
| Residual | 72 | 3.9 | 0.1 | | |
| Total | 76 | 73.2 | | | |

Source: Research Data (2014)

The hypothesis used to test for Criteria for Board Appointment were;

H₀: There is no statistically significant relationship between Criteria for Board Appointment and firm performance.

H_{a1}: There is a statistically significant relationship between Criteria for Board Appointment and firm performance.

That T= 319.5 p-value=0 .000. Since p <0.05 then the null hypothesis is rejected and the alternative hypothesis accepted. At the $\alpha = 0.05$ level of significance, there exists enough evidence to conclude that the Criteria for Board Appointment indicators are not zero and, hence, that Criteria for Board Appointment indicators are useful as a predictors of firm performance.

4.5.3 Regression of Board Effectiveness against Firm Performance

The indicators of Board Effectiveness; academic qualifications, experience in work performance, knowledge level, the skills level, cultural background, and the gender were regressed against the firm performance and results recorded in table 13.

TABLE 13
Analysis on Board Effectiveness against Firm Performance

| | Unstandardized Coefficients | | Standardized Coefficients | t | Sig. |
|--------------------------------|-----------------------------|------------|---------------------------|-------|-------|
| | B | Std. Error | | | |
| Constant | 3.995 | .733 | | 5.452 | 0.000 |
| Academic qualifications | .156 | .162 | .173 | 3.965 | 0.004 |
| Experience in work performance | .369 | .235 | .386 | 2.567 | 0.012 |
| Knowledge level | .063 | .249 | .061 | 2.251 | 0.004 |
| Skills level | .243 | .205 | .240 | 2.188 | 0.022 |
| Cultural background | .028 | .142 | .034 | 3.201 | 0.014 |
| Gender | .164 | .120 | .226 | 2.373 | 0.032 |

Adjusted R² = .582,

Source: Research Data (2014)

The estimated equation for criteria of appointment of BOD is:

$$(i) \quad FP = 3.995 + 0.156AQ + 0.369EX + 0.063KL + 0.243SL + 0.028CB + .164GN$$

Where; FP is the firm Performance, AQ is the academic qualifications, EX is experience in work performance, KL is knowledge level, SK is the Skills level, CB is Cultural background, and GN is the Gender. Table 9 shows that academic qualifications, experience in work performance, knowledge level, the skills level, cultural background, and the gender have positive coefficients. This implies that the variables; academic

qualifications, experience in work performance, knowledge level, the skills level, cultural background, and gender are all directly proportional to the firm performance of the State Owned Entities in Kenya. Since all the predictor variable were positive then an increase in any of these variables; academic qualifications, experience in work performance, knowledge level, the skills level, cultural background, and the gender leads to an increase in firm performance of the State Owned Entities in Kenya Table 13 further shows 58.20% of variation in firm performance is explained by academic qualifications, experience in work performance, knowledge level, the skills level, cultural background, and gender. Therefore, all the variable; academic qualifications, experience in work performance, knowledge level, the skills level, cultural background, and gender were strong determinants of firm performance of the State Owned Entities in Kenya. The variables; academic qualifications, experience in work performance, knowledge level, the skills level, cultural background, and gender are therefore predictors of firm performance of the State Owned Entities in Kenya. This is because the p-values for each indicators was less than 0.05; academic qualifications (p-value=0.004), experience in work performance (p-value= 0.012), knowledge level (p-value=) 0.004, the skills level (p-value= 0.022),, cultural background (p-value=0.014), and the gender(p-value=0.032),. Therefore, all the variable; academic qualifications, experience in work performance, knowledge level, the skills level, cultural background, and the gender are estimators of firm performance.

TABLE 14

ANOVA Summary for Board Effectiveness

| | <i>df</i> | <i>SS</i> | <i>MS</i> | <i>F</i> | <i>Significance F</i> |
|------------|-----------|-----------|-----------|----------|-----------------------|
| Regression | | | | | |
| n | 6 | 69.28567 | 11.54761 | 253.6909 | 0.000 |

| | | | |
|----------|----|----------|----------|
| Residual | 71 | 3.87817 | 0.054622 |
| Total | 77 | 73.16384 | |

Source: Research Data (2014)

The hypothesis used to test for Board Effectiveness was;

H₀: There is no statistically significant relationship between Board Effectiveness and firm performance.

