CORPORATE GOVERNANCE PRACTICES AND PERFORMANCE OF
SEMI-AUTONOMOUS GOVERNMENT AGENCIES: THE CASE OF
NATIONAL HOSPITAL INSURANCE FUND

BY

MOHAMUD M ALI

C153/CTY/PT/27554/2014

A RESEARCH PROJECT SUBMITTED TO THE SCHOOL OF
HUMANITIES AND SOCIAL SCIENCES IN PARTIAL FULFILLMENT OF
THE REQUIREMENTS FOR THE AWARD OF THE DEGREE OF MASTER
OF PUBLIC POLICY AND ADMINISTRATION, KENYATTA UNIVERSITY

Ali, Mohamud M.
Corporate
governance

SEPTEMBER 2016
DECLARATION

I declare that this project report is my original work and that it has not been submitted to any other institution for examination.

Signed ..................................  Date ..................................

Mohamud M. Ali

C153/CTY/PT/27554/014

This project report has been submitted with my approval as the university appointed supervisor.

Signed ..................................  Date 7/11/2016

PROF. DAVID MINJA

DEPARTMENT OF PUBLIC POLICY AND ADMINISTRATION

KENYATTA UNIVERSITY
DEDICATION

I dedicate this research study to my entire family for the support they provide in life that makes me who I am today.
ACKNOWLEDGEMENTS

Any researcher owes a debt of gratitude to those anonymous individuals who become the statistics in the paper, and that is a debt which I gratefully acknowledge since it would not be possible to complete this study without the encouragement and support from so many quarters.

In this regard, I wish to thank the almighty Allah for the gift of life, His grace, strength and countless underserved favours that He bestows upon me every single day.

I extend my heartfelt gratitude to all my mentors. In particular, I am very grateful to my supervisors, Prof. Minja and Mr. Ngeno for their guidance, encouragement and positive criticism that guided me forward. Your probing questions and generous comments shaped my project. Your suggestions and prompt comments gave me impetus to refine and produce quality work.

I do recognize the support I received from my classmates for sharing books, journals and ideas.

My sincere gratitude also go to my immediate family for their continuous support, encouragement and morale without which I would not be where I am at the moment. Special thanks to my friend Ngatia for his support throughout the process.

Allah bless you all.
ABSTRACT

Corporate governance issues in public sectors have become a popular discussion topic in the last two decades. According to the Organization for Economic Cooperation and Development (OECD), corporate governance is the system by which business corporations are directed and controlled. Its structure specifies the distribution of rights and responsibilities among different participants in the corporation, such as the board, managers, shareholders, and other stakeholders, and spells out the rules and procedures for making decisions on corporate affairs. By doing so, it also provides the structure through which the company objectives and the means of attaining those objectives and monitoring performance are set. The study aimed at establishing the relationship between corporate governance practices and performance of National Hospital Insurance Fund (NHIF). The objectives of the study were to determine the effect of Board attributes, reporting disclosure and risk management on the performance of National Hospital Insurance Fund. The study employed a descriptive survey design. To achieve the objectives, the study was hinged on stewardship theory, stakeholder theory and agency theory. The population of study was 172 respondents comprising of senior managers, middle level managers and working at NHIF headquarters in Nairobi. Stratified random sampling was used basing the strata on the various management levels to select 69 respondents. Data was collected using semi-structured questionnaires. The questionnaires were pilot tested to refine the questions before being administered to the selected sample. This study used the quantitative method of data analysis which was achieved by use of descriptive statistics and multiple. The data was analyzed using Statistical Package for Social Sciences (SPSS) version 21 and presented using tables and pie charts to give a clear picture of the research findings at a glance. The study established that disclosure had a positive effect on performance of NHIF and that risk management enhanced the performance of NHIF. The study concludes that board attributes like board size, board independence, CEO duality, board diversity, board composition and frequency at which board members held meeting all affected NHIF performance. The study further concludes that reporting disclosure and risk management had a positive effect on performance of NHIF. The study recommends that special attention should be taken when dealing with the number of board members. The size of the board should match with the size of the NHIF to avoid scenarios of having too small boards which will be overburdened with the firm's work which will lead to underperforming, and at the same time boards should not be too large as the inefficiency of large boards will also lead to underperforming of the board members. The management of NHIF should provide clear accounts to users with a clear picture of their operational and derivatives activities. They should disclose meaningful summary information, both qualitative and quantitative, on the scope and nature of their operational and derivatives activities and illustrate how these activities contribute to their earnings profile. NHIF should disclose information produced by their internal risk measurement and management systems on their risk exposures and their actual performance in managing these exposures. Linking public disclosure to internal risk management processes helps ensure that disclosure keeps pace with innovations in risk measurement and management techniques.
LIST OF ABBREVIATIONS AND ACRONYMS

