

**CORPORATE GOVERNANCE PRACTICES  
AT THE KENYA NATIONAL LIBRARY SERVICE (KNLS)**


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**A Research Project submitted in partial fulfillment of the requirements for the  
award of the Degree of Master of Business Administration, Department of Business  
Administration, School of Business, University of Nairobi.**

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## DECLARATION


This research project is my original work and to the best of my knowledge has not been submitted for a degree course in this or any other University.

Signed  Date 10/11/2011

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This research project has been submitted for examination with my approval as the University Supervisor.

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## DEDICATION

This piece of work is dedicated to my father and my mother, who made great sacrifices and encouraged me over the years to see me succeed in my studies.

Corporate governance issues are receiving an increasing amount of attention. There are lots of unexplored corporate issues facing many organizations in modern day. It is therefore important for organizations to embrace corporate governance. Most of the corporate governance dilemmas are set in corporate business environments where decision makers are forced to make governance decisions as stakeholders of the corporate organization. Many of these issues are complex with apparently conflicting roles on the part of the professional manager or executive. Many of these executives have little or no formal training regarding corporate governance and yet they preside over organizations with a huge potential for embroiling these governance issues.

This study sought to establish corporate governance practices at the Kenya National Library Service (KNLS). Organizations that practice corporate governance best practices, have generally been known to register better performance due to better management of resources. State owned enterprises are set up with state funds that are often misappropriated due to lack of timely reporting, monitoring, and control due to limited understanding of the basic corporate governance principles. To meet the objective of the study, a case study research design was chosen. The study targeted 8 top managers drawn from KNLS. The study used an interview guide to collect primary data. Content analysis was the principal data analysis technique.

The data collected and analyzed revealed that KNLS has the necessary corporate governance practices in place i.e. board of directors, Audit committee, Finance committee and Human Resources Advisory committee. However, it also noted that KNLS does not have a Directors Nomination committee not to mention that there is political influence in the decision-making process. The study further established that

## ABSTRACT

In the past corporate governance has been emphasized in the private sector. However, corporate governance at all levels is increasingly being seen as the most important factor for the success of organizations in both the private and public sector.

Corporate governance issues are receiving an increasing amount of attention. There are lots of unexplored corporate issues facing many organizations in modern day. It is therefore important for organizations to embrace corporate governance. Most of the corporate governance dilemmas are set in corporate business environments where decision makers are forced to make governance decisions as stakeholders of the corporate organization. Many of these issues are complex with apparently conflicting roles on the part of the professional, manager or executive. Many of these executives have little or no formal training regarding corporate governance and yet they preside over organizations with a huge potential for embroiling these governance issues.

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there were various challenges that were faced during implementation of corporate governance practices due to limited funds and poor communication.

The limitations of the study were time, money and skepticism displayed by some respondents who were not willing to divulge information about some aspects concerning the organization. The interview covered mainly employees in head office while KNLS has branches country wide. It was not easy to reach out to employees in remote areas. Some respondents were not well versed with corporate governance and others were not willing to divulge information. The other problem was the study was limited to the public sector only and did not cover other sectors of the economy.

The study was carried out in only one organization and though it may provide typical information of a state corporation, it may not be possible to generalize the data as organizations differ in many ways as far as corporate governance practices are concerned. The main limitations of the study were time, money and skepticism displayed by some respondents who were not willing to divulge information about some aspects concerning the organization. The data collection instrument (the interview guide) was also not put into any pre-testing procedure as a result of which any ambiguities could be ruled out.

During the study it became evident that the extent of practice of corporate governance principles may have direct relationship to the level of performance of state corporations. In addition, the extent of government regulatory, control and supervision role in the running of some state corporations may be impacting on their levels of performance, the location and the amount of resources they are able to generate. Other suggested areas for further research include: corporate governance and firm performance in Kenya, corporate governance disclosure practices in Kenya, corporate governance and corporate social responsibility in Kenya with special reference to commercial banks.

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## CHAPTER ONE: INTRODUCTION

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Corporations face one or more of the following crises: capital, ideology, credibility, management. The collapse of the planned system, rapid globalization of the world economy, economic liberalization, rise of multinational corporations, formation of trade blocks and the integration of world markets have forced corporate leaders to pause, think and devise ways to strengthen their banks. Thus the critical challenge for corporations is to find creative ways to build and retain competitive advantages in the market place. This is only possible if they incorporate good governance practices in their organizations.

The society needs to reassure itself that the corporate business enterprises are viable, sustainable and competitive. Corporate governance ensures that corporations are held accountable and do not run amok, it also ensures that corporations comply with the legal framework and remain relevant and legitimate to society. Directors are instrumental in corporate governance because their roles are increasingly becoming more professional and thus more demanding. They need to clearly understand their roles, duties, responsibilities and liabilities. They need to have an adequate knowledge of the business they attend as well as good corporate governance principles and practices.

Corporate governance refers to the process by which organizations are directed, controlled and held accountable. It encompasses authority, accountability, stewardship, leadership, direction and control exercised in organizations. Longnecker & Pringle (1981) documented issues relating to corporate governance in the 1970s highlighting the fact that governance issues came to the fore as a reaction to rising business scandals in the United States of America during that period. During this period, failure of companies led to increased scrutiny of boards and action was taken to demand top management to show accountability and prudence in the allocation of company resources. Financial failures and questionable business practices in the 1970s and 1980s led to a number of initiatives.

# CHAPTER ONE: INTRODUCTION

## 1.1 Background of the study

State Corporations face one or more of the following crises: capital, ideology, credibility or management. The collapse of the planned model, rapid globalization of the world economy, economic liberalization, rise of multinational corporations, formation of trade blocks and the integration of world markets have forced corporate leaders to pause, ponder and devise ways to strengthen their flanks. Thus the critical challenge for corporations is to find constructive ways to build and retain competitive advantages in the market place. This is only possible if they incorporate good governance practices in their institutions.

The society needs to reassure itself that the corporate business enterprises are viable, sustainable and competitive. Corporate governance ensures that corporations are held accountable and do not run amok. It also ensures that corporations comply with the legal framework and remain relevant and legitimate in society. Directors are interested in corporate governance because their roles are increasingly becoming more professional and much more demanding. They need to clearly understand their roles, duties, responsibilities and liabilities. They need to have an adequate knowledge of the business they direct as well as good corporate governance principles and practices.

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For instance, the Treadway Commission was formed in 1985 and reported in 1987. It found out that almost 50% of fraudulent financial reporting resulted in part from breakdown in internal controls and recommended that many different internal philosophies be integrated.

By the late 1980s, the public and corporate boards began to demand a more active role in corporate governance having recognized that their intervention could soften the impact of corporate restructuring on workers, communities, operations, and profits. The foregoing developments led to the modern field of corporate governance that examines the legal performance of corporations. The participants include the shareholder, the board members, the management of the firm, and other participants including advisors, creditor, employees, customers, suppliers, the Government and its citizens.

Cadbury's 1992 report greatly influenced thinking in corporate governance. The report's proposals and its code of best practice emphasized the importance of independent, non-executive directors and the need for audit committees. It also called for the separation of powers of the chair of the board from the chief executive. The argument being advanced at this time was that governance is about performance as well as conformance. This era saw a proliferation of research and writing in this area, leading to debates on the significance of various aspects of corporate governance. What was needed was a vibrant alternative way to assure that power was exercised, over every type and form of corporate entity and strategic alliance around the world, in a way that ensured both effective performance and appropriate social accountability and responsibility.

The developments saw the World Bank and the Organization for Economic Corporation and Development (OECD) establish the Global Governance Forum whose mandate was to build consensus in favour of coming up with an appropriate policy on regulatory and corporate reforms and to coordinate and disseminate corporate governance activities, provide development and capacity building in the associated fields of corporate governance, and to train the various professionals and other agents essential to bringing about a culture of compliance. The International Corporate Governance Network (ICGN)

was also established to promote and coordinate research and development in corporate governance. The Commonwealth Association for Corporate Governance (CACG) was also established to come up with the corporate governance guidelines within the commonwealth. The guidelines were adopted at the November 1999 commonwealth heads of Government meeting in Durban South Africa for all commonwealth countries to develop or enhance their own national governance principles.