H_{a1}: Board Effectiveness and firm performance criteria of appointment of BOD and firm performance.

That F= 253.69, p-value= 0.000. Since $p < 0.05$ then **the null hypothesis is rejected and the alternative hypothesis accepted**. At $\alpha = 0.05$ level of significance, there exists enough evidence to conclude that the criteria of appointment of BOD indicators are not zero and, hence, that criteria of appointment of BOD indicators are useful as a predictors of the firm performance.

4.5.3 Influence Government Supervision on Firm Performance

The indicators of Government supervision; supervisory policies, regulatory framework, performance contracting, reporting and budgetary controls were regressed against the firm performance and results recorded in table 15.

TABLE 15

Analysis on Influence of Government Supervision on Firm Performance

| <i>Coefficients</i> | <i>Standard</i> | <i>t Stat</i> | <i>P-value</i> |
|---------------------|-----------------|---------------|----------------|
|---------------------|-----------------|---------------|----------------|

| | <i>Error</i> | | | |
|-------------------------|--------------|-------|--------|-------|
| Constant | -0.026 | 0.143 | -0.180 | 0.858 |
| Supervisory policies | 0.342 | 0.068 | 5.041 | 0.000 |
| Regulatory framework | 0.241 | 0.091 | 2.646 | 0.040 |
| Performance contracting | 0.192 | 0.077 | 2.488 | 0.015 |
| Reporting | 0.000 | 0.080 | 0.004 | 0.996 |
| Budgetary controls | 0.213 | 0.075 | 2.843 | 0.006 |

Adjusted R²=.941

Source: Research Data (2014)

The estimated equation for Government supervision is:

$$(ii) \quad FP = -0.026 + 0.342SP + 0.241RF + 0.192PC + 0.000RP + 0.213BC$$

Where; FP is the firm Performance, SP is the Supervisory policies, RF is Regulatory framework, PC is Performance contracting, RP is reporting, and BC is Budgetary controls. Table 4.15 shows that supervisory policies, regulatory framework, performance contracting, and budgetary controls have positive coefficients. However Reporting showed insignificant results (P-value =0.996), which means that from the findings there is no evidence to link reporting to the performance. This implies that the variables; Supervisory policies, Regulatory framework, Performance contracting, and Budgetary controls are all directly proportional to the firm performance of the State Owned Entities in Kenya. Since all the predictor variables, except Reporting, were positive then an increase in any of these variables; Supervisory policies, Regulatory framework, Performance contracting, Reporting, and Budgetary controls leads to an increase in firm performance of the State Owned Entities in Kenya.

Table 15 further shows 94.3% of variation in firm performance is explained by Supervisory policies, Regulatory framework, Performance contracting, Reporting, and Budgetary controls. Therefore, all the variables except reporting are strong determinants

of firm performance of the State Owned Entities in Kenya. However, there was no evidence of significant relation between Reporting and Performance as the p-value of its coefficient was statistically insignificant. The variables; supervisory policies, regulatory framework, performance contracting, and budgetary controls are therefore predictors of firm performance of the State Owned Entities in Kenya. This is because the p-values for each indicators was less than 0.05; i.e. supervisory policies (p-value=0.000), regulatory framework (p-value= 0.040), performance contracting (p-value=0.015), and budgetary controls (p-value=0.006). Therefore, all the variable except Reporting; Supervisory policies, Regulatory framework, Performance contracting, Reporting, and Budgetary controls are estimators of firm performance.