ALE Annualized Loss Expectancy
ANOVA Analysis Of Variance
ANP Analytic Network Process
ARO Annualized Rate of Occurrence
CAMEL Capital adequacy, Asset quality, Management capability/systems, Earnings ratios
CCG Centre of Corporate Governance
CEO Chief Executive Officer
CMA Capital Markets Authority
COTU Central Organization of Trade Unions
GLCs Government-Linked Company
GoK Government of Kenya
ICC International Chamber of Commerce
IMF International Monetary Fund
IPAR Institute for Policy analysis and Research
ISDA International Swaps and Derivatives Association
KACC Kenya Anti-Corruption Commission
KMO Kaiser-Meyer-Olkin
MCCG Malaysian Code on Corporate Governance
NED Non-Executive Director
NHIF National Hospital Insurance Fund
NSE Nairobi Securities Exchange
OECD Organization for Economic Cooperation and Development
<table>
<thead>
<tr>
<th>Abbreviation</th>
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<tr>
<td>PhD</td>
<td>Doctor of Philosophy</td>
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<tr>
<td>RBM</td>
<td>Results Based Management</td>
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<td>ROA</td>
<td>Return on Asset</td>
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<td>SAGAS</td>
<td>Semi-Autonomous Government Agencies</td>
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<td>SCAC</td>
<td>State Corporation Advisory Committee</td>
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<td>SLE</td>
<td>Single Loss Expectancy</td>
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<td>SPSS</td>
<td>Statistical Package for Social Sciences</td>
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<tr>
<td>TBL</td>
<td>Triple Bottom Line</td>
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<tr>
<td>UK</td>
<td>United Kingdom</td>
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<tr>
<td>US</td>
<td>United States</td>
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<tr>
<td>VIF</td>
<td>Variance Inflation Factor</td>
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OPERATIONAL DEFINITION OF TERMS

Board attributes: This refers to a set of characteristics of an institution’s board that affect the execution of its mandate. This includes aspects such as board size, board composition, CEO duality, independence of board committees, frequency of board meetings and board diversity.

Corporate governance: The set of processes, customs, policies, laws, and institutions affecting the way a corporation (or company) is directed administered or controlled.

Risk Management: The process by which managers satisfy their risk taking needs by identifying key risks, obtaining consistent, understandable, operational risk measures, choosing which risks to reduce and which to increase and by what means, and establishing procedures to monitor the resulting risk position.

Reporting: An organizational report that gives information about economic, environmental, social performance.

Disclosure: The results of activities of an organization or investment over a given period of time.
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CHAPTER ONE: INTRODUCTION

1.1 Background to the Study

The term corporate governance has no single accepted definition. Anderson and Bizjak (2013) define corporate governance as the international term associated with the trend towards greater corporate responsibility and the conduct of business within acceptable ethical standards. Transparency, accountability and openness in reporting and disclosure of information, both operational and financial, are internationally accepted to be vital to the practice of good corporate governance (Epstein et al., 2009). Corporate governance is concerned with holding the balance between economic and social goals and between individual and communal goals. The aim is to align as nearly as possible the interests of individuals, corporations and society (World Bank, 2011). The objectives of good corporate governance are attained when institutions demonstrate their public accountability and conduct their business within acceptable ethical standards. This demonstration takes the form of effective financial reporting, both internally and externally, and the unqualified encouragement of public debate in respect of such financial reports.

The World Bank (2011) noted that corporate governance is concerned with the processes, systems, practices and procedures as well as the formal and informal rules that govern institutions. It is also concerned with the manner in which these rules and regulations are applied and followed, the relationships that these rules and regulations determine or create, and the nature of those relationships. It also addresses the leadership role in the institutional framework. Corporate Governance, therefore, refers to the manner in which the power of a corporation is exercised in the stewardship of
the corporation’s total portfolio of assets and resources with the objective of maintaining and increasing shareholder value and satisfaction of other stakeholders in the context of its corporate mission (Meredith & Robyn, 2011).

Corporate governance issues in public sectors have become a popular discussion topic in the last two decades (Wetukha, 2013). According to Organization for Economic Cooperation and Development (OECD) (2011), corporate governance is the system by which business corporations are directed and controlled. 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. It also spells out the rules and procedures for making decisions on corporate affairs. By doing so, it also provides the structure through which the company objectives and the means of attaining those objectives and monitoring performance are set.

International Chamber of Commerce (ICC, 2011) defines corporate governance as the relationship between corporate managers, directors and the providers of equity, people and institutions who save and invest their capital to earn a return. It ensures that the Board of Directors is accountable for the pursuit of corporate objectives and that the corporation itself conforms to the law and regulations (Coughlin & Schmidt, 2011).

Globally, corporate governance has received increased attention because of high-profile scandals stemming from excessive managerial compensation, various abuse of corporate power, recent events, such as the financial crisis that began in mid-2013 and other corporate governance failures (Transparency International, 2010). Corporate governance enhances performance of the corporation by motivating managers to
maximize returns on investment, raising operational efficiencies and ensuring long-term productive growth (Coughlin & Schmidt, 2011). Good corporate governance practices can strongly contribute to market development and corporate stability. Without governance mechanisms in place – in particular, a board to direct and control - managers might run away with the profits. Understood this way, good governance minimizes the possibility of poor organizational performance (Meredith & Robyn, 2011).

Corporate governance structures are concerned with setting up frameworks that ensure proper commitment, allocation and utilization of resources (Pearce et al, 2012). There have been some legislative changes and provisions imposed by governments on public institutions around the world to improve on their governance arrangements (Edwards, 2010). According to the recent literature on corporate governance, governance of State Corporations involves following the governing trends of public companies (Dixon & Coy, 2013). Formal responsibility of all the activities in a state corporation is vested in a governing body, the board or the council of that a state corporation which comprises elected, appointed and ex-officio members, the majority of them in non-executive roles. According to Shatlock (2014), a state corporation governing body is expected to shoulder a corporate responsibility.