### **1.1.1 Concept of Corporate Governance**

Corporate governance refers to the process by which organizations are directed, controlled and held accountable. It encompasses authority, accountability, stewardship, leadership, direction and control exercised in organizations. Corporate governance is a concept that involves practices that entail the organization of, management and control of companies. It reflects the interaction among persons and groups, which provide resources to the company and contribute to its performance such as shareholders, employees, creditors, long-term suppliers and subcontractors (Oman, 2001).

Corporate governance has become an issue of global significance. The improvement of corporate governance practices is widely recognized as one of the essential elements in strengthening the foundation for the long-term economic performance of countries and corporations. Following the financial crisis of the latter part of the 1990's the issue of corporate governance has risen to the head of the international agenda as an important component of the global financial architecture. The collapse of big organizations has cast doubts in the way they are managed and made accountable.

As early as 1932, Berle and Means noted that initially, corporations were legal devices to enable individuals to transact private business. This was later to change with corporations becoming means of organizing economic life and a major social institution. But economic power was being concentrated with control falling into fewer and fewer hands (Berle & Means, 1932). Though corporate governance does not yet have an accepted theoretical base or a commonly accepted paradigm, there has been a great deal of interest in this area. Corporate governance has been receiving increasing attention from the academic and corporate fields focusing on topics such as the power and responsibility of

boards of directors, rules related to the hostile acquisitions of shareholding control, institutional investors' participation in company management, and remuneration policies for senior managers and directors, and the structure and composition of the board of directors among others. Corporate governance practices are still important in both private and public organizations hence the need for this study.

### **1.1.2 State Corporations in Kenya**

A State corporation is an enterprise in which the Government is the majority shareholder (GOK, 1979). State corporations were first established during the early days of colonial rule in Kenya, with the objective of exploiting the colony. The first ones to be set up were mainly in the transport, communication and agricultural sectors. After independence the new Government announced a series of policy initiatives that emphasized the complimentary roles of the public and private sectors in national development (GOK, 1965).

The Government set out deliberate strategies for development aimed at the decolonization of the economy, increasing indigenous participation in the economy, promoting the development and regional balance, and attaining greater public control of the economy. In order to speed up the achievement of these objectives, the Government established more corporations in other sectors of the economy such as commerce industry, tourism, construction, insurance and banking. The number of commercially oriented state corporations in Kenya rose to 240 by the mid 1980s but currently stand at 122 after the Government restructured and privatized some state corporations.

The significant increase in the number of state corporations emphasized the Governments commitment to accelerating national development, promoting equitable regional development and encouraging popular participation in the development process. However, despite their great potential as agents for national development and the confidence placed in them by Government, state corporations have done poorly especially in matters pertaining to financial management and overall performance (GOK,1979,1991;PSCGT,2001).

The 1990s' introduction of economic reforms posed a new challenge to state corporations. This programme included reform measures aimed at having state corporations operate on commercial principles, requiring them to operate competitively in a competitive environment. Most of the state corporations thus faced contradictory demands of providing non-commercial services to meet special socio-economic obligations and, at the same time, to operate commercially. The desire to meet these conflicting demands saw most state corporations crafting strategies to guide their performance in the increasingly turbulent and risky environment in which they now found themselves operating.

GOK (2005) reiterated the Kenya Government's strategic perspective that efficient and effective public service management was a crucial framework for achieving rapid and sustained economic growth and poverty reduction. The Government committed itself to transforming the public service from process-oriented, process and entitlements, control, unnecessary bureaucratic practices, inward considerations and being risk averse, to targeted results, delegation, enabling and empowering speedy delivery of services/service charters, client-focused service and risk management.

As is the trend with other countries, corporate governance has gained prominence in the Kenyan context. Notwithstanding the corporate governance concerns globally, the Kenyan environment is shaped by corporate governance concerns, particularly corporate failures or poor performances by public and private corporations. An important player in developing corporate governance framework in Kenya is the Centre for Corporate Governance (CCG) Kenya, an affiliate of the Commonwealth Association for Corporate Governance (CACG).

### **1.1.3 Kenya National Library Service**

The Kenya National Library Service (KNLS) Board is a statutory body of the Government of Kenya established in 1965 by an Act of Parliament, Cap.225 of the Laws of Kenya. It is a non-profit making organization having one National library based in Nairobi and 54 public libraries countrywide. KNLS is open to all individuals regardless

of age, tribe, race, religion, national, origin, and physical status, social and political views.

The State Corporations Act Cap.446 of the Laws of Kenya also guides the Board in its operations. With an initial book stock of 40,000, KNLS opened its doors to the public in February, 1969 in the wooden premises which until lately housed the Department of the Registration of Persons. The current Headquarters building was opened in April 1974. Currently, the network has a total book stock of over 800,000 volumes, with an annual readership of over one million. The development of the KNLS branches followed mainly the administrative structure of the government. The libraries have evolved in phases, starting from provincial, district, and most recently to community levels. The development of the libraries has been possible by the generous contributions from the Government of Kenya, NORAD, UNESCO, and British Council and in recent times, the local communities.

The core functions of KNLS are to promote, establish, equip, manage and maintain the national and public libraries services in Kenya. Secondly, is to maintain the National Bibliographic control through publication of the Kenya National Bibliography and Kenya Periodicals Directory and provision of national reference services. Thirdly, is to promote information literacy and reading among Kenyans. The fourth is to advise the Government, local authorities and other public bodies on all matters relating to library, documentation and related services.

The Minister for National Heritage currently holds the ministerial responsibility over KNLS Board, and appoints the Board of Directors. The KNLS Board is the supreme governing body and is charged with the responsibility of appointing the Director subject to the approval of the Minister. It also appoints senior officers as it may consider necessary for carrying out its functions under the Act, and ratifies all other appointments. It also administers the property and funds of the Board. It also ensures that the books of accounts and other records are well prepared and kept in respect of each financial year and that the statement of accounts conforms to the best commercial standards. It also participates in the formulation of policy.

The Director is the Chief Executive Officer and also Secretary to the Board. The Kenya National Library Service offers a wide range of services, which reflect its dual-purpose roles of a public Library and a national Library in Kenya. The public library services include adult-lending services, children-lending services, mobile libraries, bulk lending to institutions, library advisory and reference services.

## **1.2 Research Problem**

Corporate governance issues are receiving an increasing amount of attention. There are lots of unexplored corporate issues facing many organizations in modern day. It is therefore important for organizations to embrace corporate governance. Most of the corporate governance dilemmas are set in corporate business environments where decision makers are forced to make governance decisions as stakeholders of the corporate organization. Many of these issues are complex with apparently conflicting roles on the part of the professional, manager or executive. Many of these executives have little or no formal training regarding corporate governance and yet they preside over organizations with a huge potential for embroiling these governance issues.

The quality of governance at all levels is increasingly being seen as the most important factor in the success of any organization. State corporations have since independence assumed an increasingly significant role in national development. Recent liberalization and globalization of world economies have caused turbulence in the business environment in which they operate. Hitherto protected organizations have found themselves in unfamiliar operating environments. Their operations, past inefficiencies and markets are no longer protected. They are under pressure to realign their management strategies and structures to the changes in the environment because they have realized their previous strategy and configurations may no longer serve them well (Wang'ombe, 2003). Poor governance practices have impacted negatively on the performance of state corporations. Thus the need for good governance practices is critical if the public sector has to achieve sustainable growth.

Prior research on corporate governance in Kenya has mainly focused on compliance with/or the state of the principles of corporate governance and best practices. A number

of studies have been done on corporate governance. However, only a few have looked into the practices while they are the ones that determine the performance of organizations. These studies have looked at the corporate governance practices in different contexts.

Mugwang'a (2008) looked at corporate governance in public hospitals in the Coast province. Mwakanongo (2007) focused on corporate governance practices in shipping companies in Kenya. Maina (2007) researched on the corporate governance practices in the insurance industry in Kenya. Mulinge (2007) studied the corporate governance practices at NHIF. Wambua (2006) looked at state corporations in Kenya. Linyiru (2006) did his study on corporate governance practices in banks in Kenya. Monyoncho (2004) looked at the perception of corporate governance practices by public universities in Kenya. Mburu (2004) looked at corporate governance practices in KUSSCO. Wang'ombe (2003) focused on cooperative societies in Nairobi. Mwangi (2002) did his study in the insurance industry and Mucuvi (2002) researched on the motor industry.

