Corporate Governance Practices and Performance of Kenya Revenue Authority, Nairobi County

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ABSTRACT

Corporate governance can potentially impact every aspect of how we conduct business today and more so, many companies internationally are willing to take the risk because results are great and outstanding. Adherence to corporate governance especially for public institutions can result in enormous reductions in cost or removal of unnecessary steps that cut down on time. The main research objective is to establish the influence of corporate governance practices and performance of Kenya Revenue Authority. The specific objectives of the study was to establish the influence of board structure on performance of Kenya Revenue Authority, to examine effect of ethical practices on performance of Kenya Revenue Authority, to establish the influence of CEO duality on performance of Kenya Revenue Authority, and to determine the effect of audit committees on performance of Kenya Revenue Authority. This study was guided by three theories which include the resource dependency theory, stewardship theory, and agency theory. The present study employed a case study approach and adopted descriptive research design. This study targeted all the employees at KRA (Kenya) which currently has a pool of 289 employees based in the Headquarters (Times Towers) (KRA, 2017). Simple random sampling technique was used to select 60 personnel from the population which represents 20.76% of the whole population. This study used both primary and secondary data. Primary data was collected through interviews while secondary data involved other sources of evidence such as internal company documents and company websites. Questionnaires were administered to the respondents through a drop and pick method. The researcher left the respondents to fill the questionnaire at their own time and collect the completed form within one week. This availed the respondents enough time to read, understand and fill the forms with maximum concentration. The Data obtained from the field was checked. The study generated both qualitative and quantitative data. For the quantitative data, regression analysis was used to examine the relationship between the variables. The qualitative data was first organized into themes corresponding to the study objectives. Content analysis of qualitative data included text analytics and document analysis. The validity of the data was measured by data obtained from senior managers of various departments of KRA. The significance of the study is that it would help researcher understand how corporate governance affects organizational performance. From the findings, the performance of Kenya Revenue Authority is significantly influenced by the corporate governance practices employed by the governance committee which also scrutinize all matters relating to corporate governance in the company and meets at least once during the year. There is also a nomination committee that lead the process for board appointments, make recommendations to the board and be involved with succession planning in the company. The researcher recommends that, the management should maintain and develop a responsible, creative, innovative board and a more appropriately elected and governed boards since transparency is one of the most essential indicators for evaluating corporate performance.

Key Words: Corporate Governance, Board Structure, Ethical Practices, CEO Duality, Audit Committees

Cite this Article:

Kigen, S., & Ndegwa, P. (2021). Corporate Governance Practices and Performance of Kenya Revenue Authority, Nairobi County. *International Journal of Business Management, Entrepreneurship and Innovation*, 3(3), 82-102. <https://doi.org/10.35942/jbmed.v3i3.218>

1.0 Introduction

According to Graham *et al.* (2002), the cost of poor corporate governance is borne heavily by minority shareholders, which is the case in emerging markets like Malaysia where many public companies are family owned. One of the ways to improve investor confidence is to have good governance practices that may contribute to better financial disclosures and more transparent business reporting. According to Frost *et al.* (2002), improvements in corporate governance practices that contribute to better disclosures in business reporting in-turn can facilitate greater market liquidity and capital formation in emerging markets. As such, corporate governance is of critical importance to investors, insurers, regulators, creditors, customers, employees and other stakeholders. Nonetheless, conformity to the auditing and accounting standards does not guarantee an outright success of an organization. The manner in which leadership of a corporation is executed in the stewardship of corporate assets and resources to increase and sustain the shareholders' value and to satisfy the needs and interests of all shareholders is a major determinant. Moreover, financial crisis standards as a heightened hurdle to jump for organization, making conformity to the said standard a challenge for the organizations. Both directors and management can further strengthen the ethical environment within the organization by developing and enforcing a robust code of ethical conduct (Barrier, 2003; Brown *et al.*, 2003; Adamec *et al.*, 2005). Research evidence suggests that corporate codes of ethics, accompanied by training and monitoring programs, have an impact on employee behaviour (Pickard, 2005). The main argument against different reporting requirements for any organization (differential reporting) is that if accounting rules are not held to apply universally, then users of accounts may lose confidence in the rules and it may lead to a two-tier system of reporting.

1.1 Corporate Governance

Corporate Governance is the system by which organizations are directed and controlled. It's a set of relationships between company directors, shareholders and other stakeholder's as it addresses the powers of directors and of controlling shareholders over minority interest, the rights of employees, rights of creditors and other stakeholders (Muriithi, 2004). The concept of Corporate Governance has also been defined as "dealing with the ways in which suppliers of finance to corporations assures themselves of getting a return on their investment" (Shleifer & Vishny, 1997). It deals precisely with problems of conflict of interest, design ways to prevent corporate misconduct and aligns the interests of stakeholders using incentive mechanism. Corporate Governance is viewed as ethics and a moral duty of firms. A variety of Corporate Governance frameworks have been developed and adopted in different parts of the world. According to Wong and Mwanzia (2010), countries that followed civil law (such as France, Germany, Italy and Netherlands) developed corporate frameworks that focused on stakeholders. On the other hand, countries that had a tradition of common law (e.g. Australia, United Kingdom, USA, Canada and New Zealand) developed frameworks that focused on shareholders returns or interests.