In many countries, state owned enterprises make up a disproportionate segment of the economy and suffer from a myriad of management and performance issues that limit their effectiveness and the role they are expected to play in generating growth. Mitton (2012) noted that emerging economies typically do not have an effective and predictable rule of law which, in turn, creates a weak governance environment. This is
not to say that emerging economies have no laws dealing with corporate governance. In most cases, emerging economies have attempted to adopt legal frameworks of developed economies, in particular those of the Anglo-American system, either as a result of internally driven reforms (for example China, Russia) or as a response to international demands (for example, South Korea, Thailand). However, formal institutions such as laws and regulations regarding accounting requirements, information disclosure, securities trading, and their enforcement are either absent, inefficient, or do not operate as intended. Therefore, standard corporate governance mechanisms have relatively little institutional support in emerging economies (Peng, 2011). This results in informal institutions such as relational ties, business groups, family connections, and government contacts, all playing a greater role in shaping corporate governance (Yeung, 2011).

The concept of governance has existed for centuries but many African economies began to pay particular attention to its ideals in the beginning of the 1980s. The term corporate governance was first mentioned in a 2009 World Bank report on sub-Saharan Africa and since then, many donor agencies have been putting a lot of emphasis on its adoption both in the public and private sectors (Qudrat-IElachi, 2009). Corporate governance has since evolved in a number of developing African countries (Solomon & Solomon, 2011) but Okeahalam (2011) argues that even though most African countries have embraced corporate governance practices, there is limited research in corporate governance practices in developing countries especially countries in African continent.
According to Okeahalam (2011), the first African country to embrace corporate governance principles in its public sector was South Africa. The practice was adopted by other African countries in the public sector much later. Okeahalam (2011) further argue that compliance with laws and regulations were essential for public sector performance and efficient functioning of systems. In Botswana, the principles of corporate governance were adopted in both public and private sectors in the year 2012 to promote the ideals of world class in all companies and public sector by adopting the standards as pronounced by the Cadbury and the kings Report.

According to Kihara (2011), effective corporate governance is important to parastatals in Kenya because it influences and enhances firms’ performance. It clearly delineates the role of the board and management, enabling the board to perform its oversight role while management performs its day-to-day functions; corporate governance in the parastatals also mitigates the agency conflict thereby prioritizing the state interest over individual management’s interest. The relevance of good corporate governance cannot be over-emphasized since it constitutes the organizational climate for internalizing success in the activities of a company. Corporate governance brings new outlook and enhances a firm’s corporate entrepreneurship and competitiveness.

The practices of good corporate governance started gaining much prominence in Kenya towards the end of the 21st century when citizens started agitating due to poor performance and rampant corruption both in the public and private sector organizations (Ekadah & Mboya, 2011). The Centre of Corporate Governance (CCG) has been the greatest advocate of corporate governance in Kenya. Corporate governance framework in Kenya was started in 2011 when the CCG developed a
framework which was voluntary for companies to adopt (Kvale, 2011). The framework was further taken up by the Capital Markets Authority (CMA) in 2010 as a draft. In Kenya, the Capital Markets Act Cap 485A (2012) stipulates the best practice guidelines for corporate governance in public companies based on recommendations and reports from the OECD, the Commonwealth Association for Corporate Governance and the Private Sector Corporate Governance Trust, Kenya.

Bradbury (2011) posits that performance in the public sector is measured by the economy, efficiency and the effectiveness of resource utilization to meet the set objectives. The surplus financial returns is remitted to the government through the treasury as dividends or where authorized, carried forward for expensing in the subsequent financial years. Controls must be applied to ensure that surpluses resulting from inefficiency and non-effective utilization of resources are not declared and used as an indication for good financial performance.

Performance of Kenyan state corporations remains crucial for micro and macro-economic development of the country. The Kenyan government acknowledges that over the years there has been poor performance in the public sector including state corporations, especially in the management of public resources which has hindered the realization of sustainable economic growth (GoK, 2011). This is why performance of these state corporations has been of great concern to many stakeholders including management practitioners, government and the public at large. This is partly due to dwindling resource base and growing need for public services (GoK, 2013). Therefore organizational resources and corporate governance structures combined could be a recipe for better performance. While some Kenyan state corporations consistently
performing well, others have been found to perennially underperform, over rely on the exchequer and loose viability. Weak boards among other poor governance structures lead to resource loss. State ownership has been too bureaucratic leading to poor performance (Ongore, 2011).