Only a few studies have looked at the public sector organizations which form a great part of the Kenyan economy. The corporate governance practices are important in both private firms and public organizations hence the need to conduct this study.

### **1.3 Research Objectives**

This research has one objective which is to establish the corporate governance practices in Kenya National Library Service (KNLS).

### **1.4 Value of the Study**

The findings of this study will be of immense importance to various parties. First and foremost, the management and board of KNLS by highlighting the type of governance practiced within the organization. Typical governance problems will be analyzed and recommendations made for improvement. The public sector players will appreciate better, the need for good governance in state corporations and this will in turn make them ready to adopt better governance practices.

Secondly, the study will provide a baseline study on corporate governance in KNLS, which will be a useful basis for arguing a case of governance guidelines for the public sector. Thirdly, it will help the academicians to improve their understanding of corporate governance in the public sector and a replicate study can be carried out after a few years to find out any changes that may have occurred.

Finally, the current Government of Kenya is concerned with governance issues and has already begun working at reforming the public sector. A study into governance practices in the state corporations and comparison with best practice can lead to recommendations on better governance being entrenched into laws governing state corporations.

## CHAPTER TWO: LITERATURE REVIEW

### 2.0 Introduction

This chapter examines the literature on corporate governance practices in Kenya. . It includes the meaning, importance and principles of good governance. It further outlines how state corporations are managed and controlled including the legal framework.

### 2.1 Corporate Governance

Corporate governance can be seen as the manner in which power is exercised in the management of economic and social resources for the sustainable human development. It is a vital ingredient in the maintenance of a dynamic balance between the need for order and equality in society, and the efficient production and delivery of goods and services, accountability in the use of power, the protection of human rights and freedoms, and the maintenance of an organized corporate framework within which each citizen can contribute fully towards finding innovative solutions to common problems (PSICG, 1999).

Corporate governance is the system by which companies are directed and controlled. It is a measure of the way power is exercised over corporate entities (Cadbury report, 1992). Johnson and Scholes (2002) describe a governance framework, which specifies whom the organization is there to serve and how the purpose and priorities of the organization should be decided. They advance the view that corporate governance has been driven by the need to separate ownership and management of enterprises. This arises from the principal (owners) / agent (management) relationship. While owners may be keen for the long-term sustainability of the organization, managers may opt for short-term goals, especially where they are pegged to their compensation package.

Corporate governance is the system by which organizations are directed and controlled. The corporate governance structure specifies the distribution of rights and responsibilities among different participants in the corporation, such as, the board, managers, shareholders and other stakeholders, and specifies the rules and procedures for making decisions on corporate affairs. By doing this, it provides the structure through which the

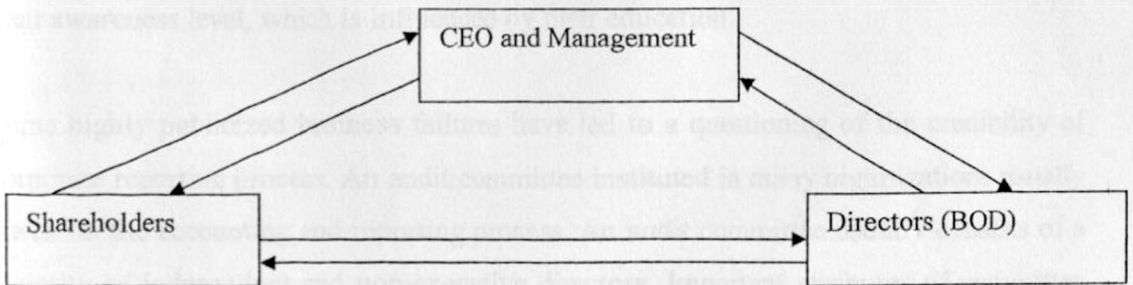
company objectives are met and the means of attaining those objectives and monitoring performance (OECD, 1999). In the Kenya Gazette Notice No.369 of 25<sup>th</sup> January, 2002 corporate governance is defined as the process and structure used to direct and manage business affairs of the company towards enhancing prosperity and corporate accounting with the ultimate objective of realizing shareholders long-term value while taking into account the interest of other stakeholders. It seeks to promote corporate fairness, transparency and accountability.

Broadly speaking, corporate governance generally refers to the processes by which organizations are directed, controlled and held accountable. It encompasses authority, accountability, stewardship, leadership, direction and control exercised in companies and corporations. Governance is concerned with the structures and processes for decision-making, accountability, control and behavior at the top of organizations (PSCGT, 2002).

## 2.2 Corporate Governance Structures

Montgomery and Kaufman (2003) acknowledge that the corporate balance of power is delicate. The three principal actors in this power game are the shareholders, management and board of directors. The interrelationship between them is important to effective governance. They depict this relationship as a triangular relationship. (Figure 1).

Fig 1: The Corporate Governance Triangle



Source: Adapted from Montgomery and Kauffman (2003); "The Board Missing Link," Harvard Business Review, March 2003

### 2.2.1 Shareholders

Primarily, it is money raised from shareholders, known as capital, which is used by an organization to finance its operations. They do not have direct right in the property of the organization as a whole. They do not engage in daily management of the organization. Instead they elect known directors, who collectively as a board represent them and oversee the management on their behalf. The shareholders control the long-term direction of the organization through the general meetings, which in most type of organizations are held once a year. At the general meetings, they deliberate and vote on important issues such as election of director and auditors. After appointing directors and auditors, they should satisfy themselves that an appropriate governance structure is in place. They are expected to remove directors if unhappy with their action. They should evaluate the performance of directors regularly. For them to be able to do this, they need to be properly informed about the company's activities in order to carry out their evaluation (PSCGT, 2002).

Ongore (2001) points out that one of the ways organizations report to their shareholders is through the annual audit reports. The reports are prepared with due regard to requisite disclosure requirements as per governing regulations. Many countries have adopted the International Accounting Standards (IAS), which have progressively been improving on disclosure requirements. Stock exchange requirements enhance the accounting standard disclosures. Other sector regulatory requirements like in the banking and insurance also serve to protect shareholders' interests. The power of shareholder is also determined by their awareness level, which is influenced by their education.

Some highly publicized business failures have led to a questioning of the credibility of corporate reporting process. An audit committee instituted in many organizations usually check on the accounting and reporting process. An audit committee usually consists of a majority of independent and non-executive directors. Important attributes of committee members should include broad business knowledge relevant to the company's business; keen awareness of the interests of the investing publics; familiarity with basic accounting principles; objectivity in carrying out their mandate and no conflict of interest.

IFAC (2001) further add that the audit committee deals with the annual audit for reporting to outsiders as well as the internal audit. By playing a proactive role, audit committees can enhance credibility of financial reports and strengthen communication between auditors and management to make informed decisions.

### **2.2.2 Board of Directors**

The BOD is this link between the people who provide capital (shareholders) and the people who use that capital to create value. The primary role is to monitor and influence the performance of management on behalf of the shareholders in an informed way. Efficient corporations can only be established and developed by responsible, creative and innovative boards. Indeed, without efficient corporations, a country will not create and produce wealth fast enough or generate employment opportunities.

Hunger and Wheelen (1996) outlines three basic strategic management roles for boards. The boards' first role is to monitor by acting through its committees and staying abreast of developments both inside and outside the corporation. The board can thus bring to management's attention developments that it might have overlooked. At minimum, a board should carry out its task. Secondly, a board can examine management's proposals, decisions, and actions; agree or disagree with them; give advice and offer suggestions; and outline alternatives. More active boards do so in addition to monitoring management's activities. Thirdly, a board can delineate a corporation's mission and specify strategic options to its management. Only the most active boards take this task in addition to the previous two.