The subject of corporate governance has accepted basic essentialness in the present point of the business world. The law and fund writing has archived that great corporate administration by and large pays for firms, for business sectors, and for nations. More particularly, corporate administration issues have been brought up in the direction of financial organizations. The inspiration for fortifying corporate administration in the money related area is settled. Not at all like different ventures, has the budgetary division assumed a vital middle person part that depends intensely on open trust and certainty. Being exceptionally obvious substances, any slip by or disappointment in the administration of monetary foundations, whether genuine or saw, would pull in unfavorable open response and could extremely influence their notoriety and open certainty. Hence, they are subjected to a higher standard of trustworthiness and polished methodology. In acknowledgment of this, statutory duty is endowed to the load up and senior administration to control the establishment and to shield its wellbeing, trustworthiness and notoriety at all times. Trabelsi, (2010) on the other hand classifies corporate governance mechanisms that serve to monitor firm activities into four major categories namely: ownership monitoring mechanisms (block ownership, institutional ownership, and managerial ownership), internal corporate monitoring mechanisms (separate leadership structure, board size and independence), regulatory monitoring mechanisms and disclosure monitoring mechanisms and internal business processes.

Corporate governance comprises many dimensions. Based on the U.K. Code, it can be divided broadly into the role of directors, directors' remuneration, the role of shareholders, and accountability and audit. Some of the structures are complements while others are substitutes to certain extent. The previous research has found different governance patterns. For example, Peasnell et al. (2001) find evidence of a convex association between the proportion of outside board members and the level of insider ownership in the U.K. corporate control process. Shivdasani and Yermack (2009) observe, using U.S. data, that when the CEO serves on the nominating committee or no nominating committee exists, firms usually appoint fewer independent outside directors and more grey outsiders. Similarly, Vafeas (2009) discover that the likelihood of engaging a nominating committee is related to board characteristics such as inside ownership, number and quality of outsider directors for U.S. firms.

While corporate administration has been reflected upon since the beginnings of the current organization (Kim & Nofsinger, 2007), it surely has gotten expanded consideration and investigation throughout the most recent two decades. In this period, corporate administration issues have ended up vital in the scholarly writing, as well as in broad daylight arrangement faces off regarding. Corporate Governance is additionally characterized as the structure and procedures among the top managerial staff, shareholders, beat administration and different partners, and includes the parts of the stewardship procedure and practicing key initiative, and the targets of guaranteeing responsibility and enhancing execution (Dunlop, 1998; Sternberg, 1998). A complete definition is shared by the Organization for Economic Cooperation and Development (OECD, 2004). Corporate administration is the framework by which a business partnership (or a charitable association) is coordinated and controlled at its senior level with a specific end goal to accomplish its destinations, execution and money related administration, additionally accomplish responsibility, uprightness and openness.

1.2 Organizational Performance

Lusch and Lacznia (2009) define organizational performance as the total economic results of the activities undertaken by an organization. Walker and Ruekert (2007) found primary dimensions of

business performance could be grouped into the three categories of effectiveness, efficiency, and adaptability. But there is little agreement as to which measure is best. Thus, any comparison of business performance with only these three dimensions involve substantial trade-offs: good performance on one dimension often means sacrificing performance on another (Donaldson, 2004). Kaplan and Norton (2002) developed a system in which measurements are meant to drive performance where they cited productivity, employees' motivation and cost efficiency as the rightful measure of performance. Davenport and Harris, (2007) on the other hand, suggest that organizations will determine the level of performance by the overall customer satisfaction. They argue that the frontier for using data is not just in measurement but also in identifying the most profitable customers, determining the right price, accelerating product innovation, optimizing supply chains, and identifying the true drivers of financial performance (2007). More high-performance studies are likely to emerge in the future, partly because the business environment continues to shift and partly because the science of analysis continues to improve.

In many research situations it is impractical or impossible to access objective measures of organizational performance. Even if such measures were available it does not guarantee the accuracy of the performance measurement. For example, when a sample contains a variety of industries, performance measurement and comparisons can be particularly problematic. What is considered excellent performance in one industry may be considered poor or middling performance in another industry. If researchers limit themselves to a single industry, the performance measures may be more meaningful, but the generalizability of the findings to other industries is problematic (Sharma, 2015).

1.3 The Kenya Revenue Authority

The Kenya Revenue Authority (KRA) was established by an Act of Parliament, Chapter 469 of the laws of Kenya, which became effective on 1st July 1995. The Authority is charged with the responsibility of assessing, collecting and accounting for revenue on behalf of the Government of Kenya. A Board of Directors, consisting of both public and private sector experts, makes policy decisions to be implemented by KRA Management. The Board and Management of KRA have since its inception spent time and resources setting up systems, procedures and the adoption of new strategies aimed at enhancing the operational efficiency of the Authority's processes. The mission statement of KRA is to promote compliance with Kenya's tax, trade, and border legislation and regulation by promoting the standards set out in the Taxpayers Charter and responsible enforcement by highly motivated and professional staff thereby maximizing revenue collection at the least possible cost for the socio-economic well-being of Kenyans. The authority is charged with the responsibilities of assessment, collection, administration and enforcement of laws relating to revenue. Since the inception of KRA, revenue collection has continued to grow while professionalism in revenue administration has been enhanced. However, a number of processes remain manual and KRA is yet to operate as a fully integrated organization. This has inhibited the full achievement of the results that come along with the establishment of an agency like KRA, specifically the lack of integration or lack of joint initiatives has impeded the creation of common practices culture across KRA.

