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Effect of Corporate Governance Practices on Organizational Performance of State Corporations in the Health Sector, Kenya

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Abstract

Sound corporate governance practices are a major contributor to effective and efficient management of State Corporations in the health sector in Kenya. Since independence, the level of accountability in management of State Corporations has continued to decline despite the availability of various monitoring structures like legal frameworks, ethics and integrity, policies and the code of conduct and ethics intended to provide a clear road map to successful performance of the State Corporations. The objective of this study was to determine the effect of corporate governance practices on the performance of the State Corporations in the health sector in Kenya. The study adopted a descriptive research design with a population comprising of the health State Corporations. Primary data was collected the using questionnaires. Data was analyzed using SPSS software. The results indicated that accountability and organizational performance of health State Corporations is positively and significantly related. The results further indicated that transparency and organizational performance of health State Corporations is positively and significantly related Board Responsibility and organizational performance of health State Corporations is positively and significantly related. Moral Integrity and organizational performance of health State Corporations is positively and significantly related The study concluded that corporate governance practices have a positive and significant effect on organizational performance of State Corporations in the health sector in Kenya. The study recommended that the management of the State corporations should establish certain control mechanisms that ensure accountability. The study recommended that there should continuous internal check and audit on the part of management and low level of management to ensure adequate accountability systems in the State Corporations.

Keywords: *Corporate Governance, Organizational Performance & State Corporations*

1.1 Introduction

In the modern economy, an organization's success is dependent on the crucial role of its ability to compete, ensure transparency and governance structure which operates within its mandate. This is in absolute regard of the fact that economic value is created by these organizations (Shavulimo, 2014). Ideally, good corporate governance is meant to be attractive to both the management of organizations and the board (Velnampy, 2013). This is done in an attempt to ensure a balance is struck between the two parties aiming for a common goal. Corporate governance encompasses developing accountability, transparency and disclosure mechanisms in order to protect the interests of various stakeholders in a relationship (Padgett, 2018). Khan (2019) defines corporate governance as the collection of laws, policies and processes that provide direction on how organizations are managed and controlled. The need for good corporate governance has gained importance due to the high profile corporate crisis and collapses experienced in the recent past across the globe.

In Europe, the wider the distribution of shareholding, the greater is the role of the market in the exercise of corporate control and the need to set rules establishing adequate and effective control over corporations (El-Bassiouny & El-Bassiouny, 2019). Shareholding in several continental European countries is rather concentrated, thereby making corporate governance problems less frequent or apparent. In any attempt to understand the control of corporations, the role of insurance companies, pension funds and other institutional investors, and other actors, such as employees or banks, has to be taken into account to different extents in European countries (Sorensen & Miller, 2017). Tennessee Valley Authority in the United States of America was mandated by the Federal government of America to generate electricity for the public. However, this Authority misdirected its efforts on unrealistic undertakings that were not for the public interest (Choi, Szewczyk & Chhabria, 2019).

In Ghana, Adeabah, Gyeke-Dako and Andoh (2019) found that levels of corporate governance of internal control information of Ghanaian institutions was low; an estimated 35% implied that most of the listed firms did not disclose adequate internal control information in their annual reports. For Nigeria, the results are similar to that of Ghana- Odoemelam (2018) evaluated corporate governance of Nigerian firms and found low levels of disclosure for Nigerian listed companies. In Ghana, Aluworks Limited; Cocoa Processing Company Limited; and Clydestone Ghana Limited had been put on a watch list in 2018 on account that their financial disclosures were significantly threatened. The company had to implement strategies to turn around the company performance (Kyereboah-Coleman & Biekpe, 2016). Further, as observed by Kyereboah and Biekpe 2016, in South Africa, some State Corporations had folded up as a result of governance problems.