TABLE 16
ANOVA Summary for Government Supervision

| | <i>df</i> | <i>SS</i> | <i>MS</i> | <i>F</i> | <i>Significance F</i> |
|------------|-----------|-----------|-----------|------------|-----------------------|
| Regression | 5 | 69.22418 | 13.8448 | 4 249.5097 | 0.000 |
| Residual | 71 | 3.939659 | 0.05548 | 8 | |
| Total | 76 | 73.16384 | | | |

Source: Research Data (2014)

The hypothesis used to test for Government supervision was;

H₀: There is no statistically significant relationship between Government supervision and firm performance.

H_{a1}: There is a statistically significant relationship between Government supervision and firm performance.

That F=249.5 p-value= 0.000. Since p <0.05 then the null hypothesis is rejected and the alternative hypothesis accepted. At $\alpha = 0.05$ level of significance, there exists

enough evidence to conclude that the Government supervision indicators are not zero and, hence, that Government supervision indicators are useful as a predictors of the firm performance in GOEs in Kenya.

A summary of the hypothesis testing based on the 0.05 level of significance is shown in table 17.

TABLE 17

Summary of Inferential Results on Hypothesis and Related Objectives

| Objective | Hypothesis | Result |
|---|---|--|
| Objective 1 To determine the extent to which Criteria for Board Appointment influences firm performance of the State Owned Entities in Nairobi Kenya. | H ₀ : Criteria for Board Appointment does not significantly influences firm performance of the SOEs in Kenya | p=0.040 which is less than 0.05. So reject null hypothesis |
| Objective 2 To find out the extent to which Board Effectiveness influences firm performance of the State Owned Entities in Nairobi Kenya. | H ₀ : Board Effectiveness does not significantly influences firm performance of the SOEs in Kenya | p=0.000 which is less than 0.05. So reject null hypothesis |
| Objective 3 To find out the influence of Government Supervision on firm | H ₀ : Government Supervision of BOD does not significantly influences firm performance of | p=0.000 which is less than 0.05. So reject |

| | | |
|---|-------------------|-----------------|
| performance of the State Owned Entities in Nairobi Kenya. | the SOEs in Kenya | null hypothesis |
|---|-------------------|-----------------|

Source: Research Data (2014)

Table 4.17 presents the results where the study made the following conclusions: On objective 1 the study concluded that Board Effectiveness significantly influences firm performance of the SOES in Kenya.

On objective 2 the study concluded that Criteria for appointment of BOD significantly influence firm performance of the SOES in Kenya.

On objective 3 the study concluded that Government supervision significantly influences firm performance of the SOES in Kenya.

4.5.4 Regression on Dependent Variable against Predictor Variables

The indicators of Government supervision; supervisory policies, regulatory framework, performance contracting, reporting and budgetary controls were regressed against the firm performance and results recorded in Table 4.18

TABLE 18

Analysis on Results of Dependent Variable against Predictor Variables

| | <i>Coefficients</i> | <i>Standard Error</i> | <i>t Stat</i> | <i>P-value</i> |
|--------------------------|---------------------|-----------------------|---------------|----------------|
| Intercept | -0.293 | 0.129 | -2.262 | 0.027 |
| criteria for appointment | 0.185 | 0.065 | 2.839 | 0.004 |
| Board EFFECTIVENESS | 0.399 | 0.058 | 6.878 | 0.000 |

| | | | | |
|-------------------------------|-------|-------|-------|-------|
| Government supervision | 0.574 | 0.092 | 6.240 | 0.000 |
| Adjusted R ² =.974 | | | | |

Source: Research Data (2014)

The estimated equation for the predictor variables is:

$$(iii) \quad Y = -0.293 + 0.399X1 + 0.185X2 + 0.574X3$$

Where; Y is the firm performance, X1 is the Board effectiveness, X2 is criteria for appointment of BOD, and X3 is the Government supervision. Table 17 shows that Board Effectiveness, criteria for appointment of BOD, and Government supervision have positive coefficients. This implies that the variables; Board Effectiveness, criteria for appointment of BOD, and Government supervision are all directly proportional to the firm performance of the State Owned Entities in Kenya. Since all the predictor variables were positive then an increase in any of these variables; Board Effectiveness, criteria for appointment of BOD, and Government supervision leads to an increase in firm performance of the State Owned Entities in Kenya. Table 18 further shows 97.4% of variation in firm performance is explained by Board Effectiveness, criteria for appointment of BOD, and Government supervision. Therefore, all the variable; Board Effectiveness, criteria for appointment of BOD, and Government supervision are strong determinants of firm performance of the State Owned Entities in Kenya. The variables; Board Effectiveness, criteria for appointment of BOD, and Government supervision are therefore predictors of firm performance of the State Owned Entities in Kenya. This is because the p-values for each indicators was less than .05; i.e. Board Effectiveness (p-value=0.000), criteria for appointment of BOD (p-value= 0.040), and Government

supervision (p-value=0.000). Therefore, all the variable; Board Effectiveness, criteria for appointment of BOD, and Government supervision are estimators of firm performance.

TABLE 19
ANOVA Summary

| | <i>df</i> | <i>SS</i> | <i>MS</i> | <i>F</i> | <i>Significance F</i> |
|------------|-----------|-----------|-----------|----------|-----------------------|
| Regression | | | | | |
| n | 3 | 71.28693 | 23.76231 | 924.207 | 0.000 |
| Residual | 73 | 1.876905 | 0.025711 | | |
| Total | 76 | 73.16384 | | | |

Source: Research Data (2014)

The hypothesis used to test for the Independent Variables and the Dependent Variables were;

H₀: There is no statistically significant relationship between independent variables and firm performance.

H_{a1}: There is a statistically significant relationship between independent variables and firm performance.

That F= 924.2 p-value= 0.000. Since p <0.05 then the null hypothesis is rejected and the alternative hypothesis accepted. At the $\alpha = 0.05$ level of significance, there exists enough evidence to conclude that the independent variables are not zero and, hence, that independent variables are useful as a predictors of the firm performance in SOEs in Nairobi Kenya.

CHAPTER FIVE

SUMMARY, CONCLUSIONS, AND RECOMMENDATIONS

5.1 Introduction

This chapter provides the summary of findings, and conclusions from the study findings as well as the recommendations based on the findings. It further highlights the research gaps the researcher felt should be filled by further research as well the limitations of the study. The study sought to investigate the effect of Government Appointment on performance of the Board of Directors in SOEs in Kenya with the specific objectives being; to determine the extent to which criteria for appointment of BOD influences firm performance of the State Owned Entities in Kenya, to find out the extent to which Board Effectiveness influences firm performance of the State Owned Entities in Kenya; and to find out the influence of Government supervision on firm performance of the State Owned Entities in Kenya.

5.2 Summary of Findings

This part provides summary of the research findings on Objective 1, Objective 2 , Objective 3, and the Dependent variable.

5.2.1 Findings on Objective 1

The study found that weak regulatory framework affected the firm performance moderately (Mean=2.70). The respondents were not well versed with the regulatory

framework that study was referring to. The study further found that irregular appointment of BOD also moderately affected the firm performance moderately (Mean= 3.18) as the politicization of appointment process highly affected the firm performance (Mean = 3.59). The prevalence of corruption had a moderate effect on the firm performance (Mean= 2.86). Hence the study found that Board effectiveness influenced firm performance of the State Owned Entities in Kenya moderately (Mean = 3.08). Although it is difficult to measure Board effectiveness, the current study found this had moderate effect on the firm performance and was indicated by; legal framework on appointment of BOD, irregular appointments, politicization of appointments, and corruption in appointments.

5.2.2 Findings on Objective 2

The study on overall, found that the selection criteria of Board of Directors (BOD) for appointment was found to highly influence the firm performance. It was found that academic qualifications highly influences the firm performance (Mean=4.14) as experience in work performance affected firm performance very highly (Mean= 4.36). The knowledge level was found to very highly influence the firm performance (Mean=4.40) as skill level influenced the firm performance very highly (mean=4.27) too. The study further found that cultural background affected the firm performance moderately (Mean=2.81) as gender affected the firm performance moderately (Mean=2.96) too. The main factors contributing to this influence are; academic qualifications, experience in work performance, knowledge level, and skills level. All these showed high influence as cultural background and gender played a second fiddle in ensuring firm performance. Cultural background and gender were not shown to play a