1.4 Statement of the Problem

Corporate governance can potentially impact every aspect of how we conduct business today and more so, many companies internationally are willing to take the risk because results are great and outstanding (Harvard Law School Forum on Corporate Governance and Financial Regulation

2016). Adherence to corporate governance especially for public institutions can result in enormous reductions in cost or removal of unnecessary steps that cut down on time. It can also potentially create substantial improvements in quality, customer service, service delivery or other business objectives, (OECD, 2018). Therefore, corporate governance can have either positive effect on organizational performance. Sarbah and Xiao (2015) posit that some organizations have corporate governance only to achieve marginal or even negligible benefits. Others have succeeded only in destroying the morale and momentum built up over the lifetime of the organization. It can be concluded from the available evidence that corporate governance initiatives have typically achieved much less than they promised.

KRA is one of the organizations that have embraced corporate governance over the past few years. Despite the implementation of corporate governance, an assessment of the effects of this process on performance has not yet been undertaken (Muriithi, & Moyi 2015). KRA was set up to provide a one-stop solution for the collection of government revenue through taxation. KRA tends to recruit people who are energetic, like to be given responsibility, who thrive under pressure, enjoy being given the freedom to try new ideas, and who can hit the ground running. Despite KRA being given a lot of supports by the government to enable it performs the tasks, for which it was formed, it keeps missing the set revenue collection targets over the years. Aloo, (2014) posits that this forces the government to borrow loans internally and externally which also becomes a burden to the citizens. Local studies on corporate governance have not researched the effects of corporate governance and performance in KRA. Jebet (2018) did a study of corporate governance on quoted companies in Kenya. Juliana looked at the relationship between corporate governance & financial performance of companies listed on the NSE while Mutiga (2018) the perceived role of the external auditor in corporate governance,

Despite the relevance of subjective factors, corporate governance research focuses predominantly on objective variables, presupposing managers, directors, shareholders, accountants and other gatekeepers as purposive, rational and utility maximizing individuals, and variables such as independent boards as easily measurable within taking care of the effects on Accounting and Auditing Standards. For instance, Otit (2016) studied on Corporate Governance and Performance in the Heritage Insurance Company Limited found out that the Company has a strong governance system in place and a correspondingly steady growth in their performance even in hard times of premium undercutting, and economic downturn. Gitari (2008) while carrying out a case study of new KCC sought to find out if there is any relationship between Corporate Governance and the Financial Performance of state corporations. To the best understanding of the researcher, no study has been conducted in Kenya on the relationship between corporate governance practices and performance of Kenya Revenue Authority using the variables to be used in this study. Thus, there is need to study whether KRA adopting good corporate governance practices will help them in their expansion and growth. The study thus sought to find out the relationship of corporate governance practices on the performance of Kenya Revenue Authority, Nairobi County.

1.5 Objectives of the Study

1.5.1 General Objective

The main research objective was to establish the influence of corporate governance practices and performance of Kenya Revenue Authority, Nairobi County.

1.5.2 Specific Objectives

The specific objectives of the study were;

- i. To establish the influence of board structure on performance of Kenya Revenue Authority, Nairobi County.
- ii. To examine effect of ethical practices on performance of Kenya Revenue Authority, Nairobi County.
- iii. To establish the influence of CEO duality on performance of Kenya Revenue Authority, Nairobi County.
- iv. To determine effect of audit committees on performance of Kenya Revenue Authority, Nairobi County.

2.0 Literature Review

2.1 Theoretical Review

This study was guided by three theories which include the resource dependency theory, stewardship theory, and agency theory.

2.1.1 Resource Dependency Theory

Resource dependence theory highlights how the external resources of a parastatal affect the behavior of the parastatal. Pfeffer and Salancik (2003). A fundamental assumption of this theory is that dependence on essential and critical resources influences the actions of parastatals and that organizational decisions and action can be elaborated depending on the particular dependency situation. The theory stresses the importance of looking at the environment in which a parastatal operates when trying to explain behavior and impact (Pfeffer & Salancik, 2003). The survival of most parastatals depends on their ability to attract the resources needed to support their operations. This theory explains further the usefulness of the environmental linkages of a parastatal and the outside resources which when used effectively could enhance Performance (Hull & Rothenberg, 2008). According to Ongore and Kobonyo (2011), more emphasis was put on the skills and other knowledge resources that directors could bring to the parastatals to enhance performance. The skills include strategic planning, leadership, control and monitoring by the Board. Board members could further train and mentor executives in a way that improves organizational behavior.

Del Baldo (2012) observes that directors brought resources such as information, skills, suppliers, buyers, public policy decision makers, social groups and legitimacy that could reduce uncertainty and hence enhance performance. Resource-dependence theories recommend interventions by the board while advocating for strong financial, human, and intangible supports to the executives. This theory, therefore, supported the appointment of directors to parastatal boards because of their opportunities to gather information and network in various ways. The theory is also relevant to the study as it explains how resources at the board of director's disposal can be utilized to enhance effectiveness of corporate governance.