### **2.2.3 The Management**

This comprises of the CEO and his senior management team. Their primary responsibility is performance. Top management and especially the CEO, is responsible to the board of directors for overall management of the corporation. Specific top management tasks vary from firm to firm and reflect an analysis of the mission, objectives, strategies and key activities of the corporation. Generally, effective top managers are people who see the business as a whole, who can balance the present needs

of the business against future needs, who can make sound timely decisions (Johnson and Scholes, 2002).

Demb and Neubauer (1992) noted that one of the tenets of corporate governance is accountability, which of necessity requires some kind of agent to monitor how the managers are performing. Recent agents have been developed including shareholders, legislative codes and regulatory mechanisms as well as the board of directors all of which are geared to ensuring accountability by influencing the top management.

In order for boards to effectively fulfill their responsibilities, they ought to have some degree of independence from management. Another important responsibility is to implement organizational systems designed to ensure that the corporation obeys applicable laws. In addition, boards are expected to take due regard of, and deal fairly with, other stakeholder interests including those of employee, creditors, suppliers and local communities.

### **2.3 Importance Of Good Governance**

Good corporate governance aims at the increased profitability and efficiency of business enterprises and their enhanced ability to create wealth for their shareholders, increased employment opportunities with better terms for the workers, and increased benefits to stakeholders. The transparency, accountability and probity of business enterprises make them acceptable as caring, responsible, honest, and legitimate wealth creating organs of society.

The credibility of business enterprises enhances their capacity to attract investment in an internationally competitive environment. The enhanced legitimacy, responsibility and responsiveness of business enterprises within the economy and improved relationships with their various stakeholders comprising shareholders, managers, employees, customers, suppliers, providers of finance and the environment enhance their market standing, image and reputation (PSCGT, 2002).

## 2.4 Principles Of Good Corporate Governance

The Private Sector Initiative for Corporate Governance (1999) summarizes the following as the principles of good corporate governance: authority and duties to members (shareholders), which entails the duty to protect, preserve, and actively exercise supreme authority in order to ensure that the right people are elected to the board and that the board is held accountable and responsible for the management of the organization.

The leadership principle requires that the organization is headed by an effective board that leads in the best interest of the organization based on transparency, accountability and responsibility, and that appointment to the board should be done through an effective process that ensures a balanced mix of proficient individuals. It is also expected that the board should determine the purpose and values and the strategies to achieve that purpose. Thus it should ensure that a proper structure in terms of systems and people is in place.

The board should also monitor and evaluate performance and review the viability and financial sustainability of the enterprise, as well as comply with all the relevant laws, regulations, accounting and auditing standards. It should also ensure effective communication with all its stakeholders and that no one person or group of persons has unfettered power in order to create a balance of power within the board.

The board should ensure there is an effective internal control system. There should also be accuracy in reporting and regularly access its performance and effectiveness. This would require the board members to be inducted into their roles and to continuously governance skills. They should equally identify key risk areas and monitor them. The appointment of the C.E.O. and the senior staff should also be a role performed by the board and ensure that they are adequately motivated. The board should define, promote and protect corporate ethos, ethics and beliefs and operate within the mandate entrusted to it by the society (CCG, 2003).

## **CHAPTER THREE: RESEARCH METHODOLOGY**

### **3.1 Research Design**

The research is a case study of Kenya National Library Service. This approach was selected because it was necessary to collect data that would allow an in-depth understanding of corporate governance at KNLS in order to carry out this research successfully. Considering the type of data required for this research, case study research design will be the most appropriate method.

The design will be valuable for an in-depth study. Cooper & Schindler (2003) assert that case studies place more emphasis on a full contextual analysis of fewer events or conditions. An emphasis on detail provides valuable insight for problem solving, evaluation and strategy. This will be essential in this study.

### **3.2 Data Collection**

In-depth interviews were conducted with 3 top-level managers and 5 middle-level managers. The top level managers are the director and two deputy directors. The 5 middle level managers are the departmental heads in charge of Audit, Accounts, Human Resource, Procurement and Information Technology. An interview guide was used to get responses from the respondents. Questions were issued in advance to help the respondents recollect facts, or make reference where necessary.

The researcher began with the research problem and go through the process of formulating the questions and considering the format and the type of questions to be used. The interview guide contained open-ended and close-ended questions probing the respondents on corporate governance practices in Kenya National Library Service. The questions were formulated based on the literature review done. The interview guide was split into 7 areas related to corporate governance practice. This will include questions related to the board of directors, appointment to the Board, chairman and director, supply of information, financial reporting, internal audit and finally management and employee. In each area questions had been formulated in order to get specific responses from the

respondents. The type of data collected at each interview session was in form of draft notes summarizing the discussions with each of the interviewees.

In addition, the researcher obtained secondary data and material especially from the internal documents such as internal communication. These included the procedures manual, policy manuals, the laws, organizational chart, board minutes, code of conduct of board members, the current strategic plan, and various accounting documents and reports.

### 3.3 Data Analysis

Considering the kind of data intended as per the interview guide, a conceptual and qualitative content analysis was the best suited method. Nachmias & Nachmias (1996) define content analysis as a technique for making inferences by systematically and objectively identifying specified characteristics of messages and using the same approach to relate trends. Nyamweya (2004) who employed this kind of approach argued that it is useful in gaining fresh material in even what was thought to be unknown.

## **CHAPTER FOUR: DATA ANALYSIS, RESULTS AND DISCUSSION**

### **4.1 Introduction**

This chapter contains the research findings on the board's composition, their appointment, the role and functions of the board and how the board deals with conflict of interest. The findings also include accountability and audit and the relationship between management and employees when it comes to implementing corporate governance practices.

### **4.2 Corporate governance practices at KNLS**

#### **4.2.1 Composition of the KNLS Board**

The study sought to find out from the respondents the number of board members who were executive and non-executive directors. From the study all of the respondents said that the KNLS Board comprises of one executive director (Chief Executive Officer) and 18 non-executive directors. Amongst the 18 non-executive directors one amongst them is appointed by the President as the chairman of the board.

The authority to exercise the company's powers is delegated not to individual directors but to the directors as a board, the duties are owed by each director, individually. The KNLS board comprises of an appropriate mix of age, gender, ethnicity, geographically spread, experiences and team roles. The use of both the executive and non-executive board members ensures balance of powers.

#### **4.2.2 Board meetings**

The respondents were asked about the frequency of holding board meetings in a year. From the study, the respondents said that board meetings are held on a quarterly basis. This comes to four board meetings in a year. The board disclosed in the annual report the number of meetings held in the year and the details of the attendance of each director. The respondents said that four board meetings were held in the last financial year. The frequency of board meetings is limited to 3-12 per annum. This is to enable management

get on with their duties. They are usually held more frequently during establishment or times of strategic change.

The board normally delegates some of its responsibilities to standing committees, which operate within defined terms of reference laid down by the Board. There are other committees which are formed for specific purposes and disbanded as required. During the period under review, the Board had three standing committees. These are the audit, finance and human resources advisory committee.

Quorum in board meetings is another important factor. In KNLS, the quorum for board meetings is 13 board members. KNLS has not experienced lack of quorum. This is because the board is committed to execute its mandate. In case there is no quorum, the meeting can be cancelled therefore it has to attain quorum. A director must thus participate effectively in so far as the circumstances allow him to in the conduct of the affairs of the company. Hence, attendance at Board meetings is critical since the power of the Board is exercised in such meetings.

#### **4.2.3 Role and functions of the board of directors**

The respondents were asked what matters are reserved for the board. The board exercises leadership, enterprise, integrity and judgment in directing the corporation. It also determines the corporation's purpose and values. It also determines the strategy to achieve the corporation's purpose and values to ensure that it survives and thrives. The board identifies key risk areas and key performance indicators of the business enterprise in order for the corporation to generate economic profit.

It exercises objective judgment on the business enterprise, independent from management but with sufficient management information. The board also determines a policy for the frequency, purpose, conduct and duration of its meetings and those of its committees. It also monitors and evaluates the implementation of strategies, policies, management performance criteria and business plans. The board regularly assesses its performance and effectiveness as a whole, and that of the chief executive officer.