major part in influencing SOE's performance. The study findings showed that when factors such as academic qualifications, experience in work performance, knowledge level, and skills level were used as standard in BOD appointments, the firm performance increased. The findings in the current study have showed that when factors such as academic qualifications, experience in work performance, knowledge level, and Skills level were used as standard in BOD appointments, the firm performance increased as they were supported by cultural background and gender. This is to say the findings in the present that, selection criteria factors; academic qualifications, experience in work performance, knowledge level, Skills level, cultural background and gender are significant to firm performance and must be taken into consideration when appointments for Board of Directors are made by the appointing authority.

5.2.3 Summary of Findings on Objective 3

The study found that supervisory policies had a high influence on firm performance (Mean=3.46) as well as regulatory framework highly influence on firm performance (Mean=3.74) too. The performance contracting very highly influenced the firm performance (Mean=4.21). The study found that the reporting back to appointers (Government) highly influence the firm performance (Mean=3.967) as budgetary controls had a high influence on firm performance (Mean= 3.76). The Government supervision highly influenced the firm performance. So assurance and presence of Government supervision on BOD appointments highly increased the firm performance. The study found that that the supervision on BOD performance would increase the firm performance the Broad supervisions by their employer would help in ensuring form performance.

5.2.4 Findings on the Dependent Variable

The study found that the firm performance was moderate (Mean = 3.25). This was indicated by; effectiveness, Relevance, and financial viability; all which showed they had moderate effects on firm performance. The GOEs neither experienced high performance due to Board of Directors nor did not experienced high performance due to Board of Directors (Mean=3.18). This was an indication that there was a break even between experiencing high performance due to Board of Directors and not experiencing. The Board of Directors moderately ensured efficiency in firm performance of our organization (Mean = 3.17). The Board of Directors performance moderately ensured Relevance in firm performance (Mean = 3.31) and were also neutral on Board of Directors ensuring financial viability on firm performance. These interpretations are obtained using statistics given in this section. The results indicated that the firm performance was moderate. So; the BOD does not play an active role in promoting the effectiveness of the firm performance in these SOEs. They positions of appointment is basically political. The current study found that there was poor performance of SOEs in Kenya, which was an indication of bad governance in these Government owned entities.

5.3 Discussions of Findings

From the study the researcher concluded that Board of Directors performance moderately ensured Relevance in firm performance (Mean = 3.31) and were also neutral on Board of Directors ensuring financial viability on firm performance. These interpretations are obtained using statistics given in in the study indicated that the firm performance was moderate. So, the BOD does not play an active role in promoting the effectiveness of the firm performance in these SOEs. They positions of appointment is basically political. The current study found that there was poor performance of SOEs in Kenya, which was an indication of bad governance in these Government owned entities.

5.3.1 Comparison of the study findings with other studies

The findings concurred with Hu, and Leung (2008) study which concluded that political appointments by Government were aimed at exerting Government authority and supervision, and would in fact increase performance. The current study concluded that Government supervision highly influenced the firm performance and is indicated by; supervisory policies, regulatory framework, performance contracting, reporting, and budgetary controls. The study concludes that Government supervision significantly influences firm performance of the SOES in Kenya. The study findings agreed with the study findings by Roosevelt (1991), which postulated that Diversity in Board appointment, that rotated around different cultural background, educational levels, ages, gender, influenced the firm performance. The study concludes that the criteria for selection of BOD highly influences the firm performance. The main factors contributing to this influence are; academic qualifications, experience in work performance, knowledge level, and Skills level. The research findings differ with the Roosevelt (1991),

study in one aspect where it concluded that all the cited variables showed high influence as cultural background and gender played a second fiddle in ensuring firm performance. Cultural background and gender were not shown to play a key role in influencing the firm performance. The study, therefore, concludes that Criteria for appointment of BOD significantly influence firm performance of the SOES in Kenya.