Atieno (2009) stressed that most parastatals in Kenya are characterized by inefficiency, losses and the provision of poor products and services. These conditions were a consequence of poor governance, poor public sector financial management, bureaucratic wastage and pilferage in the management of parastatals, all of which subsequently led to heavy budgetary burden to the public. As a result, The IMF and World Bank in 1994 proposed the privatization of parastatals in Kenya. Lack of adequate corporate governance in state corporations has been evidenced by the collapse of several state corporations that were set up in the early 1970’s. Some of the documented evidence include lack of review of Board performance, the Board never met frequently as required and the Board never got performance based contracts. Others include misappropriation of state corporation assets, declining financial performance, late or lack of performance of statutory audits by the Auditor General office, lack of prosecution of fraud and misappropriating agents of the state corporations and unwillingness of the government to take action to curb the gross misappropriation of state assets. This slowly led to the deterioration of the financial performance, loss of market share, loss of public faith in the institution, loss of revenue to the exchequer and eventually the collapse of all corporate governance systems in place of such government institutions. Over time closure of branches, divisions was evidenced and eventually the collapse of the entire institution (Otiti, 2010).
State corporations in Kenya have gone under a lot of reforms through government task forces and session papers to make them more efficient, effective in the performance of their mandate and to reduce the financial burden of the corporations on the public coffers. A lot of effort has gone in trying to make these corporations not only self-reliant but to make sure they can fund the government through the residual surplus after covering their costs of operations from the revenue they earn. Effective and functioning corporate governance is at the core in ensuring this is achieved as this would be to the benefit of the whole country as it moves towards the achievement of Vision 2030 (State Corporation Advisory Committee (SCAC), 2010).

1.1.1 National Hospital Insurance Fund

In 1966, the NHIF was established as a state parastatal under the Ministry of Health as provided for by The National Hospital Insurance Act 1966. There were numerous reviews of the 1966 Act over the years, in order to accommodate the changing healthcare needs of Kenyans and to ensure restructuring for more efficiency which culminated in its replacement with the current National Hospital Insurance Act No 9 of 1998 which governs the Fund (GoK, 2014).

According to the Constitution of Kenya (2010), Kenya’s Public Sector is broad and is comprised of National and County Governments. National Government has Ministries, Parastatals and Semi-Autonomous Government Agencies (SAGAS) while County Governments comprise of sub counties, towns and cities as sub-devolved units. The Public Sector is heavily relied on by the Kenyan citizens for the provision of services and goods. Over the last decade, the Government of Kenya has implemented a number of public sector reforms which, as an aspect of adoption of
good corporate governance practices include; the introduction of performance contracting, adoption of Results Based Management (RBM) approach to performance, restructuring of systems and authority in Government Ministries, adoption of the strategic approach to planning hinged on the Vision 2030 blue print and the adoption of performance based appraisal of public institutions (Kvale, 2011).

The National Hospital Insurance Act establishes the NHIF as an autonomous parastatal with the mandate to enable all Kenyans to access quality and affordable health care services (NHIF Act, 1998). The NHIF was established towards ensuring that the right to health is upheld. The entire governance structure of NHIF is predicated on NHIF being a state corporation. Despite receiving funds from contributors only, to whom it is accountable as they pay mandatory contributions, the establishment of the NHIF was based on the recommendation of Sessional Paper no. 10 of 1965 on African Socialism and its Application to Planning in Kenya (Kimani, 2012). Sessional paper No. 10 was Kenya's development blueprint at the time geared towards ensuring rapid economic development and social progress, of which health was outlined as part of, for Kenyan citizens (GoK, 2014).

According to the Kvale (2011), more than 90 percent of the Kenyan population is currently uninsured, which is primarily a result of ignorance and lack of awareness, and not the ability to pay. The Nairobi County has the highest coverage with almost 25 percent of the population insured, while the North Eastern region has the lowest coverage with less than 3 percent insured. In terms of income, coverage is highest for those in the richest quartile (31%) and lowest for those in the poorest quartile (1%). The level of education is also an important factor affecting the use of health
insurance, and for those with college and university education 42.6 and 59.7 percent are insured, respectively (Kvale, 2011). Barely 7 percent of those with only primary education have insurance. Out of the total number (600,000) of private insurance members in Kenya, 25 percent is located in Nairobi 150,000.

The National Hospital Insurance Fund has over the years faced various challenges that have hindered optimal realization of its intended objectives. These challenges include political interference and operational inefficiencies. NHIF is faced by the challenge of good corporate governance practice. This was evident during a launch by KACC of the Anti-graft plan (Kimani, 2012). During this launch KACC released its first National Corruption Perception Survey in which NHIF was mentioned and rated No. 18. Alarm was first raised by the Central Organisation of Trade Unions (COTU) when it protested that some non-existent clinics had received NHIF money. The country was outraged after civil servants and their dependents seeking medication turned up at some of the approved clinics, only to learn that some were roadside kiosks (Kimani, 2012).

According to the International Finance Corporation (2010), 5 of the 14 members of the NHIF Board are Government officials which increase the influence of the Government over the Fund. In addition, key contributor groups such as the Civil Servants and some informal sector groups are not represented on the Board. Mulinge (2013) also noted that NHIF does not have a Directors Nomination and compensation Committee not to mention there is political influence in the decision making process. Further, public disclosure of operational and financial information is limited, with information being disseminated through Government channels for example in
parliament, but not directly to contributors. An independent mechanism for contributors to address any grievances has also not been set up and indeed is not envisaged in the NHIF Act (International Finance Corporation, 2010). To this end, strengthening the governance structures of the Fund is important and will build on the existing structures in place (World Bank, 2010). Efforts by the government and development partners to progressively increase funding to the health sector has not led to drastic improvement of health outcomes because of the way the funds are channeled. Corporate governance breaches at the fund make it difficult for the movers of this noble health plan to convince contributors it’s up to the task (Business Daily Tuesday August 11, 2015). The main emphasis on corporate governance is vital for the economy and health provision sector going ahead.