The board identifies key risk areas and key performance indicators of the corporation's business and constantly monitors these factors. It defines, promotes and protects the corporate ethos, ethics and beliefs on which the corporation premises its policies, actions and behavior in its relationships with all who deal with it. The board recognizes that it is in the enlightened self-interest of the organization to operate within the mandate entrusted to it by society and shoulders its social responsibilities, which include environmental conservation programmes, affirmative action programmes, employment and provision of social amenities.

The board recognizes and encourages professional development and has the right to consult the corporation's professional advisors and, where necessary it seeks independent professional advice. The board ensures that the corporation complies with all the relevant laws, regulations, governance practices and auditing standards.

The board ensures that procedures and practices are in place to protect the corporation's assets and reputation. It also ensures that the corporation complies with all the relevant laws, regulations and codes of best business practices. The board also confirms that the technology and systems used in the corporation are adequate to run the business properly. The board ensures that the corporation has developed a succession plan for the chief executive officer and senior management. Finally, it ensures disclosure through financial reporting and corporate communication. The board ensures that the corporation communicates with its stakeholders effectively.

#### **4.2.4 Conflict of interest**

The issue of conflict of interest with regards to strategy, performance, resources use and standards of conduct is dealt with by several committees of the board. The committees transact business and recommends to the full board for approval or disapproval. In case of a tie during voting for a decision, the Chairman of the full board casts the deciding vote. The three fundamental principles of corporate governance are openness, integrity and accountability. Openness is required to ensure that stakeholders can have confidence in the decision-making process while integrity comprises both straightforward dealings and completeness. Accountability is the process whereby the state-owned organizations

and individuals within them are responsible for their decisions and actions. The three principles are in turn reflected in each of the dimensions of strategy, standards of behavior (conduct), organizational structures and processes, control, and external reporting.

The strategy is normally prepared by the top management then forwarded to the Board of directors for approval. The performance evaluation is done by the management, the Government and the Board. This is to ensure transparency. The executive director usually does self evaluation, the Chairman and the non-executive directors do their own performance evaluations. When it comes to usage of resources, the management sets the budgets for the board's approval or disapproval. Budgetary control ensures that finances are utilized as per the budget allocation. Guidelines from the Government through circulars give the standards of conduct. The Human Resources Advisory Committee also ensures the management and employees adhere to the terms and conditions of employment.

Standards of conduct concerns how the governing body, chief executive and senior management of the organization exercises leadership in determining the values and standards of the organization which in turn define the culture of the organizations and behaviour of everyone within it. By seeking to find out whether KNLS had written procedures and policies, the levels of Government interference in the running of this parastatal and the kind of leadership structures, this section sought to establish the existing standards of behaviour. The aim here was to address the objective of the study that is to establish corporate governance practices.

Effective governance requires that organizations be headed by an effective board which should exercise leadership, enterprise, integrity and judgment in directing the institution based on transparency, accountability, and responsibility. KNLS Board has effective leadership qualities that give proper guidance to management on the future direction. The respondents said there is proper and organized delegation where each department is held accountable.

Organizational structures and processes concerns how the governing body, CEO and senior management within the organization are appointed and organized, how their responsibilities are defined, and how they are held accountable. The respondents indicated that the organization had in place functional board committees such as the Finance, Audit and Human Resources Advisory Committee. In order to facilitate effective board management, independent non-executive directors shall be independent of management, and free from any business or other relationship which would interfere with the exercise of their ability to bring an independent judgment to bear on issues of strategy, performance, resources, key appointments and standards of conduct. Independent non-executive directors are relied upon in matters where there is potential for conflict of interest e.g. financial reporting (Audit Committee), remuneration of directors and evaluation of the board's performance.

Control concerns the network of various controls established by the governing body, Chief Executive Officer and senior management of the organization to ensure the achievement of the organization's objectives, the effectiveness and efficiency of operations, the reliability of internal and external reporting, and compliance with applicable laws and regulations and internal policies. The role of the Government is sometimes interpreted to amount to interference where exercised in excess of legal, regulatory and supervising role. Most of the respondents indicated that there was limited Government interference in the running of the organization.

For one to be a board member in KNLS, the persons with full time employment in any company or organization should not hold any non-executive directorships elsewhere. Persons without full-time employment in one organization should not hold more than ten non-executive directorships. Suppliers, direct customers or other trading associates of the company cannot become non-executive directors of the organization. Persons with prior professional or social relationships with directors of the company cannot become non-executives directors in the company. Further, there is a positive duty on directors to ensure good corporate governance. A non-executive director shall not blindly rely on the

judgment of others, including the executive director, especially where there are grounds of suspicion.

#### **4.2.5 Appointment to the Board**

According to the Private Sector Initiative for Corporate Governance, appointments to the Board of directors should, through a managed and effective process, ensure that a balanced mix of proficient individuals is made and that a nomination committee shall be established for this purpose. The findings indicate that KNLS does not have in place a Directors nomination committee. This is against the principles of good corporate governance.

Since there is no nomination committee, the Minister in charge of the Ministry of State for Heritage and Culture appoints board members through regional representation of professionals and interest groups. The key government ministries/institutions e.g. Ministry of State for Heritage and Culture and the Ministry of Finance second an officer to the Board. The president appoints the non-executive chairman of the board. Presidential or ministerial appointments may not be objective and decision making may be affected and this compromises good corporate governance practice.

The Chief Executive Officer (Director) is appointed by the Minister in charge of the Ministry of State for Heritage and Culture. The board usually conducts interviews for the Chief Executive Officer. It submits three names to the Minister who picks one and appoints as the director (CEO). The CEO is appointed on a contractual term which lasts for 3 years. The CEO has to be a professional librarian.

There is no corporate policy combining the roles of the Chairman and the Chief Executive Officer. There is separation of roles of the Chairman from that of the Chief Executive Officer. For example, the Chief Executive Officer does not chair board meetings. The Chairman of the board provides overall leadership to the Board. He/she is required to maintain close, but independent, working relationships with the Chief Executive Officer. The Chairman acts as an informal link between the Board, management and shareholders. He/she harnesses the collective skills of the Board and

executive team. The chairman also ensures timeliness and relevance of information and materials submitted to the Board. He/she encourages directors to have full participation in board deliberations. The Chairman also heads the board evaluation process and guides the board decision making process and where necessary he/she uses his/her casting vote.

The CEO provides the day to day leadership of the corporation's business affairs. He/she prepares a budget and establishes proper internal controls. He/she implements and communicates policies and strategies adopted by the board. He/she prepares proposals and admissions for consideration by the Board. He/she attends to personnel matters, including hiring and firing of staff. The CEO develops and recommends to the board a long-term strategy and annual business plans for the corporation. The CEO consistently strives to achieve the company's financial and operating goals and objectives. He/she also ensures continuous improvement in the quality and value of the products and services provided by the company. The CEO ensures that the company has an effective management team structure, including management succession plans. He/she formulates and oversees the implementation of major corporate policies. The CEO maintains a good working environment for attracting, retaining and motivating employees. He/she also fosters a corporate culture that promotes ethical practices.

The CEO's performance criteria for assessment is usually established by the top management and forwarded to the board for approval/disapproval. The assessment done is usually both qualitative and quantitative. The board considers a variety of factors when considering the performance of the CEO. This includes adherence to the strategic plan, achievement of annual key performance target and adherence to established standards/procedures and policies. The CEO is also assessed based on his leadership and managerial skills. He/she should be a transformational oriented person. Innovation and his/her ability to make the organization competitive are also important in the assessment. Effective implementation of policies approved by the board is another performance criterion. He/she should ensure customer satisfaction by ensuring customer's needs are met and exceeded. The CEO should be a good team player and be able to manage personnel relations and ensure employee satisfaction.

#### 4.2.6 Supply of information

Information is the life-blood of an organization. The management supplies to the board financial, operational and strategic information to enable the board to make informed decisions. The management ensures that the information relayed is complete, accurate, timely, complete and relevant. The strategic planning level involves managers at the top of the organizational hierarchy. Strategic information is provided by the top management to the board to enable it formulate, implement and evaluate cross-functional decisions that will enable an organization to achieve its objectives. Strategic information provided helps the board to specify the organization's objectives, develop policies and plans to achieve these objectives and allocate resources to implement the policies and plans to achieve the organization's objectives. Strategic information provided also helps the board to evaluate its performance and that of the CEO.