The study established that although it is difficult to measure Board effectiveness, it had moderate effect on the firm performance and was indicated by; legal framework on appointment of BOD, irregular appointments, politicization of appointments, and corruption in appointments. The study concluded that Board Effectiveness significantly influences firm performance of the SOES in Kenya.

The study concludes that the criteria for selection of BOD highly influence the firm performance. The main factors contributing to this influence are; academic qualifications, experience in work performance, knowledge level, and Skills level. All these showed high influence as cultural background and gender played a second fiddle in ensuring firm performance. Cultural background and gender were not shown to play a key role in influencing the firm performance. The study, therefore, concludes that Criteria for appointment of BOD significantly influence firm performance of the SOES in Kenya. The findings in the current study which showed that when factors such as academic qualifications, experience in work performance, knowledge level, and Skills level were used as standard in BOD appointments, the firm performance increased as they were supported by cultural background and gender, tend to agree with the study by Ongore and K'Obonyo (2011) which found that the role of Boards was of very little value, mainly due to lack of adherence to Board member selection criteria.

The study findings differed with the study by Ireri (2013), which concluded that there is no criteria for BOD appointment to SOEs, a factor that has adversely compromised the performance the SOEs. These findings agreed with the study by Krambia and Psaros (2006) whose findings indicated only a minimal impact unless it is supported by other initiatives, and that there was no tangible firm performance in the companies, attributable to Board of Directors (BOD) performance. This means that the BOD did not sufficiently contribute towards the firm performance although they were the decision makers and represented the shareholders. The present study confirmed this by showing that firm performance was neither good nor bad. The findings in the study clarified those in Duztas (2008) study, which found that there is a significant relationship between some practices/dimensions of the BOD and performance. This time, the present study explains these dimensions as; criteria for appointment, Board effectiveness, Government supervision as reflected by relevance, and profitability of the GOEs. This could serve to better inform a business about opportunities for improvement in Board of Directors selection. The study by Jun-Koo and Le (2011) found that Board are not associated with an increase in firm performance sensitivity and the results for operating performance and announcement returns are not observed when firms with Government directors have a major trading relationship with the Government. Jun-Koo and Le (2011) study results highlighted the ineffectiveness of Government directors, which is what the current study established. The current study found that there was poor performance of SOEs in Kenya, which was an indication of bad governance in these GOEs, supporting the findings on the study by Miring'u and Muoria (2011) that the Board does not play an active role in promoting the effectiveness of the firm performance in GOEs. Rossette

(2002) found that the firm performance was influenced by the Board composition. The study argued out that it was vital to maintain an effective BOD in the GOEs. The present study found that Board effectiveness influenced firm performance of the State Owned Entities in Kenya moderately, an indication that there was some missing link between the appointments and the effectiveness of the Board. These findings also confirm those in the Robinah (2008), which revealed that the Board effectiveness affected the financial performance (Ongore and K'Obonyo, 2011) and that there was a significant positive relationship between managerial discretion and performance.

Gavin and Geoffrey (2004) study found that Board effectiveness affected the financial performance of GOEs. The study is indicative of the fact that the firm performance of the SOEs is influenced by the Board appointment. Collectively, these results are consistent with pertinent literature with regard to the implications of Board effectiveness on firm performance. Hu, and Leung (2008) study indicates that state owner is more likely to replace top executives and appoint a politically-connected executive when SOEs encounter economic distress such as poor Return on Assets (ROA), earnings loss, high financial risk, or political distress such as regulation violation. Further, it is found that the political top executives improve firm performance following their appointments and reduce the frequency of executives' illegal actions, by initiating modification of internal governance structures and mitigating manager's discretion. Their efficacy is based on their administrative power, regulatory expertise and accountability to the Government interests. These results provide better understanding of Government interests and their impact on corporate governance. The study was showing that the supervision on BOD performance would increase the firm performance as the current

study found. Another study by Bati (2014) established that Broad supervisions by their employer would help in ensuring firm performance.