Locally, inconsistencies in the practice of corporate governance, has given room to uncompetitive practices in the operations of State Corporations leading to minimal performance and eventual collapse (Wasike, 2017). For instance in 2020, the management of KEMSA, a state corporation mismanaged the process of acquiring Personal Protective Equipment (PPE) quite oblivious of the fatal consequences awaiting the front liners-the medical staff. This state of affairs perhaps suggest that the public's desire is for State Corporations to have procedures through which sustainable growth and development could be achieved (Kamau, Benard & Matu, 2019). Corporations, therefore, ought to compete in an environment where good governance is the guiding factor. During the 80s more than 33 banks collapsed and other parastatals such as Kenya Cooperative

Creameries (KCC), National Housing Corporation (NHC) and a few followed suit in the past decade. MWONGOZO in Kenya ensures that sustainability, performance and excellence become the hallmark of the Government owned entities (Owalo, 2020).

In Kenya, the health sector plays a crucial role in ensuring healthy personnel for the growth of the economy. State Corporations in the health sector are; Kenya Medical Training College (KMTC) was formed to provide competent health professionals through training and research and provision of consultancy services, Kenyatta National Hospital (KNH) was formed to provide accessible specialized quality healthcare, facilitating medical training, research, and contributes to the national health planning and policy. The National Hospital Insurance Fund (NHIF) Contributes towards universal health coverage in the provision of affordable, accessible, sustainable and quality health insurance through strategic resource pooling and healthcare purchasing in collaboration with stakeholders. Kenya Medical Supplies Authority (KEMSA) was formed to provide reliable, affordable and quality health products and supply chain solutions to improve healthcare in Kenya and beyond.

The Kenya Medical Research Institute (KEMRI) was formed to provide human health and quality of life through research, capacity building, innovation and service delivery. The National Aids Control Council (NACC) provides policy guidelines and a Strategic framework for mobilizing and coordinating resources for the prevention of HIV transmission and provision of care and support to the infected and affected people in Kenya. Moi Teaching and Referral Hospital (MTRH) is a National/International Teaching and Referral Hospital, which offers outpatient, inpatient, and Specialized healthcare services. The National quality control laboratory (NQCL) which carry out required tests and analysis and conducts research to ensure that medicines and medical devices that are used in Kenya meet international quality requirements so as to ensure the safety of patient safety. The Kenya Medical Laboratory Technician and Technologists Board is mandated to ensure that Kenyans are given quality healthcare by registered and licensed practitioners and Medical Laboratories. These State Corporations since their formation have experienced various governance problems in bid to achieve their optimal goals and objectives as mandated by their relevant Acts of parliament.

State Corporations in the health sector in Kenya, , have an obligation to adopt and objectively implement better corporate governance practices as guided by the 'Mwongozo' philosophy. Good corporate governance should provide proper incentives for the board and management to pursue objectives that are in the interest of the company and its shareholders and should facilitate effective monitoring (OECD, 2017). Corporate governance does not only refer to the legal restrains, but also to the norms of 'best practice' as well as the attempt by the organizations themselves to formulate codes of business ethics (Mackenzie, 2017).

1.2 Statement of the problem

State Corporations in Kenya were established with the aim of rendering services to the citizens in a cost effective way and be able to sustain them in a competitive global environment. They were expected to function within the laid down regulatory framework in order to achieve their missions. Unfortunately, some State Corporations have not performed to the expectations of their mandate since they have suffered from scandals of corruption, inefficiency and unethical practices in the process of delivering services to the Citizens. According to Kenya's Auditor General Report (2019-2020), there were many instances of misuse of public funds by State Corporations. Massive scandals and fraud involving millions of shillings in public funds were unearthed in various Counties (Auditor-General report,2019/2020). More than Ksh. 10 billion may have been lost in the 2019/2020 financial year in Government Ministries, Departments and Commissions.

The health sector is core in provision of universal healthcare to the public and stands as one of the core vison 2030 pillars. In the wake of health pandemic, the State Corporations in the health care sector have been engulfed in scandals involving uncompetitive practices of the directors and managers having been reported in various State Corporations (Owalo, 2020). Subsequently, delivery on their mandate for which they were created has fallen short of their expectations. This therefore calls for the need for corporate governance practices to facilitate enabling environment in these State Corporations to avoid their collapse. Kyondu (2014) noted that lack of corporate governance in State Corporations has been evidenced by the collapse of various State Corporations that were established in the early 1970s.