Financial information is derived from all the financial transactions undertaken by the organization and stored in its database. This information enables the board to monitor its operational costs against the budget. It also enables the board know the list of creditors and debtors and handle its financial obligations to its stakeholders within the financial year. Financial information enables the board project future costs based on the current expenditure. This information is also vital for the board during performance management. The Government of Kenya expects 100% of the funds allocated to a state corporation to be utilized within the financial year. Financial information enables board members and top management to control costs and reduce inventory investment.

Operational information is derived from the day to day operations of the organizations. Operational information is important to the board members. The KNLS board is committed to undertake risk management activities to adequately manage risks to persons in the work environment. It ensures that plant, machinery, equipment are safe and without risk to the health of employees when used. Operational information provided enables the board to provide adequate resources including finances to fulfill the board's mandate. This kind of information helps the board to carry out an evaluation of the efficiency and effectiveness of the organization in meeting its goals. Information is relayed to the board

on a quarterly basis (every three months) in a full board meeting. It is also relayed through the committee meetings of the Board i.e. audit, human resource and finance committees on a quarterly basis.

#### **4.2.7 Accountability and audit (financial reporting)**

The annual report contains a statement on the director's responsibility for preparing the accounts. The annual report also contains a statement on the external auditors' reporting responsibility for preparing the accounts. The State Corporations Act, Cap. 446 states that every state corporation shall keep or cause to keep proper books recording all the property, undertakings, funds, activities, contracts, transactions and other businesses of the state corporation. The accounts of every state corporation shall be audited and reported annually in accordance with the Public Audit Act, 2003.

The State Corporations Act, Cap. 446 states that the board shall be responsible for the proper management of the affairs of the corporation and shall be accountable for the moneys, the financial business and the management of a state corporation. The Chief Executive of a state corporation may be summoned by the Public Investments Committee to answer on behalf of the Board any question arising from a report, including a special report of the Controller and Auditor General concerning the state corporation.

KNLS has an internal audit function. Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organization's operations. It helps KNLS accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance practices. Internal auditing is a catalyst for improving an organizations effectiveness and efficiency by providing insight and recommendations based on analyses and assessments of data and business processes. With commitment to integrity and accountability, internal auditing provides value to governing bodies and senior management as an objective source of independent advice. KNLS has internal auditors who perform the internal auditing activity.

The scope of internal auditing within KNLS is broad and involves the efficacy of operations, the reliability of financial reporting, deterring and investigating fraud,

safeguarding assets, and compliance with laws and regulations. Internal auditing frequently involves measuring compliance with the entity's policies and procedures. However, internal auditors are not responsible for the execution of company activities; they advise management and the board of directors regarding how to better execute their responsibilities.

The directors review the effectiveness of the organization system of internal control through the audit committee of the board on a quarterly basis which makes recommendations to the full board for approval/disapproval. The internal controls are reviewed on a quarterly basis and presented to the audit committee of the board. To perform their role effectively, internal auditors require organizational independence from management, to enable unrestricted evaluation of management and personnel. Although internal auditors are part of company management and paid by the company, the primary customer of internal audit activity is the entity charged with oversight of management's activities. This is typically the Audit Committee, a sub-committee of the board of directors. To provide independence, the Chief Internal Auditor reports to the chairperson of the Audit Committee and can only be replaced with the concurrence of that individual.

The role of the audit committee is to review all audit reports both internal and external and advise the Board on the correctional measures and reprimands. It also monitors expenditure, ensures compliance to the budget and executes interventions to correct audit queries. It also approves internal audit programs. The audit committee also ensures internal control systems at KNLS are working effectively and efficiently. It also checks all the systems and ensures transparency. The audit committee consists of three directors, two of whom are independent non-executive directors. The current members are the chairman, two independent non-executive directors and the chief internal auditor who acts as the secretary to the committee.

#### **4.2.8 Management and Employees**

The Board of directors is charged with the responsibility of appointing all the managers of the organization. It does this through approving recommendations from the Human

Resources Advisory Committee of the board. The Board normally ratifies all other appointments for non-management (unionisable) staff.

According to the principles of good corporate governance, the Board of directors shall develop and put in place a code of ethics outlining the values, ethics and beliefs that guide the policy and behaviour of the company and define the ethical standards applicable to it and to all who deal with it. The findings indicate that the organization has a clear and written down code of conduct. This is in agreement with the Public Sector Initiative for Corporate Governance recommendations on good governance practice. The terms and conditions of service are well stipulated in a manual. All employees of KNLS are required to observe the provisions of these terms and conditions of service. The KNLS board enforces the regulations subject to any instructions given by the Board acting in accordance with the provisions of the relevant Act. The Director is responsible for the day to day direction of the operations of KNLS, for the implementation of the decisions of the board and for the administration, organization and control of all the employees and assets of KNLS.

KNLS is an equal opportunity employer and does not in its recruitment discriminate on the basis of gender, age, race, and ethnicity or entertain any forms of discrimination. The efficiency of KNLS depends on the quality of employees it engages. The policy of KNLS is to attract and recruit candidates qualified in terms of academic, professional qualification and have the required experience or who can be trained for effective work performance to achieve the Board's objectives. All appointments are made with the approval of the Board and are ensured that they are within the approved staff establishment. The appointments are made in accordance with the existing job descriptions and specifications for the various cadres of staff in respective fields of employment. For the purpose of appointment the career progression guidelines formulated for KNLS form an integral part of the terms and conditions of service.

The mission statement for KNLS is "to make information resources available and preserve the national imprint for use by all communities through utilization of appropriate

technology". The mission statement focuses on the customers since the organization intends to provide relevant information materials to them. It also focuses on efficiency and quality by using appropriate technology in order to exceed customer expectations. The statement also focuses on making information central and accessible to the public.

In implementing corporate governance practices, KNLS faces a number of challenges in relation to the middle level management and its employees. This includes lack of appreciation of practices of corporate governance. Resistance to change has made the implementation process difficult since most employees have refused to embrace information technology at the workplace. Lack of effective communication is a major challenge since some of the decisions made by the board and top level management are not communicated to the employees. Employees are expected to upgrade their skills and level of education constantly in order to remain relevant to the organization. The Government has reduced the amount of funds allocated to state corporations. This has called for use of activity based costing in order to allocate funds based on activities, programs or projects to be carried out within a financial year. Lack of funds has made implementing of corporate governance policies difficult.

The findings indicate that the Management, the CEO and The Minister respectively influence the Boards decision making. The Centre of Corporate Governance recommends that the Board be free from any influence in its decision making. The Board of directors should function in partnership with, but independent of executive management. Developing and up-scaling of leadership qualities for middle level management and preparing them for succession management is another challenge. It is recommended by the Centre of Corporate Governance that a succession plan is in place for the chairperson, CEO, Board members and senior management and is reviewed regularly. If a board actively plans for its succession, one of the key benefits is good governance. The findings established that there is no succession planning for the KNLS Board and senior management. This is contravention of the principles of good corporate governance.

## 4.3 Discussion

### 4.3.1 Link to theory

According to the Private Sector Initiative for Corporate Governance (1999), the appointment to the Board should be done through an effective process that ensures a balanced mix of proficient individuals. It is also expected that the board should determine the purpose and values and the strategies to achieve that purpose. Thus it should ensure that a proper structure in terms of systems and people is in place. The findings indicate that KNLS Board comprises of 1 executive director and 18 non-executive directors. The use of both the executive and non-executive board members ensures balance of power. The findings also indicate that most of the respondents believe that the board of directors is diversified. This compares favorably with a study by Ann-Maree Moodie (2000) which makes the point that board diversity enriches a board with alternative perspectives. She also established that on average organizations have 13 board members with a term of 3 years.

The Board recognizes the need for members to be able to strengthen their governance skills in light of technological developments, changing corporate environment and other variables. This calls for minimum educational qualification with a clear understanding of principles of good corporate governance. This is in agreement with recommendations by the Centre for Corporate Governance and in tandem with other requirements; understanding the financial structure of the organization, the relevant sector and communication with fellow board members, CEO and shareholders.