5.4 Conclusions

The study concludes that the firm performance was moderate. From the conclusion, it is imperative that the Board of Directors (BOD), when examined from the angle of criteria for appointment, Effectiveness and government supervision, does not play an big role towards effectiveness of the BOD in the performance of State Owned Entities (SOEs). The process of appointment does not link or lead high performance as conclusions pointed to moderate results in firm performance.

The study established that although it is difficult to measure Board effectiveness, it had moderate effect on the firm performance and was indicated by; legal framework on appointment of BOD, irregular appointments, politicization of appointments, and corruption in appointments. The study concluded that Board Effectiveness significantly influences firm performance of the SOES in Kenya.

The study thus, concluded that the criteria for selection of BOD highly influence the firm performance. The main factors contributing to this influence are; academic qualifications, experience in work performance, knowledge level, and Skills level. All these showed high influence as cultural background and gender played a second fiddle in ensuring firm performance. Cultural background and gender were not found to contribute significantly to SOEs performance. The study concluded that Criteria for appointment of BOD significantly influence firm performance of the SOES in Kenya.

The Government supervision highly influenced the firm performance and is indicated by; supervisory policies, regulatory framework, performance contracting,

reporting, and budgetary controls. The study concludes that Government supervision significantly influences firm performance of the SOES in Kenya

5.4 Recommendations

This part provides policy the recommendations based on the findings, and conclusions as well as the further study arising from the research findings.

5.4.1 Policy Recommendations

First, this study which focuses on State Owned Entities (SOEs), nowadays known as Government owned Entities(GOEs) recommends that The Government which appoints the various Board of Directors (BOD) ought to ensure that there is a diverse range of skills such among others and experience among members of the Board of Directors necessary to drive high performance in these institutions. Secondly there is a link between the Board composition and skills mix with its overall performance over the years, or lack of it in case of poor performance. The study proposes policy framework where the Government appoints Board members after consultations between the appointing authority and the current or sitting Boards prior to identification, selection and appointment of Board members of Government Owned Entities and finally that there is an interview process for Board members to ensure suitability to serve on the specific Boards.

5.4.2 Recommendations for Further Study

The present study recommends further studies to establish the actual impact of regulatory framework on firm performance. The study found that some respondents were not well acquainted with the regulatory framework that study was relevant to their

organizations. The respondents did not clearly understand what this implied in terms organization's performance.

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APPENDICES

APPENDIX I

Introduction Letter

The Administrator

.....

Date.....

Dear Sir,

RE: VOLUNTARY PARTICIPATION IN DATA COLLECTION

My name is **Rosemary K. A. Barasa**, an MBA student from KCA University. I am conducting a study on the Effect of Government Appointment of Board of Directors on Firm Performance in State Owned Entities in Nairobi, Kenya. The information collected will be used solely for research purposes. All your responses will be anonymous and will not be distributed to any other party. Your participation in this study will be highly appreciated.

Thank you for taking time to complete the questionnaire.

Yours Sincerely,

Rosemary K A Barasa

APPENDIX II

**Questionnaire: Effect of Government Appointment of Board of
Directors on Performance in Selected State Owned Entities(SOEs)**

Instructions

Please answer the following questions as accurately as possible.

Tick the correct answer in the boxes provided against the questions where necessary.

Write brief answers where explanation is required.

You need not write your name on the questionnaire.

Information will be treated with confidentiality.

SECTION A: DEMOGRAPHIC CHARACTERISTICS

1. Kindly indicate your gender Male Female

2. Please select your age bracket

Below 20 years 21- 30 years 31- 40 years
41 – 50 years Over 50 years

3. How long have you been an employee of the place you are currently working? Please

tick () the correct Answer

1 - 5yrs 5- 10yrs 11 - 15yrs 15- 20yrs above 20yrs

4. Position held in the organization

Top Management

Middle Management

Section Heads

SECTION B: FIRM PERFORMANCE

5. Please indicate your opinion of the level of your organization performance. Please tick (√) the space corresponding to the correct answer in each question below.