2.1.2 Stewardship Theory

Stewardship theories argue that the managers or executives of a company are stewards of the owners, and both groups share common goals. The board should play a supportive role by empowering executives and, in turn, increase the potential for higher performance Shen, (2003).

Stewardship theories argue for relationships between board and executives that involve training, mentoring, and shared decision making (Shen, 2003; Sundaramurthy & Lewis, 2003). This theory can also be applied in the liberalist sense for its promise to better service the interests of shareholder. The theoretical underpinning is normative based on the belief that the directors to whom authority is delegated will exercise stewardship. The executive and directors should be provided with extrinsic motivational factors such as elaborate compensation policies and incentive plans.

2.1.3 The Agency Theory

Agency theory having its roots in economic theory was expounded by Alchian and Demsetz (1972) and further developed by Jensen and Meckling (1976). This theory holds that managers will not act to maximize returns to shareholders unless appropriate governance structures are implemented in the large corporation to safeguard the interest of the shareholders. According to Jensen and Meckling (1976), the relationship between the owners and the management is defined as the principals engage the agents to perform services on their behalf. As applied to corporate governance, the theory suggests a fundamental problem for absent or distant owners/shareholders who employ professional executives to act on their behalf. The root assumption informing this theory is that the agent is likely to be self-interested and opportunistic. This raises the prospect that the executive, as agent, will serve their own interests rather than those of the owner principal. To counter such problems the principal will have to incur 'agency costs'; costs that arise from the necessity of creating incentives that align the interests of the executive with those of the shareholder and costs incurred by the necessity of monitoring executive conduct to prevent the abuse of owner interests.

It is important to note that agency theory is deductive in its methodology. Its assumptions have been the subject of extensive empirical research but this has typically relied on the testing of various propositions in relation to large data sets. The agency theorists have dealt more with exploring the effectiveness of the various mechanisms designed to make executive self-interest serve shareholder interests. To date such studies have proved entirely equivocal in terms of the relationship between good governance and firm performance. Agency theory assumptions have nevertheless been highly influential in shaping the reform of corporate governance systems. Here it is essential to distinguish between external, market-based governance mechanisms and board-based mechanisms. In relation to market governance then clearly the openness and integrity of financial disclosures is vital to the operation of the stock market in determining a company's share-price and its underlying market valuation. Market governance relies for its effectiveness on the remote visibility such financial information creates, and, as importantly, on the effects on the executive mind of the knowledge of such visibility. Agency theorists point to the important disciplinary effects of two further market mechanisms. The first is the 'market for corporate control', the potential for takeovers to discipline executives by providing a mechanism whereby ineffective executive teams can be displaced by more effective executive teams. The second - 'the managerial labour market' - operates at an individual level; poor executive performance will threaten an individual's future employment potential whilst good performance will have positive reputational and hence career-enhancing effects.

To these external 'market' mechanisms must be added to the disciplinary effects on company and executive performance of external monitoring, both direct and indirect. Formally, it is the Annual General Meeting that provides an opportunity for directors to report face-to-face to their

shareholders. In practice, however, the formal accountability of the AGM has been augmented and diverted by a variety of other mechanisms. At the time of results announcements, companies will typically conduct presentations for sell-side analysts who then serve as key intermediaries between companies and their investors. These general briefings are then supplemented by a large number of (typically annual) private face-to-face meetings between executives and their key investors. In addition to these external market and monitoring mechanisms, agency theory has also informed the internal reform of boards of directors. One of its most significant direct contributions came in the form of the widespread adoption of executive share-option schemes. Such schemes follow directly from the agency assumption that the exercise of executive self-interest must be aligned with the interests of shareholders. The 'independence' of the non-executives directors who must now constitute 50 per cent of the board, their lead role on audit, nominations and remuneration committees where conflicts of interest between executive and shareholder are potentially most acute, along with progressively more stringent provisions around the separation of the roles of chairman and chief executive, are all consonant with agency theory's assumption that the interests of the owner/ shareholder are potentially at risk from executive self-interest, in the absence of close monitoring by independent non-executives.

2.2 Empirical Review

Empirical review for this study was based on the research objectives. Empirical review was meant to establish the research gap to justify this study and also to show the connection with the theories reviewed above. Many studies are based on the governance index developed by these organizations. Klapper and Love (2004) construct corporate governance indices using information produced by the Credit Lyonnais Securities Asia for a list of 25 emerging economies. The survey used by Klapper and Love (2004) has a total of 57 yes or no questions. They are classified into the following seven categories: discipline, transparency, independence, accountability, responsibility, fairness, and social awareness. Each category has a weight of 0.15 except for the last one, which has a weight of 0.10. Durnev and Kim (2005) and Patel *et al.* (2002) report on a T&D index computed by S&P. Durnev and Kim (2005) consider the Credit Lyonnais Securities Asia index partially subjective, while they define the S&P index as largely objective. Brown and Caylor (2006) build a governance score for US firms from the Institutional Shareholder Services database. Bauer *et al.* (2004) use the Deminor ratings. Black *et al.* (2006) use a subset of 38 objective questions from a survey conducted by the Korean Stock Exchange, leaving out all subjective questions. Then they classify the items into four categories, each of which has an equal weight of 0.25: shareholders' rights, board of directors in general, outside directors, and disclosure and transparency.