Research gaps are presented in studies such as; Kiratu (2016) study on the influence of corporate governance on organizational performance in Kenya with a case of agricultural State Corporations creates a methodological gap by use of a correlational research design while the current study adopted a descriptive research design. Ullah *et al.*, (2016) study on the effect of corporate accountability and transparency on performance of manufacturing firms in Pakistan was limited to one of the corporate governance constructs corporate accountability and was also conducted among manufacturing firms in Pakistan while the current study expounded four variables; accountability, transparency, responsibility and moral integrity. Lasisi (2017) study established a positive but not statistically significant relationship between corporate governance mechanisms and financial performance of non - financial firms listed on the Nigerian Securities Exchange. The current study was carried out in Kenya in the State Corporations in the health sector, which have different operating environment as compared to non-financial firms in Nigeria. However, none of the mentioned studies has been given on the corporate governance on the performance of health State Corporations in Kenya. This study therefore sought to bridge the gap by establishing the effect of corporate governance practices on organizational performance of health State Corporations in Kenya

1.3 Purpose of the Study

i. To establish the effect of accountability on organizational performance of health State Corporations in Kenya
ii. To determine the effect of transparency on organizational performance of health State Corporations in Kenya
iii. To find out the effect of board responsibility on organizational performance of health State Corporations in Kenya
iv. To determine the effect of moral integrity on organizational performance of health State Corporations in Kenya

1.4 Research Questions

i. What is effect of accountability on organizational performance of health State Corporations in Kenya
ii. What is the effect of transparency on organizational performance of health State Corporations in Kenya

iii. What is the effect of board responsibility on organizational performance of health State Corporations in Kenya
iv. What is the effect of moral integrity on organizational performance of health State Corporations in Kenya

2.1 Literature Review

2.2 Theoretical review

2.2.1 Agency Theory

The concept of agency was first conceptualized by the proposition of Modigliani and Miller (1958) on capital structure theory. The theory proposed that in a fully efficient market there are no transaction nor agency costs hence investment decisions are independent of capital structure. Jensen and Meckling (1976) built on the Modigliani and Miller theory model by theorizing the relationship between the principal (shareholder) and the agent (manager). In support of Mackling's argument on separation of ownership from principal to agent, creates conflict of interest resulting into agency costs. The management thus, creates loopholes through which huge benefits intended for the stakeholders are manipulated.

The agency theory defines the relationship between the Principal and the Agent where the principal invests the trust in the Agent with view of realizing successful performance of the entrusted activities. Likewise, Jensen and Meckling (1976) in their model reveal that the conflict of interest between the principal and the agent arises from the fact that the agent gets involved in incentives different from the principal's. The agent/ principal relationship created gives rise to the agency risk. Managerial decision making is the main ingredient in the agency relationship in facilitating corporate governance practices. It affords the alignment of the stakeholders' aspirations with the expected performance by the management. Costs to the stakeholder are increased when the pursued interests of the management overrides those of the stakeholders through inefficiencies and dissatisfactions.

Agency Theory is relevant in the study as it informs the accountability variable. The theory stresses on the benefits of disclosure and reporting, taking into account that information asymmetry has a negative impact on firms' potentially profitable projects. Based on the agency theory background, State Corporations can provide a standard framework about performance key indicators. In addition, accountability is an instrument for controlling agency costs: the less the companies' accountability the higher risk that managers serve themselves. The stakeholders have a salient duty of providing accountability with enabling facilities for the management of the State Corporations to make concrete decisions for the benefit of the agency as the Heath State Corporations.

2.3 Empirical Review

The vision and mission of any organization guide the organization towards achieving its objectives opening pathways to development and growth. Good corporate governance practices are a key to business sustainability development and growth. Prudent use of the scarce resources by managers of State Corporations creates value for the firm and a gain for the stakeholders' confidence thus enhancing performance of the organization leading to sustainability. According to the works of Saltaj and Issam, (2013) corporate governance is viewed as a key factor in enhancing business performance and sustainability. In recognizing the validity and the essence of sustainability of