1.2 Statement of the Problem

The association between quality of corporate governance and firm’s performance is a major focus in corporate governance studies, but one cannot predict much on the direction as prior literatures show mixed results. Research (Bauer & Guenster, 2013; Beiner et al, 2010; Schmidt & Zimmermann, 2010) has shown that organizations with a higher corporate governance were performing better. Contrast results are seen in Gompers et al (2013) who found no significant relationship between firms’ governance and operating performance. Eisenberg et al (2014) however found a negative correlation between board size and profitability. Further, corporate governance structures have been argued to negatively influence performance of state corporations (Ongore, 2011). Thus, this study seeks to establish the relationship that exists in National Hospital Insurance Fund.
Prior research on Corporate Governance in Kenya has focused mainly on compliance or the principles of corporate governance (Jebet, 2014). Although various research has demonstrated a close link between corporate governance practices and state corporations (IPAR), 2009) very few studies have been done on the relationship between corporate governance practices and performance of state corporations and hence the need for further studies in this area.

Kenya has experienced corporate scandals in private and public companies. State corporations and the governance challenges that have been cited are director’s conflicts of interest, lack of independence and abuse of power leading to corporations being run in the directors’ interests as opposed to corporate interest (Public Committee report, 2012). The cases of some state corporations which have been under receivership include Uchumi Supermarket, Kenya Meat Commission, Kenya Cooperative Creameries and Kenya National Assurance (Public Committee report, 2012). The failing of these State Corporations has not only created a drain in the economy but also of great concern to the shareholders. Several authors have cited non-facilitative, non-prescriptive and weak governance laws as the reason behind these corporate failures (World Bank, 2010). To the best of the researcher’s knowledge none of the earlier researches done in the country has focused on the nexus between corporate governance practices and performance of semi-autonomous government agencies. This is despite the fact that NHIF has been grappling with corporate governance issues for the last few years the major one being what COTU protested about some non-existent clinics receiving NHIF money. This study therefore sought to establish the relationship between corporate governance practices and performance of the National Hospital Insurance Fund (NHIF).
1.3 Research Objectives

The study had sought to:

1. Establish the effect of board attributes on performance of National Hospital Insurance Fund
2. Assess the effect of reporting disclosure on performance of National Hospital Insurance Fund
3. Establish how risk management affect the performance of National Hospital Insurance Fund

1.4 Research Questions

The study was guided by the following questions

1. To what extent do board attributes affect the performance of National Hospital Insurance Fund?
2. How does reporting disclosure affect the performance of National Hospital Insurance Fund?
3. How does risk management affect the performance of National Hospital Insurance Fund?

1.5 Justification and Significance of the Study

The focus of this study was on the relationship between governance practices and performance of National Hospital Insurance Fund. The motivation of the study is the report published by International Finance Corporation (2010) that NHIF faces various challenges including political interference and operational inefficiencies which may be attributed by the fact that 5 of the 14 members of the NHIF Board are Government
officials. These challenges include political interference and operational inefficiencies.

Kimani (2012) pointed out that NHIF is faced by the challenge of good corporate governance practice which was evident during a launch by KACC of the Anti-graft plan. KACC released its first National Corruption Perception Survey in which NHIF was mentioned and rated No. 18. Alarm was first raised by the Central Organisation of Trade Unions (COTU) when it protested that some non-existent clinics had received NHIF money. The country was outraged after civil servants and their dependents seeking medication turned up at some of the approved clinics, only to learn that some were roadside kiosks. This raises the question on the relationship between players in the decision-making process and performance of National Hospital Insurance Fund. Up to-date, this aspect of corporate governance has been largely neglected in studies that test the links between governance practices and performance of NHIF. Ongeti (2014) attested that once the concept of the relationships is brought into the governance-performance equation, the perception of what governance practices are and what to look for to enhance performance changes.

This study is expected to make several contributions to theory, managerial practice and policy. The delivery of services emanating from good corporate governance practices in the majority of State Corporations in Kenya has in the past been alarming. It is perceived that lack of effective governance systems has led to poor performance in State Corporations. This has led to poor economic growth. Therefore this study will investigate the connection between corporate governance practices and performance of State Corporations in Kenya. The results will help the government to come up with
The results of this study will also be invaluable to researchers and scholars, as it will form a basis for further research. The relationship between corporate governance and performance will also receive significant input both conceptually and empirically. Previous scanty empirical literature exists linking the two concepts. The students and academics will use this study as a basis for discussions on the corporate governance practices adopted by the public sector in Kenya. It is against this background that the study seeks to establish the nexus between corporate governance practices and performance of semi-autonomous government agencies with references to National Hospital Insurance Fund (NHIF).

1.6 Scope of the Study

The scope of the study was limited to studying the corporate governance practices on performance of the National Hospital Insurance Fund, comprising of board attributes, reporting disclosure and risk management. It is acknowledged that there are other corporate governance practices that may affect performance of National Hospital Insurance Fund but not included in this study. The study is limited to data from the employees at National Hospital Insurance Fund headquarters in Nairobi. The analysis was based on primary data collected from the management staff. The study was conducted at the NHIF headquarters in Nairobi County. The study will covered a period of 3 months; November, 2015- March, 2016.
CHAPTER TWO: LITERATURE REVIEW

2.1 Theoretical Foundation

2.1.1 Stewardship Theory

The stewardship theory suggests that managerial opportunism is not relevant (Mucciarone, 2011). The aim of management is to maximize the firm’s performance since that speaks of the success and achievements of management. Donaldson and Davis (1991) argue that managerial opportunism does not exist because the managers’ main aspiration is to do a good job, to be a good steward of corporate assets. This clearly replaces the lack of trust to which the agency theory refers with the respect for authority and inclination to ethical behavior.