2.2.1 Board Structure and Performance

Board structure is an important governance mechanism. Kenneth *et al.* (2005) note the substitution effects between outside directors, block holders, and incentives to insiders using eighty-one U.S. bank-holding companies in his study. Both Dedman and Elisabeth (2002) and Young (2000) investigate the board structure determinants before and after Cadbury Report. They either find managerial entrenchment is reduced or non-executive directors are increased following the imposition of new standards of "best practice" regarding board structure. The size of the board has been shown to have a material impact on the quality of corporate governance. Several studies support the idea that large boards can be dysfunctional. Hermalin and Weisbach (2003) believe that board size proxies for the board's activity, explaining why smaller board sizes are better than

larger ones that may be plagued with free rider and monitoring problems. For example, Yermack (2006) and Eisenberg *et al.* (2008) find a negative relation between board size and firm value, indicating that smaller boards are more effective since they experience fewer communication and coordination problems.

Larger boards are expected to increase board diversity in relation to experience, skills, gender and nationality. This view is however contradicted by Ebaid (2009) who noted that: larger boards may be more effective in monitoring senior management due to an increased ability to distribute the oversight load over a greater number of observers. Ogbechie and Koufopoulos (2007) found an average board size of 7.8 directors in Nigeria in 2006 as against 10.6 directors in 2010. Similar research studies carried out on boards in Africa indicates that in general African publicly listed firms have between 8 and 19 directors. Okeahalam (2003) reports average board sizes of 7 for Ghanaian, 8 for Ivoirian, 9 for Zimbabwean, 8 for Zambian, 10 for Mauritian, 12 for Namibian firms respectively. Spencer Stuart (2010) reveals that the size of boards in South-Africa averages 12.4 while Abdelsalam *et al.* (2008) informs that the average size for Egyptian boards is 19. The Companies Act (1978) is silent on the board size (it sets a minimum of 2 directors) of public listed companies in Kenya.

Miring'u and Muoria (2011) while studying on the effect of Corporate Governance on Performance of Commercial State Corporations in Kenya sought to examine how Corporate Governance affects performance in commercial state corporations in Kenya. The objective of the study was to identify the relationship between financial performance, board composition and size. The study used descriptive survey design. The target population for this study was 41 commercial SCs in Kenya as presented by Inspectorate of SCs. Respondents were 30 human resource officers. Data was analyzed through descriptive statistics and multilinear regression technique. The findings were that the board size mean for the sample was found to be ten while a minimum of three outside directors is required on the board. The study thus concluded that there is a positive relationship between RoE and board size and board compositions of all SCs.

Bonsa (2015) studied the impacts of corporate governance mechanism on financial performance of Insurers in Ethiopia. The study used mixed research approach panel data covering ten year period from 2005 – 2014 for nine insurance companies. The results showed that, chief executive compensation, educational qualification of directors, other business management experience of directors, and industry specific experience of directors has positive and significant effects on financial performance of Insurers' proxy by ROA. On the other hand, board size and presence female directors don't have statically significant impacts on Insurers' performance. So, stakeholders should give consideration to chief executive compensation, educational qualification of directors, other business management experience of directors, and industry specific experience of directors when they set governance policy for industry as general and for the company specifically.

Okumu (2015) studied the relationship between corporate governance attributes of board size, board composition, CEO duality, and audit committee composition compared against measures of firm value such as Return on Assets and Market to book values of companies listed at the Nairobi Securities Exchange. Descriptive research methodology was adopted. The study found that corporate governance attributes have a significant influence on Return on Assets while corporate governance attributes have an insignificant influence on Market to book value ratio as measures of firm value. However, audit committee as a corporate governance attribute significantly stood to

influence both Returns on Assets and Market to book value ratio as measures of firm value. This depicts the idea of more external members in the audit committee than insider ones thus enhancing corporate governance through external independent directors.

Chiang and Chia (2005) also found that corporate transparency has a significant positive relationship with firm performance, concluding that transparency is one of the most essential indicators for evaluating corporate performance. Shanikat and Abbadi, (2011) argued that disclosure and transparency should show that the existence of policies and instructions are in line with the laws and a regulation relating to the company and the nature of the business. One of the fundamental duties of aboard as outside experts is to advise and monitor the top management team Linck et al. (2008). However, outside directors are less effective in their monitoring and advising roles when firm-specific information is high Coles et al. (2008). Firms with high research and development expenditures, substantial growth opportunities, and high volatility are harder to monitor unless outside board members are privy to the firm's investment opportunity set.

Efficient corporations can only be established and developed by responsible, creative, innovative boards and more appropriately elected and governed boards (Miring'u & Muoria, 2011). Eccles *et al.* (2012) recommended that for sustainability to be embedded in the organizational culture, the governance structure needs to be tailored accordingly. They emphasized on the significance of two key elements of Corporate Governance, i.e. Board of Directors (BOD) and Executive Compensation, to ensure sustainable growth of the organization. Sheikh et al. (2013) found that internal governance mechanisms have material effects on firm performance., outside directors and managerial ownership are negatively related to the return on assets, According to Mallin (2010), the essential features of corporate governance are that: it assists in ensuring that an adequate and appropriate system of controls operates within a company and that assets may therefore be safeguarded; it avoids any single individual having too much influence; and it tries to encourage both transparency and accountability in the relationship between company management, the board of directors and other stakeholders, which investors are increasingly looking for in both corporate management and performance.