Scale: Very dismal performance = 1: Dismal performance= 2: Not dismal Not high performance = 3: High performance =4: Very high performance = 5

| Firm Performance Indicator | 1 | 2 | 3 | 4 | 5 |
|--|---|---|---|---|---|
| Our organization has always experienced high performance due to Board of Directors | | | | | |
| The Board of Directors has always been ensuring efficiency in firm performance of our organization | | | | | |
| The Board of Directors performance have been ensuring Relevance in firm performance | | | | | |
| Our Board of Directors have been ensuring Financial Viability on firm performance | | | | | |

SECTION C: CRITERIA FOR BOARD APPOINTMENT

6. To what extent do you agree with the following statements about the impact of the criteria of Board of Directors members' appointment? Please indicate your opinion of the level

Scale: Very small extent = 1; Small extent = 2; Not small Not low extent = 3;

Large extent = 4; Very large extent = 5

| | Criteria for BOD appointment Indicator | 1 | 2 | 3 | 4 | 5 |
|-----|---|---|---|---|---|---|
| (a) | Results in weak Regulatory Framework | | | | | |
| (b) | Irregular Appointment Of BOD, | | | | | |
| (c) | Politicization Of Appointment Process | | | | | |
| (d) | Prevalence Of Corruption | | | | | |

Explain your answer-----

SECTION D BOARD EFFECTIVENESS

7. Indicate which of the following characteristics are critical requirements for a member of the Board of Directors to enhance effectiveness in performance:-.

Scale: Very effective = 1; Effective = 2; Not effective Not ineffective = 3; in effective= 4; Very ineffective= 5

| | Board Effectiveness Indicator | 1 | 2 | 3 | 4 | 5 |
|-----|--------------------------------------|---|---|---|---|---|
| (a) | Academic qualifications | | | | | |
| (b) | Experience in work performance | | | | | |
| (c) | Knowledge level | | | | | |
| (d) | Skills level | | | | | |
| (e) | Cultural background | | | | | |
| (f) | Gender | | | | | |

SECTION E GOVERNMENT SUPERVISION

8. Please indicate in your own opinion the extent of Government supervision of the Board of Directors in your organization by ticking (√) on the space corresponding to the correct answer in each question below.

Scale: Very small extent = 1; Small extent = 2; Not small Not low extent = 3;

Large extent = 4; Very large extent = 5

| | Government Supervision Indicator | 1 | 2 | 3 | 4 | 5 |
|-----|---|---|---|---|---|---|
| (a) | Supervisory policies | | | | | |
| (b) | Regulatory framework | | | | | |
| (c) | Performance contracting | | | | | |
| (d) | Reporting | | | | | |
| (e) | Budgetary controls | | | | | |

Thank you for your co-operation. God Bless you

APPENDIX III

FIGURE : SAMPLE SIZE DETERMINATION TABLE

| Population | Margin of Error | | | |
|-------------------|------------------------|-----------|-----------|-----------|
| | 5% | 3% | 2% | 1% |
| 50 | 44 | 48 | 49 | 50 |
| 100 | 79 | 91 | 96 | 99 |
| 150 | 108 | 132 | 141 | 148 |
| 200 | 132 | 168 | 185 | 196 |
| 250 | 151 | 203 | 226 | 244 |
| 300 | 168 | 234 | 267 | 291 |
| 400 | 196 | 291 | 343 | 384 |
| 500 | 217 | 340 | 414 | 475 |
| 750 | 254 | 440 | 571 | 696 |
| 1,000 | 278 | 516 | 706 | 906 |
| 2,000 | 322 | 696 | 1,091 | 1,655 |
| 5,000 | 357 | 879 | 1,622 | 3,288 |
| 10,000 | 370 | 964 | 1,936 | 4,899 |

| | | | | |
|------------|-----|-------|-------|-------|
| 100,000 | 383 | 1,056 | 2,345 | 8,762 |
| 1,000,000 | 384 | 1,066 | 2,395 | 9,513 |
| 10,000,000 | 384 | 1,067 | 2,400 | 9,595 |

Source: Saunders, Lewis & Thornhill (2009, pp219)