According to Private Sector Governance Trust (2002), the board should recognize and encourage professional development, and both collectively and individually, have the right to consult the corporation's professional advisers and, where necessary, seek independent professional advice at the corporation's expense in the furtherance of their duties as directors. The successful dynamics of a board depends on a combination of professional skills. This helps them make informed, independent and astute decisions on issues relevant to the corporation. Experienced board members are more conversant with duties and responsibilities of Directors and in general corporate governance practices.

Induction, development and strengthening of skills of experienced board members take less time. Appointing experienced board members in KNLS would remarkably improve good corporate governance practices.

According to the CCG (2003), the independence of the board is fundamental to its stewardship role and to its effectiveness. The role of the board is to act in the best interests of an organization and stakeholders as it supervises all aspects of the management of the organization. The findings indicate that most of the respondents agree that the board's independence is important. This is backed by a study by the CCG on corporate governance whose findings support a strong independent board. Independence of the board is a strong pillar of corporate governance.

The board shall include a balance of executive and non-executive directors such that no individual or group of individuals or interests can dominate its decision making. Most of the respondents said that the board size is important when it comes to decision making. PSICG requires that appointments to the board of directors should, through a managed and effective process, ensure that a balanced mix of proficient individuals is made and that each of those appointed is able to add value and bring independent judgment to bear on the decision making process. The findings show that the Board members, Chairman and CEO are appointed directly by the president or the minister. Presidential or ministerial appointments may not be objective and decision making may be affected and this compromises good corporate governance practice.

The board should ensure that the organization is conforming to governance practices, accounting and auditing standards, legislation and government policies and achieve agreed outcomes. Notwithstanding, this should not interfere with the board independence. The findings indicate that the management, the CEO and the minister respectively influence the Board's decision making. The Centre of Corporate Governance recommends that the board be free from any influence in its decision making. The board of directors should function in partnership with, but importantly, independent of executive management.

According to the PSICG (2002), appointments to the Board of Directors should, through a managed and effective process, ensure that a balanced mix of proficient individuals is made and that a nomination committee shall be established for this purpose. The findings indicate that KNLS does not have in place Directors nomination committee. This is against the principles of good corporate governance.

According to the principles of good corporate governance, the Board of directors shall develop and put in place a code of ethics outlining the values, ethics and beliefs that guide the policy and behaviour of the company and define the ethical standards applicable to it and all who deal with it. The findings indicate that there is a code of conduct. This is in agreement with the Public Sector Initiative for Corporate Governance recommendations on good governance practice.

It is recommended by the CCG that a succession plan is in place for the chairperson, CEO, board members and senior management and is reviewed regularly. If a board does actively plan for its own succession, one of the key benefits is healthy governance. The findings established that there is no succession planning for the KNLS Board. This is in contravention to the principles of good governance practice.

Senior management is responsible for setting up corporate governance structures and enforcing good governance structures. The CEO and management are most knowledgeable about corporate governance. This is in order with recommendation by the Centre for Corporate Governance but in addition, this should trickle down to other levels of management.

According to Hunt & Carey (2001), an effective audit, as a crucial component of corporate governance, provides a complimentary vehicle for implementing relevant control systems incorporating sound risk management plans. Further, the board shall establish an Audit Committee to keep under review the scope and results of audit; its effectiveness and the independence and objectivity of the auditors. The findings show that there is an audit committee in KNLS.

Effective audit committees enhance communication and coordination between management and internal as well as external audit, and strengthen internal frameworks and structures and ultimately good governance. Establishment of an audit committee enables board members to contribute an independent judgment and play a positive role in the organization.

The findings established that KNLS Board members are supplied with relevant, accurate and timely information to enable them discharge their duties. The study established that the directors receive board papers at least one week before board meetings. The information is relevant and given a time frame of 1 to 2 weeks, the study considers it to be timely. However, the study was not able to establish the accuracy of this information. There are also several ways through which the Board's deliberations are communicated to shareholders and stakeholders which include: circulation of minutes of board meetings, monthly reports, quarterly reports and quarterly publications.

Within the legal framework, the board is expected to annually disclose in its annual report, its policies, remuneration and emoluments for executive and non-executive directors. The annual report contains a statement on the director's responsibility for preparing the accounts. The annual report also contains a statement on the external auditors' reporting responsibility for preparing the accounts. The State Corporations Act, Cap. 446 states that every state corporation shall keep or cause to keep proper books recording all the property, undertakings, funds, activities, contracts, transactions and other businesses of the state corporation. The accounts of every state corporation shall be audited and reported annually in accordance with the Public Audit Act, 2003. KNLS has complied with this governance practice.

#### **4.3.2 Link to other empirical studies**

Wambua (2007), established that NHIF has put in place corporate governance structures. These structures include Board of Directors, Audit committees, a Tendering committee and a Code of conduct. The study also established that there are clear lines of responsibility. This findings are consistent with findings from this study that is KNLS has corporate governance structures in place.

The findings indicate that KNLS Board composes of 1 executive director and 18 non-executive directors. The KNLS Board also reported to have addressed matters to do with review of business strategy , review of management performance and budget approvals. Further it was established that the board members experience at the board level is most significant. The Board recognizes the need for members to be able to strengthen their governance skills in light of technological developments, changing corporate environment and other variables. This calls for minimum educational qualification with a clear understanding of principles of good corporate governance. This is in agreement with recommendations by the Centre for Corporate Governance and in tandem with other requirements; understanding the financial structure of the organization, the relevant sector and communication with fellow board members, CEO and shareholders.

Mwangi (2002), established that information supplied to directors mainly contained information on corporate strategy, management performance and corporate budgets. The findings established that KNLS Board members are supplied with relevant, accurate and timely information to enable them discharge their duties. The study established that the directors receive board papers at least one week before board meetings. The information is relevant and given a time frame of 1 to 2 weeks, the study considers it to be timely. However, the study was not able to establish the accuracy of this information. There are also several ways through which the Board's deliberations are communicated to shareholders and stakeholders which include: circulation of minutes of board meetings, monthly reports, quarterly reports and quarterly publications.

According to research done by Wambua (2007), findings indicated that NHIF did not have formal and transparent procedures for nomination and appointment of new directors to the Board. The findings also showed that NHIF does not have a Board's nominations committees. The findings indicate that KNLS does not have in place a Directors nomination committee.

According to research done by Mucuvi (2002), findings indicated that there is no corporate policy combining the roles of the chairman and CEO. The findings are

consistent to the findings that KNLS does not combine the roles of the chairman and the CEO. Mucuvi (2002), established that profitability, return on investment and human resource development were the factors considered when assessing the performance of the CEO. In KNLS, the CEO's performance criteria includes adherence to the strategic plan, achievement of annual key performance targets and adherence to established standards/procedures and policies. The CEO is also assessed based on his leadership and managerial skills. He/she should be a transformational oriented person.

According to Mucuvi (2002), 84.6% of the firms she studied have an internal audit function while the rest outsource the service. The research at KNLS established that KNLS has an internal audit function .Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organization's operations. It helps KNLS accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance practices. Internal auditing is a catalyst for improving an organizations effectiveness and efficiency by providing insight and recommendations based on analyses and assessments of data and business processes. With commitment to integrity and accountability, internal auditing provides value to governing bodies and senior management as an objective source of independent advice. KNLS has internal auditors who perform the internal auditing activity.



## **CHAPTER FIVE: SUMMARY, CONCLUSIONS AND RECOMMENDATIONS**

### **5.1 Introduction**

This chapter presents the summary and description of findings from the study. The chapter also provides findings, conclusions and recommendations for further research.

### **5.2 Summary of the findings**

The objective of this study was to establish corporate governance practice in KNLS. In my search for literature on the subject, I found out that not much has been written on corporate governance in the public sector. Due to public sector reforms the Government of Kenya has however made steps towards decentralization to enhance governance, efficiency and effectiveness through establishment of boards in all state corporations. State Corporation's boards have made further steps by providing strategic and business plans.

The findings established that KNLS has various corporate governance structures in place. These structures include board of directors, Audit Committee, Human Resource Advisory Committee, Finance Committee, Audit Committee and a code of conduct. The study established that there are clear lines of responsibility and accountability.