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State Corporations, the government of the Republic of Kenya in 2014, developed a guiding framework dapped ''Mwongozo''as a Code of Governance for State Corporations which is aligned to the Constitution of Kenya 2010. The purpose of this code is to improve efficiency and accountability in the use of deployed scarce resources. Economical, legal, environmental and technological changes have presented extended and expanded dimensions in handling governance issues in all types of organizations. In order to countermand these challenges a well designed program for induction, education, inservice refreshers, workshops and seminars should be developed in State Corporations to empower the human capital with updated processes and procedures in improving productivity while at the same time building on competitive advantage. A well informed leadership creates a respected working environment which, if appropriately implemented, will influence the quality of management across all levels of human capital. In support this, Bellas and Koustelios (2014) reiterate that good leadership, which includes organizational culture, articulates the vision and mission of the organization through which future expectations of an organization are realized. Opiyo, (2015) points out that, weak governance structures as being the cause of poor leadership practices in firms.

Transparency is a key mechanism to reduce information asymmetry and agency costs (Galzerte & Martin, 2015). Organizational transparency can be explained further through the stakeholder theory. The stakeholder theory, originally detailed by Freeman, is a theory of business ethics and organizational management that defines values and morals in managing an organization. In this theory, a stakeholder entails any individual or group who is influenced, either directly or indirectly, by the actions of the company. However, stakeholder theory contend that there are other parties involved, including associated corporations, governmental bodies, trade associations, trade unions, prospective employees, communities, prospective customers and the public at large.

The board of directors provides a formal link between the stakeholders and the management of the firm. The board has final accountability of the purpose and reason for the existence of a firm. Many researchers have described the board as being a top body for the control of decision making process in relationship to corporate governance. Fama and Jensen, (1983); Adams et al, (2008) are among the early researchers who also hold the view that a board is the pillar of decision making in any organization. The board of directors of State Corporations in Kenya face numerous challenges due to the nature of agency they represent. On the contrary the board of directors of private organizations, have a well defined spectrum of the stakeholders they represent in the agency.

Mahdavikhou, Hossein, Moez, Khotanlou and Karami, (2014) study based on Iranian culture, stated that moral intelligence among employees such as integrity and responsibility can give a chain effect to ethical thinking and decision making and sequentially contributes to a better job performance. Way, Simons, Leroy, and Tuleja (2018) on 90 middle managers from 18 hotel properties located in China, found that that managers who maintained their word-action alignment by demonstrating middle manager behavioral integrity positively will affect middle manager task performance rating. This showed that a good example can bring other parties in the organizations to behave with the right behavioral integrity too. Besides the integrity of the manager, the trustworthiness level of the leader as seen by the employee may also affect employee performance. Rodriguez and Sanchez, (2019) have empirical evidence to show that firms who have actively involved and engaged stakeholders have experienced less friction from the society. Steward leadership demand that managers of State Corporations in the health industry lead the business operations towards the direction of stakeholders' interest. To realize this objective, managers of