2.2.2 Ethical Practices and Performance

Campos *et al.* (2002) develop a corporate governance rating as a proxy of firm-specific governance quality, by considering the OECD's (2009) principles of corporate governance. This governance score is a composite of 15 factors encompassing three corporate governance factors: ownership and shareholder protection (dispersed and transparent ownerships, one share/one vote, anti-takeover defenses, and meeting notification), board of directors (board size, outside and independent directors, written board guidelines, and board committees), and disclosure and transparency (disclosure, accounting standards, independent audits, broad and timely disclosure). Gitari (2008) while carrying out a case study of new KCC sought to find out if there is any relationship between Corporate Governance and the Financial Performance of state corporations. He looked into the Board of Directors role in Governance of the state corporation who are also mandated to oversee the running of the corporation. The study established that the Board of New Kenya Cooperative Creameries adopted practices of good corporate governance which were reviewed and improved over time and had yielded improved financial performance. Some of the corporate governance principles that were identified include appointment and leadership of the Board, structure of the organization, purpose and values, balance of power in the Board, corporate

communication, assessment of the performance of the Board, responsibility to stakeholders and social and environment responsibility.

Gompers *et al.* (2003) compute a corporate governance index for 1,500 US companies consisting of 24 anti-takeover provisions and shareholders' rights compiled by the Investor Responsibility Research Centre that can be objectively assessed. The Governance Index (GI) is constructed as follows: for every firm, Gompers *et al.* (2003) add one point for every provision that restricts shareholder rights (increases managerial power). In summary, the GI is simply the sum of one point for the presence (or absence) of each provision. Gompers *et al.* (2003) also compute a sub index for each provision category. While this index does not accurately reflect the relative impacts of the various provisions, it has the advantage of being transparent and easily reproducible. The index does not require any judgments about the efficiency or wealth effects of any of these provisions; Gompers *et al.* (2003) compute only the impact on the balance of power. Jacob (2011) assessed the relationship between corporate governance practices and financial performance in parastatals in Kenya with a sample of 18 parastatals. The study established that financial performance is influenced by corporate governance practices. The findings concur with previous evidence from empirical studies on corporate governance, indicating that adoption of the various corporate governance practices by regulatory state corporations plays a part in the improvement of their financial performance.

2.2.3 CEO Duality and Performance

The question of whether the chairman and CEO positions should be separate has been controversial. The advantages and the drawbacks of separating the chairman and CEO positions have been studied extensively. Jensen (2003) argues that separating CEO and chairman roles is in the shareholders' interest. Similarly, large firms that separate the two functions trade at higher price-to-book multiples (Yermack, 2006) and have higher return on assets and cost efficiency ratios (Pi and Timme, 2003) than firms where the same person holds both titles. In addition, bestowing the CEO and chairman duties on one individual makes it harder for a board to replace a poorly performing CEO (Shivdasani & Zenner, 2004), which can reduce the flexibility of a board to address sizable declines in performance (Goyal & Park, 2002). On the other hand, Brickley *et al.* (2007) find no evidence that separating these roles improve firm performance. More precisely, combining the positions of chairman and CEO confers greater power to the CEO, who gains the title of chairman after having outperformed his/her peers (Brickley *et al.*, 2007). So the chairman title serves as a reward to a new CEO who has demonstrated superior performance and represents an implicit vote of confidence by outside directors. Then, requiring companies to separate the positions of CEO and chairman would deprive boards of an important tool to motivate and reward new CEOs (Brickley *et al.*, 2007).

Duk-Ho Kima, Joongwha Kima, Yonghwan Byunb and Se-Hak Chunc (2013) dissected the impacts of governance sufficiency on the firms' performance among Korean manufacturing firms. Utilizing the multivariate analysis, we find that the relationship between governance sufficiency and corporate performance is measurably critical. Duc& Thuy (2013) looked to measure the relationship between corporate administration and the execution of firms in Vietnam. Utilizing the flexible generalized least squares (FGLS) system on 77 listed firms between 2006 and 2011. It showed that components of corporate governance practices such as female board individuals, the duality of the CEO, the working knowledge and pay of board individuals affect the firms'

performance measured by ROA. Be that as it may, board measure negatively affects the execution of firms.