The findings established that there are 18 diversified board members who are independent with a 3 years fixed term. However, investigations also revealed that there is no succession planning for the Board.

The findings indicate that KNLS does not have a Board Nominations Committee. The findings also show that the board members and the CEO are appointed through ministerial and presidential appointments. Majority of the respondents indicated that the process is not appropriate. The findings also established that the Minister influences the board's decision making.

An Audit Committee's strength is its demonstrated independence and power to seek explanations and information as well as its understanding of the various accountability relationships and their impact, particularly that KNLS has an Audit Committee. The

findings established that the audit committee is independent. It was also established that the Audit Committee is independent. The study also shows that the Audit Committee is important in influencing good corporate governance practices in KNLS.

The study established that the CEO and the senior management are the most knowledgeable about corporate governance. In KNLS, the Board members are multi-skilled, experienced in a variety of business areas, prepared to update their knowledge, flexible, analytical and prepared to member and assess their individual or collective capabilities.

### **5.3 Conclusion**

The study established that KNLS has the fundamental corporate governance practices in place. KNLS has a diversified Board of Directors consisting of 18 non-executive members drawn from various sectors of the economy. There is also in place an independent Audit Committee, Finance Committee and Human Resources Advisory Committee. KNLS has also put in place a code of ethics outlining the values, ethics and beliefs that guide the policy and behavior of the company and define the ethical standards applicable to it and to all who deal with it. However, it was also established that KNLS does not have a Director's nomination committee.

The study revealed that there no minimum professional and academic qualifications set for the members of the boards of directors. Minimum professional and academic qualifications and ethical standards should be set out to form criteria for election of board members. Experience and track record should be critical ingredients in selection and appointment of the board members.

Succession plans, induction and training for top managers and directors were not exercised in KNLS. There should be training programs in place for effective execution of succession plans. Induction and training programmes for directors should be implemented to enhance their contributions to the organization.

### **5.4 Recommendations**

Through these results, the Government of Kenya can initiate assistance and support to educate state corporations on the need to develop a blueprint on the best practices of

corporate governance which can be used by all state corporations. This will ensure uniformity of the same across the spectrum. As a follow up to the above there should be a mechanism developed to monitor compliance of these practices, develop a culture where these companies can report or share ethical lapses; and where violations can be ascertained and appropriate disciplinary measures taken.

The organization has a vital role to play in promoting economic development and social progress. It is the engine of growth nationally, and increasingly responsible for providing information and promoting literacy in Kenya. The efficiency and accountability of the organization is now a matter of both private and public interest and governance has thereby, come to the head of the national agenda. Consequently the following recommendations will go a long way to ensure the organization thrives.

Appointments to the board of directors, should go through a managed and effective process, ensure a balanced mix of proficient individuals is made and that each of those appointed is able to add value and bring independent judgement to bear on the decision making process. The board should regularly assess its performance and effectiveness as a whole and that of the individual members, including the Chief Executive Officer. A summary of the major findings together with a statement confirming that the board has carried out a self assessment exercise should be presented to the full board meeting.

The board should recognize the need for new members to be inducted into their roles and for all board members to develop and strengthen their governance skills in light of technological developments, changing corporate environment and other variables. The board should accordingly organize for the systematic succession, induction and continuous developments of its members. The board should also ensure there is in place an independent directors (including the Chairman and Chief Executive Officer) to facilitate regular alteration of the mix and composition of the board ensuring relevant rejuvenation.

The Board of directors should ensure that the Code of Ethics is well defined and understood. The code of Ethics should apply to; Directors and Managers, all employees, the Government (shareholder), suppliers and other relevant stakeholders. There should

also be in -house trainings for all the various levels of management on corporate governance.

Good corporate governance is a pre-requisite for organizational growth and thus, transparency, accountability, leadership, integrity and commitment should be emphasized. Relevant corporate governance stakeholders and shareholders need to arise and put in place the necessary infrastructure for corporate governance audits as this would provide increased value to the present day corporation and hence various stakeholders. Last but not least, a replica study should be carried out after a few years to establish whether there have been changes on the corporate practices in the organization over time.

### **5.5 Limitations of the study**

The interview covered mainly employees in head office while KNLS has branches country wide. It was not easy to reach out to employees in remote areas. Some respondents were not well versed with corporate governance and others were not willing to divulge information. The other problem was the study was limited to the public sector only and did not cover other sectors of the economy.

The study was carried out in only one organization and though it may provide typical information of a state corporation, it may not be possible to generalize the data as organizations differ in many ways as far as corporate governance practices are concerned. The main limitations of the study were time, money and skepticism displayed by some respondents who were not willing to divulge information about some aspects concerning the organization. The data collection instrument (the interview guide) was also not put into any pre-testing procedure as a result of which any ambiguities could be ruled out.

### **5.6 Suggestions for further research.**

During the study it became evident that the extent of practice of corporate governance principles may have direct relationship to the level of performance of state corporations. In addition, the extent of government regulatory, control and supervision role in the running of some state corporations may be impacting on their levels of performance, the location and the amount of resources they are able to generate.

A similar study should be undertaken in other state corporations focusing on the impact of corporate governance on their performance .i.e. financial and operational performance. The study should also be broadened to include the views of external auditors of state corporations as this would enlighten more on the corporate governance practices.

Other suggested areas for further research include: corporate governance and firm performance in Kenya, corporate governance disclosure practices in Kenya, corporate governance and corporate social responsibility in Kenya with special reference to commercial banks.

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## APPENDICES

### Appendix I: Interview Guide

#### To the respondents

Thank you very much for your willingness to participate in this interview. This interview is being conducted with a view a view of establishing corporate governance practices at KNLS. The interview is asking questions on the practices in your firm, regardless of the laws and regulations. Your accurate and frank response is key. The results will be used only for research purposes.

#### Board of Directors

1. How many members constitute KNLS Board?

- a. Executive Directors
- b. Non-Executive Directors

2. How often are board meetings held in a year?

Once ( ) .....Twice ( ) ...Thrice ( ).....Other (please specify).....

3. How many meetings of the full board were held during the past financial year?

4. How is the issue of less quorum addressed during board meetings where decisions have to be made?

5. What matters are reserved for the board?

- a. ....
- b. ....
- c. ....

6. How do you ensure that there is no conflict of interest among the directors' private business vis a vis that of the organization with regard to?

- a. Strategy
- b. Performance
- c. Resources
- d. Standards of Conduct

**Appointment to the Board**

7. Is there a nomination committee for members of the Board?

Yes ( )                      No ( )

If yes, what is the committee's terms of reference?

8. If there is no nomination committee, what is the procedure for appointing members to the Board?

**Chairman and Chief Executive Officer (Director)**

9. Who appoints the CEO (Director)?

10. Is there a corporate policy to combine the roles of the Chairman and the CEO?

Yes ( )                      No ( )

11. What factors does the Board consider when assessing the performance of the CEO?

- a. ....
- b. ....
- c. ....
- d. ....

**Supply of information**

12. What kind of strategic information does management supply to the Board?

Financial ( ) Operational ( ) Other (Specify).....

13. How often is information relayed to the board? Once a year ( ) Twice ( ) Other (Specify)

**Accountability and audit (financial reporting)**

14. Does the annual report contain a statement on director's responsibility for preparing the accounts? Yes ( ) No ( )

15. Does the annual report contain a statement on external auditors reporting responsibility for preparing the accounts? Yes ( ) No ( )

**Internal Audit**

16. Is there an internal audit function? Yes ( ) No ( )

17. Do the directors review the effectiveness of the organization's system of internal control? Yes ( ) No ( )

18. If the answer above is yes, how often are internal controls reviewed?  
Once a year ( ) Twice ( ) Other ( )

19. Does the board have an audit committee?  
Yes ( ) No ( )

20. If yes, what is the role of the audit committee?

**Management and Employees**

21. Who is responsible for appointing the managers of the organization?

22. Does the organization have a clear and written down code of conduct? Yes ( )  
No ( )

23. What are the key focus points of the mission statement?  
a. Customers  
b. Quality  
c. Others (please specify).....

24. Please outline any challenges that your organization is facing to implement the corporate governance policies as regards to the following:  
a. Middle level management  
b. Employees