The theory emphasized that real systems are open to, and interact with, their environments, and that they can acquire qualitatively new properties through emergence, resulting in continual evolution. Rather than reducing an entity (for example, the human body) to the properties of its parts or elements (for example, organs or cells), systems theory focuses on the arrangement of and relations between the parts which connect them into a whole. This particular organization determines a system, which is independent of the concrete substance of the elements. Thus, the same concepts and principles of organization underlie the different disciplines, providing a basis for their unification. Systems concepts include: system-environment boundary, input, output, process, state, hierarchy, goal-directedness, and information (Carter & Lorsch, 2010).
The resource dependence approach, developed by Haberberg and Rieple (2009), emphasizes that non-executive directors enhance the ability of a firm to protect itself against the external environment, reduce uncertainty, or co-opt resources that increase the firm’s ability to raise funds or increase its status and recognition. Firms attempt to reduce the uncertainty of outside influences to ensure the availability of resources necessary to their survival and development. The board is hence seen as one of a number of instruments that may facilitate access to resources critical to company success.

According to Donaldson and Davis (1991), stewardship theory argues that the goals of board directors and of their managers are aligned, with the latter being intrinsically motivated to act in the best interests of the organization and to focus on intangible rewards such as opportunities for personal growth and achievement. Managers and owners share a common agenda and work ‘side by side’; the emphasis is on the board’s role in developing strategy rather than on monitoring performance and a preponderance of internal (or executive) directors with high levels of access to information is favoured. Implicit in stewardship theory is the understanding that the owners (principals) are prepared to take risks on how managers will run their business and provide a return on their investment, indicating a level of trust that is absent in agency theory (Arthurs & Busenitz, 2013).

In summary, the steward theory suggests that a firm’s board of directors and its CEO, acting as stewards, are more motivated to act in the best interest of the firm rather than for their own selfish interests. This is because; over time senior executive tend to view the firm as an extension of themselves (Clarke, 2004). Therefore, the steward
theory argues that compared to shareholders, top management cares more about the long term success of the firm (Mallin, 2004). It is in light of this theory that the researcher seeks to establish how board attributes affect organizational performance.

2.1.2 Stakeholder Theory

The stakeholder approach considers the provision of resources as a central role of board members. The main resource stakeholder proponents refer to is consensus. According to this view, the board should comprise representatives of all parties that are critical to a company's success. This will result in the firm's ability to build consensus among all critical stakeholders. The board of directors is hence seen as the place where conflicting interests are mediated, and where the necessary cohesion is created. The stakeholder theory argues about the importance of a firm paying special attention to the various stakeholder groups in addition to the traditional attention given to investors (Gibson, 2009). These various groups of stakeholders which include customers, suppliers, employees, the local community and shareholders are deemed to also have a stake in the business of a firm. The representation of all stakeholder groups on boards is therefore necessary for effective corporate governance.

Three premises underpin stakeholder theory. They are: organizations have stakeholder groups that affect and are affected by them, these interactions impact on specific stakeholders and the organization, and perspectives of salient stakeholders affect the viability of strategic options (Haberberg & Rieple, 2009). Applications of stakeholder theory can be functionalist or radical, but it is the scope of the radical perspective to provide a more balanced, realistic and ethical view of organizational relationships.
(Friedman & Miles, 2012) and to pave the way to an era of socially responsible governance that is the focus of this paper. There are two main theories of stakeholder governance: the abuse of executive power model and the stakeholder model. Current Anglo-American corporate governance arrangements vest excessive power in the hands of management who may abuse it to serve their own interest at the expense of shareholders and society as a whole (Hutton, 2011).

Historically, definitions of corporate governance also took into consideration the relationship between the shareholder and the company, as per agency theory, such as director-agents acting on behalf of shareholder-principles in overseeing self-serving behaviors of management. However, broader definitions of corporate governance are now attracting greater attention (Solomon & Solomon, 2010). Indeed, effective corporate governance is currently understood as involving a wide number of participants.

The primary participants are management, shareholders and the boards of directors, but other key players whose interests are affected by the corporation are employees, suppliers, customers, partners and the general community. Therefore, corporate governance, understood in these broadening social contexts, ensures that the board of directors is accountable not only to shareholders but also to non-shareholder stakeholders, including those who have a vested interest in seeing that the corporation is well governed. Some corporate governance scholars (Carter & Lorsch, 2010; Leblanc & Gillies, 2011) also argue that at the heart of good corporate governance is not board structure (which receives a lot of attention in the current regulations), but instead board process (especially consideration of how board members work together
as a group and the competencies and behaviors both at the board level and the level of individual directors). As a result, the current scholarly discourse about the nature of corporate governance has come to reflect this body of research. This theory will help in bringing out the effectiveness of various board attributes in enhancing organization performance.