2.2.4 Audit Committees and Performance

To carry out its function of control the audit committee must maintain a certain level of activity through increased frequency of meetings (Bédard *et al.*, 2004), especially in the case of firms that wish to avoid Securities and Exchange Commission enforcement actions (McMullen & Raghunandan, 2006; Abbott *et al.*, 2004). The determinants of strong governance dealt with in this section are quite similar to strong governance indicators identified by Larcker *et al.* (2004) with a few exceptions. We do not include debt and anti-takeover provisions as governance mechanisms since they largely depend on other firm-specific factors. Vasile (2013) analyzed the impact of internal corporate governance on bank performance in Romania, including the attributes of the administration body, proprietorship structure and an internal corporate governance index. Utilizing the multiple regression analysis, the study found that internal corporate governance index impacted adversely the bank performance. Deciding the need to enhance and countercyclical actualize the measures of corporate governance and the need to expand the quantity of independent board members with a specific end goal to decrease exposure to risks. Hopper *et al.* (2009) provide our final paper, a detailed review evaluating several decades of research on management accounting in less developed countries. They use a cultural political economy framework to make sense of the findings of 75 research papers written since 1980. The result is a clear and empirically useful description of the relationship between forms of management accounting systems and various ideal and actual stages of transition in developing countries, from colonial despotism to politicized market capitalism.

Luyima (2015) this study tried to find out the impact of corporate governance on the execution of the Insurance organizations in Kenya. Using cross sectional and descriptive research design, the outcomes show that the corporate governance structures have a positive association with execution of Insurance organizations; it contributes significantly in the learning and development execution and the budgetary execution of the Insurance organizations separately. The Pillars of corporate administration have a positive association with financial performance and client performance. Although there is a growing focus on governance issues, such as specific board composition configuration or board leadership structure, the results are unclear with respect to firm performance (Dalton *et al.*, 2008). Many studies that demonstrate positive relationships between variables of interest from the four sets of board attributes and firm's performance, when meta-analytically reviewed, show negative relationships and no statistically significant relationship at all (Dalton *et al.*, 2008). For example, Hunter and Schmidh (2000, p. 29) have suggested that "conflicting rustles in the literature may be entirely artificial". There is no actual population of relationships at all. For example, a meta-analysis of 54 empirical studies of board composition and 31 empirical studies of board leadership structure and their relationship to financial performance, by Dalton *et al.* (2008, p. 269), concluded that these and other analyses "relying on firm size, the nature of financial preference indicators and various operationalizations of board composition, provide little evidence of a systemic governance structure and financial performance relationships".

Similarly, the analysis of 40 years of data from 159 studies, carried out by Dalton and Daily (2009), concluded that there is no clear evidence of a substantive relationship between board composition and financial performance, irrespective of the type of performance indicators, the size of the firm or the manner in which board composition is measured. For example, a board could be completely

independent and, at the same time, fail in its expertise, counsel and resource-dependency roles (Dalton & Daily; 2009). On the other hand, a board dominated by inside and affiliated directors could fall short in its ability to monitor and control (Daily & Dalton, 2004; 2009). Hence, reliance on the independence of board members or any one dimension of board roles and attributes will not ensure high levels of corporate financial performance, especially if it is at the expense of other director roles (Johnson et al., 2003; Dalton & Daily, 2009).

2.4 Conceptual Framework

The study employed a case study approach, to evaluate the effects of corporate governance on organizational performance. A case study can be described as finding out what is happening and asking questions and assessing phenomena in new light. The case study adopted in this research was of experience survey in nature which involved seeking information from persons experienced in the area of study. Corporate governance is an initiative of top management and the departmental heads. The case study was considered appropriate for this study because the focus of the study was to answer “how” and “why” questions and the study wanted to cover contextual conditions that were relevant to the phenomenon under study (Yin, 2003). It involved seeking the opinions of

employees at KRA on the effects of employment of corporate governance in their organization. The target population for study was the employees of KRA at the head offices in Times Tower in Nairobi City County. This study targeted all the employees at KRA (Kenya) which currently had a pool of 289 employees based in the Headquarters (Times Towers) (KRA, 2017). Simple random sampling technique was used to select 60 personnel from the population which represents 20.76% of the whole population. According to Norman & Fraenkel (2001), a sample size of 20% is adequate for a study and hence justifying the size for this study.

To collect the data from KRA employees, questionnaire was used while interview guide was used to collect in-depth data. Ogula (2008) says that since a questionnaire is a carefully designed instrument, it is good for collecting data directly from the people. This facilitated accuracy of data collected by the researcher. The questionnaire was both in structured closed -ended questions provided with a list of responses from which to select an appropriate answer and also open-ended questions which enabled the researcher to have detailed information. Thus, the data was of both quantitative and qualitative in nature. A multivariate regression model was applied to determine the relative importance of each variable to the study. Mugenda and Mugenda (2003) noted that multiple regression attempts to determine whether a group of variables together, predict a given depended variable.

4.0 Data Analysis

Inferential statistics were based on variable relationship statistics as given by correlation analysis, coefficient of determination, analysis of variance and regression coefficients.

4.1 Correlation Analysis

Correlation was done to determine the linear relationship between each of the variables against the other as shown in Table 1. Pearson Product Correlation Coefficients for these relationships were derived at 95% confidence level, 2-tail test.