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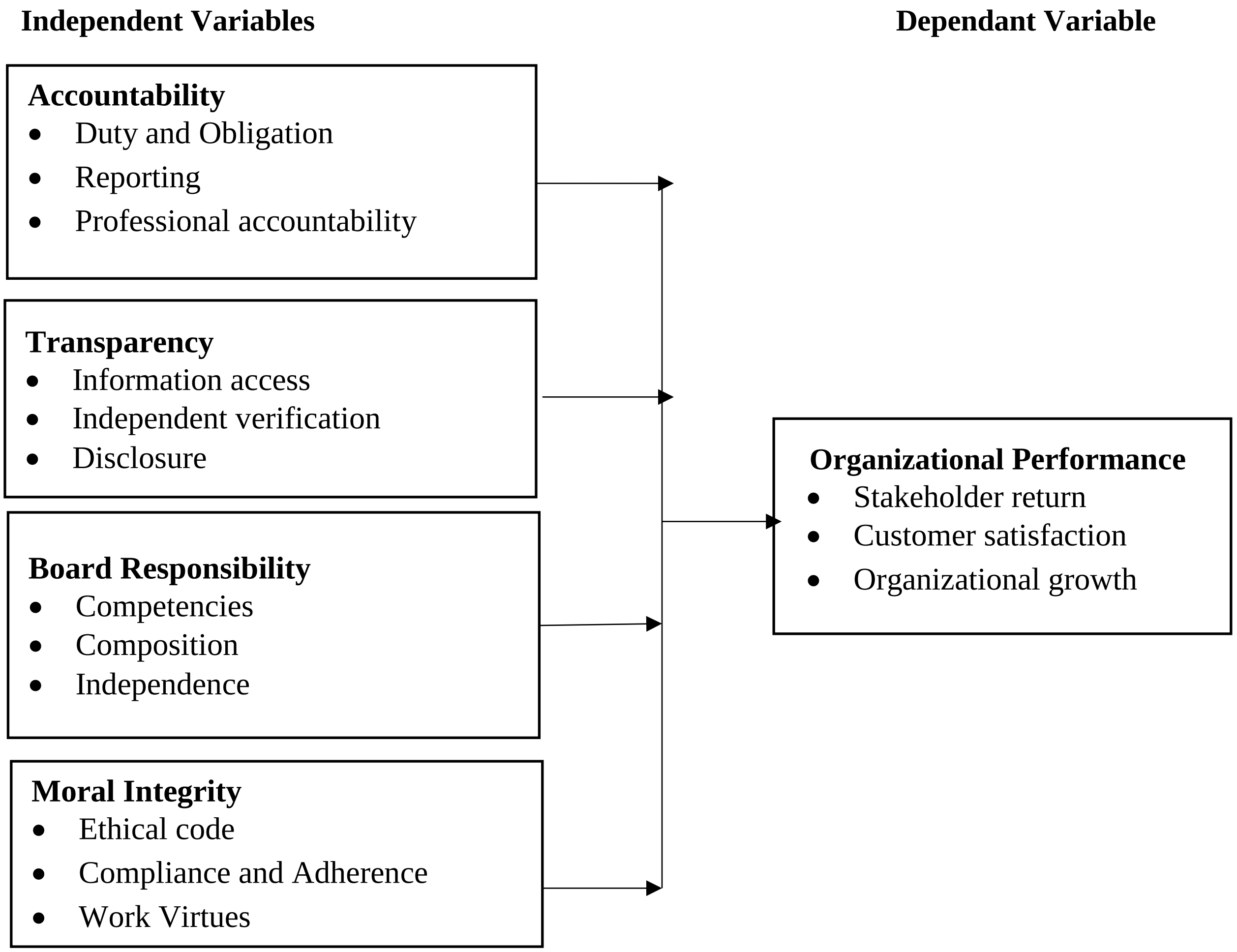
State Corporations in the health sector in Kenya are expected to incorporate good governance practices and principles in their operations to ensure sustainable stakeholder relationship.

2.4 Conceptual Framework

The conceptual framework details relationships between variables under study. It embraces the widely fronted linkage between the dependent and independent variables.



3.1 Research methodology

This study adopted the descriptive design which is concerned with finding out the what, the where, when and the how of a matter under study. Robson (2002) recognizes that descriptive study represents an accurate profile of persons, a situation or events. The target population of this study comprised of the 9 State Corporations in the health sector in Kenya as listed and published in 2020 by Inspectorate of State Corporations. The unit of observation in the health State Corporations comprised of Chief Executive Officers, corporation secretaries, staff from marketing, finance, human resource management, supply chain management, audit and integrity assurance. This is because they are directly involved in corporate governance practices in the State Corporations. The sample of 390 was obtained using Yamane Formula from a population of 14,434. Stratified

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random sampling was used to select the Chief Executive officers, Corporation Secretaries, staff from marketing, finance, human resource management, supply chain management, audit and integrity assurance from each of the health State Corporations. Primary data was collected using questionnaire. Data was analyzed using descriptive and inferential statistics. A regression model was used to establish the effect of corporate governance practices on organizational performance of health State Corporations in Kenya

4.1 Results and Findings

The study administered 390 questionnaires in the State Corporations in the health sector in Kenya. A total of 323 questionnaires were correctly filled and returned translating a 82.8% response rate which was good for the study.