2.1.3 Agency Theory

The agency theory starts from an assumption that the social purpose of corporations is to maximize shareholders wealth (Coelho et al, 2013). The agency theory regards the central problem of corporate governance as self-interested managerial behaviour in a universal principal-agent relationship. Agency problems arise when the agent does not share the principal’s objectives. Furthermore, the separation of ownership and control increases the power of professional managers and leaves them free to pursue their own aims and serve their own interests at the expense of shareholders.

There are two problems occurring in the agency relationship with which agency theory is concerned. The first is that because it is difficult or expensive for the principal to verify what the agent is actually doing, the principal cannot verify that the agent has behaved appropriately. The second problem is that the principal and the agent may prefer different actions because of the different attitudes toward risk. Those two problems bring about a particular type of management cost incurred as principals attempt to ensure that agents act in principal’s interests: agency cost. To solve those problems, agency theory must determine the most efficient contract governing the principal-agent relationship and an optimal incentive scheme to align the behavior of the managers with the interest of owners (Blair, 2014).
The agency theory shares argues that the corporation should serve the shareholders’ interests only, but criticizes that the Anglo-American model of corporate governance because of competitive myopia (Westphal & Milton, 2010) and its consequent pre-occupation with short-term gains in return, profit, stock price and other performance measures induced by market pressures. The agency theory holds that what is wrong with corporate governance is that the system encourages managers to focus on short-term performance by sacrificing long-term value and competitiveness of the corporation. The financial markets often force managers to behave in a way divergent from the maximization of long-term wealth for shareholders. The agency theory contends that corporate governance reform should provide an environment in which shareholders and managers are encouraged to share long-term performance horizons. Shareholders loyalty and voice should increase, whereas the ease of shareholders exit should reduce. Policy proposals for the reform include the encouragement of relationship investing to lock financial institutions into long-term positions, restrictions on the takeover process and on voting rights for short-term shareholders, and the empowerment of other groups such as employees and suppliers that have long-term relationships with the firm (Keasey et al, 1997).

The agency theory creates highlights the problems that are associated with corporate governance and their mandate to deliver to the public. This theory will enable the researcher to understand the need for risk management and transparency reporting by the board. As highlighted, since it is difficult or expensive for the principal (the stakeholders/citizens to verify what the agent (management) is actually doing, it is the role of the governing council to ensure the reports submitted to the public are transparent and can be accounted for. The theory therefore acts as a benchmark on
why it is important to investigate how corporate governance through transparency reporting affects organizational performance.

2.2 Empirical Review

Corporate governance issues have often resulted from principal-agent problems where directors as agents of shareholders pursue individual as opposed to corporate interests. Corporate governance mechanisms have therefore been developed to align directors' interests to those of the corporation and protect shareholder's interests (Boudewijn, 2009). The board of directors is appointed by shareholders to monitor the management and account to the owners of the company and it acts as an interface between the organization and the external environment. As such, the board is central to the governance of every corporation and an important participant in the corporate governance environment. Consequently, many jurisdictions recognize that a corporation should be headed by an effective board responsible for governance of the company and aimed at promoting.

The collapse of major companies around the world over has attracted global interest and led to debates on corporate governance. Several of these collapses are largely attributable to directors' irresponsibility, malfeasance and negligence. For instance, the bankruptcy of WorldCom was caused by fraud perpetrated by the management of the telecommunications firm in which the board of directors did not intervene. The collapse of Enron was blamed on its rogue directors who engaged in dishonest activities of manipulating the company's earnings and concealment of material financial information. The directors of Maxwell Company in the United Kingdom were involved in fraudulent financial dealings leading to the loss of funds and
collapse of the company. These corporate failures led to legal reforms to safeguard investor interests. For instance, the collapse of Enron and WorldCom in the USA led to the introduction of the Sarbanes-Oxley Act of 2012. In the United Kingdom, the Cadbury committee was formed to look into the financial reporting structures of companies with an aim of improving corporate governance after the collapse of Polly Peck and Maxwell (Humphry, 2014).

According to Lim (2010) the board is the most fundamental corporate governance structure in any organization. Board attributes or characteristics may influence strategic decision-making including resource allocation and subsequently firm performance (Mallin, 2010). The board dimensions include its composition, board appointment process, size, terms of engagement of board members, board member attributes among others (Chaganti, Mahajan & Sharma, 2011). The board structure has a bearing on the corporate relationship between organizational resources and performance:

Political manipulation and poor human resource policies are other factors that have been blamed for the poor performance of State Corporations (Ongore & K’Obonyo, 2011). Government ownership is also associated with multiple reporting structures which distorts their management and running. Decisions such as resource acquisition and allocation, recruitment of top managers, budget approvals and setting of performance targets are highly controlled and influenced by government. This may limit managerial discretion, board efficiency and overall performance.

Using a sample of Norwegian and Swedish firms, Oixelheim and Randøy (2013) found a significantly higher Tobin’s $q$ for firms that have Anglo-American nationals
in their boardrooms. Using net income as the performance measure, Ruigrok and Kaczmarek (2014) find that nationality diversity of the board and management team members is positively related to financial performance in the UK, the Netherlands, and Switzerland.

Doucouliagos, Haman and Askary (2013) investigated the effect of directors' remuneration and performance in Australian banking. The results indicated that there was no relationship between directors' pay and firm performance, and no association with prior year performance. However, there was a distant pay-performance relationship, with total directors' pay having a robust positive association with earnings per share lagged two years, as well as with ROE lagged two years.