Table 1: Correlation Analysis

		Board structure	Ethical practices	CEO duality	Audit committee	Organization performance
Board structure	Pearson Correlation	1.00	0.27	.515**	.503**	.596**
	Sig. (2-tailed)		0.06	0.00	0.00	0.00
	N	48	48	48	48	48
Ethical practices	Pearson Correlation	0.27	1.00	.583**	.402**	.605**
	Sig. (2-tailed)	0.06		0.00	0.01	0.00
	N	48	48	48	48	48
CEO duality	Pearson Correlation	.515**	.583**	1.00	.469**	.648**
	Sig. (2-tailed)	0.00	0.00		0.00	0.00
	N	48	48	48	48	48
Audit committee	Pearson Correlation	.503**	.402**	.469**	1.00	.671**
	Sig. (2-tailed)	0.00	0.01	0.00		0.00

		Board structure	Ethical practices	CEO duality	Audit committee	Organization performance
	N	48	48	48	48	48
Organization performance	Pearson Correlation	.596**	.605**	.648**	.671**	1.00
	Sig. (2-tailed)	0.00	0.00	0.00	0.00	
	N	48	48	48	48	48

***. Correlation is significant at the 0.01 level (2-tailed).*

**. Correlation is significant at the 0.05 level (2-tailed).*

All variables were found to be positively correlating to each other. Organization performance had correlation index of .596, .605, .648, and .671 for board structure, ethical practices, CEO duality, and audit committee which were all significant at both 0.05 and 0.01 significant level. Coefficient of determination (R^2) was used to determine the extent to which explanatory variables (predictors) explained any change in the predicted variable. That is, the degree to which change in employee's performance by 1 unit is explained by corporate governance practices.

Table 2: Coefficient of Determination

R	R Square	Adjusted R Square	Std. Error of the Estimate
.822a	0.676	0.646	0.118
<i>a. Predictors: (Constant), Audit committee, CEO duality, Ethical practices, Board structure</i>			
<i>b. Dependent Variable: Organization performance</i>			

Results in Table 2 show an R-Square of 0.676 with the standard error of estimate being 0.118. This implies that corporate governance practices (through audit committee, CEO duality, ethical practices, board structure) explains changes in organization performance up to 67.6 percent. The remaining 32.4 percent is explained by other factors that are not envisaged in this study. Analysis of variance (ANOVA) was generated to determine the spread of the mean of variables and in particular spread between variables and spread within data.

Table 3: Analysis of Variance

Model	Sum of Squares	df	Mean Square	F	Sig.
Regression	1.260	4	0.315	22.454	.000a
Residual	0.603	43	0.014		
Total	1.864	47			
<i>a. Predictors: (Constant), Audit committee, CEO duality, Ethical practices, Board structure</i>					
<i>b. Dependent Variable: Organization performance</i>					

As shown in Table 3, F-Calculated (4, 43) = 22.424 at 2-tail test and 95% confidence level. Results also show p-Value = 0.000 < 0.05. This confirms that corporate governance practices significantly explain performance of organization performance.

This was done to generate a regression model as shown in Table 4.

Table 4: Regression Coefficients

	Unstandardized Coefficients		Standardized Coefficients		
	B	Std. Error	Beta	t	Sig.
(Constant)	0.684	0.375		1.824	0.075
Board structure	0.218	0.095	0.248	2.284	0.027
Ethical practices	0.205	0.077	0.289	2.647	0.011
CEO duality	0.148	0.093	0.193	1.589	0.019
Audit committee	0.274	0.086	0.340	3.176	0.003

a. Dependent Variable: Organization performance

From the findings, when all the predictors (that is board structure, ethical practices, CEO duality, and audit committee) are held constant, organization performance would remain at -0.684. In addition, when board structure increases by 1 unit, organization performance increases by 0.218 units. The same case happens when ethical practices, CEO duality, and audit committee separately increase by 1 unit leading to increase in organization performance by 0.205, 0.148, and 0.274 respectively. All the predictors had p-Value < 0.05 at 95% confidence level implying that they were all individually significant in influencing organization performance. This once more positions the four variables as significant predictors for organization performance. The model can be summarized as follows: $Y = 0.684 + 0.218X_1 + 0.205X_2 + 0.148X_3 + 0.274X_4$. Where Y is the dependent variable (organization performance), X_1 = board structure, X_2 = ethical practices, X_3 = CEO duality, X_4 = audit committee. In summary, organization performance will vary because the conditions under which corporate governance practices are employed in a certain organization.

5.0 Conclusions and Recommendations

5.1 Conclusions

In conclusion, the performance of Kenya Revenue Authority is significantly influenced by the corporate governance practices employed by the governance committee which also scrutinize all matters relating to corporate governance in the company and meets at least once during the year. There is also a nomination committee that lead the process for board appointments, make recommendations to the board and be involved with succession planning in the company. The directors discuss and approve the strategic plan of the company, publish board guidelines on corporate governance in the firm proxy statement and the process of selecting/appointing directors are known to all stakeholders. Kenya Revenue Authority has a well established audit committee whose independence is as real as perceived and has effective working relationships with senior management. There exist economic and social affiliations between directors and the company or company top management or large shareholders. However they refuted that neither do directors formally evaluate their activities, the corporation and the individual directors nor do the CEO set the agenda for the board meeting.

5.2 Recommendations

Given limitation and findings of this study, the researcher recommends that, the management should maintain and develop a responsible, creative, innovative board and a more appropriately elected and governed boards since transparency is one of the most essential indicators for evaluating corporate performance. The top management should have clear guidelines on the

mandatory retirement age for directors and yet the directors should never formally evaluate their activities, the corporation or the individual directors. There should be a different independent body/committee that should carry the evaluation of directors from a neutral basis.

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