4.2 Correlation Analysis

Correlation analysis was conducted to establish the relationship between the independent and dependent variables (Makowski, Ben-Shachar, Patil & Lüdecke, 2020). The correlation matrix is presented in Table 1.

Table 1: Correlation Matrix

	Organizational Performance	Accountability	Transparency	Board Responsibility	Moral Integrity
Organizational Performance	1.000				
Accountability	.749**	1.000			
	0.000				
Transparency	.735**	.638**	1.000		
	0.000	0.000			
Board Responsibility	.732**	.657**	.662**	1.000	
	0.000	0.000	0.000		
Moral Integrity	.763**	.645**	.661**	.634**	1.000
	0.000	0.000	0.000	0.000	

The results in Table 1 revealed that accountability and organizational performance of health State Corporations in Kenya is positively and significantly related (r= 0.749**, p=0.000). The results further indicated that Transparency and organizational performance of health State Corporations in Kenya is positively and significantly related (r= .735**, p=0.000). Board responsibility and organizational performance of health State Corporations in Kenya is positively and significantly related (r= .732**, p=0.000). Lastly, results showed that Moral Integrity and organizational performance of health State Corporations in Kenya is positively and significantly related (r= .763**, p=0.000). This implies that an improvement in accountability, transparency, board responsibility and moral integrity leads to an increase on organizational performance of health State Corporations in Kenya since the coefficients are positively related.

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4.3 Regression Analysis

The study carried out regression analysis to establish the statistical significance relationship between accountability, transparency, board responsibility and moral integrity on organizational performance of health State Corporations. According to Chatterjee and Hadi (2015), regression analysis is a statistical process of estimating the relationship among variables. It includes many techniques for modeling and analyzing several variables, when the focus is on the relationship between a dependent and one or more independent variables (Makowski, Ben-Shachar, Patil & Lüdecke, 2020). More specifically, regression analysis helps one to understand how the typical value of the dependent variable changes when any one of the independent variable is varied, while the other independent variables are held fixed (Gunst, 2018). The results presented in Table 2 present the regression model in explaining the study phenomena.

Table 4.14: Model Fitness

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.828a	0.686	0.682	0.40544

	Sum of Squares	df	Mean Square	F	Sig.
Regression	114.293	4	28.573	173.826	.000b
Residual	52.272	318	0.164		
Total	166.566	322			

	Unstandardized Coefficients		Standardized Coefficients		
	B	Std. Error	Beta	t	Sig.
(Constant)	2.064	0.068		30.508	0.000
Accountability	0.158	0.034	0.255	4.664	0.000
Transparency	0.114	0.036	0.178	3.165	0.002
Board Responsibility	0.108	0.033	0.179	3.228	0.001
Moral Integrity	0.184	0.033	0.306	5.605	0.000

The variables accountability, transparency, board responsibility and moral integrity were found to be satisfactory variables in explaining organizational performance of health State Corporations. This is supported by coefficient of determination also known as the R square of 0.686. This means that accountability, transparency, board responsibility and moral integrity explain 68.6% of the variations in the dependent variable, which is organizational performance of health State Corporations. This results further means that the model applied to link the relationship of the variables was satisfactory.

The findings further confirm that the regression model is significant and supported by F= 173.826, p<0.000) since p-values was 0.000 which is less than 0.05. The study conducted a regression of coefficient analysis to establish the statistical significance relationship between the independents variables notably accountability, transparency, board responsibility and moral integrity on the dependent variable that was organizational performance of health State Corporations. The fitted model is;

$Y = 2.064 + 0.158X_1 + 0.114X_2 + 0.108X_3 + 0.184X_4$

Where;

Y = Organizational Performance , X_1 = Accountability, X_2 = Transparency, X_3 = Board Responsibility, X_4 = Moral Integrity

The regression of coefficients results show that accountability and organizational performance of health State Corporations is positively and significantly related (β=0.158, p=0.000). The results further indicated that transparency and organizational performance of health State Corporations is positively and significantly related (β=0.114, p=0.002). The results further indicated that Board Responsibility and organizational performance of health State Corporations is positively and significantly related (β=0.108, p=0.001). Lastly, results showed that moral integrity and organizational performance of health State Corporations is positively and significantly related (β=0.184, p=0.000).

The findings are consistent with Kiratu (2016) who conducted a study on the influence of corporate governance on organizational performance in State Corporations and established that board managerial skills were the most significant factor. Ullah et al., (2016) study illustrated that accountability and transparency had a significant impact on the firm performance. Lasisi (2017) study established a positive but not statistically significant relationship between corporate governance mechanisms and financial performance. The findings are consistent with Ramírez and Tejada (2018) who asserts that transparency enables others to see and understand how they operate in an honest way. Widiatmika and Darma (2018) posits transparency as having full disclosure in public companies. Transparency allows its processes and transactions observable to outsiders. It also makes necessary disclosures, informs everyone affected about its decisions.

The findings are in line with Naciti (2019) who posited that board responsibility in governance as the framework that structures the board and how it operates. According to Alabdullah, Ahmed and Muneerali (2019), board's responsibilities entails determining the long term aims of the company, providing leadership to achieve these aims, establishing a supervisory process to ensure that the management of the business is effective and to report to shareholders on its performance. At its core, board includes the boards responsibilities and organisational well-being. Board responsibility is an important component of corporate governance which means being answerable or liable for something (Ullah, 2016).The findings are in agreement with Mahdavikhou, Hossein, Moez, Khotanlou and Karami, (2014) who found that that moral intelligence among employees such as integrity and responsibility can give a chain effect to ethical thinking and decision making and sequentially contributes to a better job performance. Way, Simons, Leroy, and Tuleja (2018) found that those managers who maintained their word-action alignment by demonstrating middle manager behavioral integrity positively will affect middle manager task performance rating. This showed that a good example can bring other parties in the organizations to behave with the right

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behavioral integrity too. Besides the integrity of the manager, the trustworthiness level of the leader as seen by the employee may also affect employee performance.

5.1 Conclusion

The study concluded that accountability has a positive and significant relationship with organizational performance of health State Corporations in the health sector in Kenya. This positive relationship for accountability implied that an improvement in accountability will led to a significant improvement in organizational performance of health State Corporations in Kenya. The study concluded that transparency has a positive and significant relationship with organizational performance of health State Corporations in the health sector in Kenya. This positive relationship for transparency implied that an improvement in transparency will led to a significant improvement in organizational performance of health State Corporations in Kenya.

The study concluded that board responsibility has a positive and significant relationship with organizational performance of health State Corporations in the health sector in Kenya. This positive relationship for board responsibility implied that an improvement in board responsibility will led to a significant improvement in organizational performance of health State Corporations in Kenya. The study concluded that moral integrity has a positive and significant relationship with organizational performance of health State Corporations in the health sector in Kenya. This positive relationship for moral integrity implied that an improvement in moral integrity will led to a significant improvement in organizational performance of health State Corporations in Kenya.

5.4 Recommendations

The study recommends that the management of the health State corporations should establish certain control mechanisms that ensure accountability. Internal control system is not a substitute for other governance practices thus the study recommends that there should continuous internal check and audit on the part of management and low level of management to ensure adequate accountability systems in the health State Corporations. The study informs the government that it has to be concerned with good corporate governance practices.

The study recommends on the need to ensure compliance with corporate governance principles and codes of governance. Policy and decision makers need to ensure that appropriate corporate governance mechanisms are implemented in organizations. The study provides significant information for managers of organizations on the need to implement appropriate corporate governance policies and practice in organizations. The study confirms the earlier research findings that corporate governance has a significant effect on performance of organizations.

Finally, the study recommends that monitoring should be done thoroughly by the board. A constitution which clearly indicates how to select and replace the CEO and directors need to be adopted. State corporations should consider adopting conduct of regular Corporate Governance Audits and Evaluations. Good Corporate Governance has a positive economic impact on the institution in question as it saves the organization from various losses such as those occasioned by frauds, corruption and similar irregularities. The State Corporations should develop corporate governance policies for the appointment of independent board members, establish and maintain better relations with their stakeholders, and establish the unitary model of board system, in accordance with existing legal provisions.

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