Nordin (2014) investigated directors' remuneration and firms' performance among Malaysia's Government-Linked Company (GLCs) and Non-GLCs. The results indicated that there was mixed link between directors' remuneration and the firms' performance. Luo, Zhang and Zhu (2011) examined the role of government directors (outside directors with past work experience in government agencies) in corporate governance and their effect on firm performance. Results found that announcements of government director appointments are greeted more negatively by investors than those of nongovernment director appointments. However, results showed that for operating performance and announcement returns are not observed when firms with government directors have a major trading relationship with the government or when they operate in regulated industries.

Van Ness, Miesing and Kang (2010) carried out a study on board of director composition and financial performance in a Sarbanes-Oxley world. The study found
that duality, occupational expertise, board size, and board tenure were significant influences on firm financial performance. Dionne, Chun and Triki (2015) studied the importance of directors' independence and financial knowledge and corporate governance. Results showed that directors' financial knowledge increases firm value through the risk management channel. This effect is strengthened by the independence of the directors on the board and on the audit committee. Results also showed that following unexpected shocks to gold prices, educated hedgers are more effective than average hedgers in the industry. The results suggested adding the experience and education dimensions to the 2012 Sarbanes–Oxley Act and New York Stock Exchange requirements for financial literacy.

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Scholer (2013) conducted a study on the effect of board independence in a two-tier setting on firm performance. The findings suggest that board independence could be seen as a positive mechanism in Danish companies since the firm performance seems (highly) related to board independence. However, Wang's (2014) study on the effect
of independent directors on corporate performance in China gave conflicting results. From the integrated empirical evidence from 30 collected sample articles, study finds that board independence has no significant impact on firm performance. Malgharni and Lotfi (2013) in their study analyzed the relationship between board of director composition and risk management in the firms listed in the Tehran Stock Exchange. Results showed a significant positive correlation between the size of board of directors, board meeting frequency, financial literacy of the board, the CEO dual functions, controlling variables and risk management.

Locally, Maina (2011) examined the effects of board composition on firm’s performance on all quoted firms in Kenya. He found no significant relationship between firm’s performances measured using Return on Equity and board composition variables. In addition the findings showed that Kenyan boards were adopting the good corporate governance outlined by CMA. Shavulimo (2014) investigated the effect of corporate governance on performance of sugar manufacturing firms in Kenya. Results revealed that corporate governance practices were positively related to the performance of sugar manufacturing firms in western Kenya, although not very strongly.

Ongore and K’Obonyo (2011) investigated the effects of selected corporate governance characteristics on firm performance in Kenya. Results showed a significant positive relationship between foreign, insider, institutional and diverse ownership forms, and firm performance. However, the relationship between ownership concentration and government, and firm performance was significantly negative. The role of boards was found to be of very little value, mainly due to lack of
adherence to board member selection criteria. The results also show significant positive relationship between managerial discretion and performance.

Nakano and Nguyen (2012) examined the relationship of selected Board of Directors' characteristics and firm's financial performance. Results showed that the age of the Board of Directors matters, to a certain degree, as well. Younger members are probably willing to bear more risk and to undertake major structural changes to improve firm's future prospects.

Aduda, Chogii and Magutu (2013) conducted an empirical test of competing corporate governance theories on the performance of firms listed at the Nairobi Securities Exchange. The study found that board composition variables are important predictors of firm performance. Ogeno (2013) investigated the effect of board attributes on the financial performance of firms listed in the manufacturing and allied sector of the Nairobi Securities Exchange. Results showed that board independence has a significant negative correlation with financial performance. Board diversity was also found to have a significant positive effect on financial performance.

Wetukha (2013) investigated the relationship between board composition and financial performance of listed firms at the Nairobi Securities Exchange. The study found a positive relationship between board independence, board size and CEO duality and financial performance of companies listed at the NSE. However, gender diversity and the proportion of executive directors were found to negatively affect the financial performance of companies listed at the NSE. The present study will therefore investigate other board attributes that have not been focused on by local studies like nationality, and educational qualification to investigate the relationship
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2.2.1 **Board Attributes and Performance**

2.2.1.1 **Board Size**

Hermalin and Weisbach (2013) argued the possibility that larger boards can be less effective than small boards. When boards consist of too many members agency problems may increase, as some directors may tag along as free-riders. They argued that when a board becomes too big, it often moves into a more symbolic role, rather than fulfilling its intended function as part of the management. On the other hand, very small boards lack the advantage of having the spread of expert advice and opinion around the table that is found in larger boards.

Vafeas (2010) reported that firms with the smallest boards (minimum of five board members) are better informed about the earnings of the firm and thus can be regarded as having better monitoring abilities. Echoing the above findings, Mak and Yuanto (2013) reported that listed firm valuations of Singaporean and Malaysian firms are highest when the board consists of five members. Bennedsen, Kongsted and Nielsen (2011), in their analysis of small and medium-sized closely held Danish corporations reported that board size has no effect on performance for a board size of below six members but found a significant negative relation between the two when the board size increases to seven members or more.

In an attempt to compare the effects of board structure on firm performance between Japanese and Australian firms, Bonn, Yokishawa and Phan (2011) found that board size and performance (measured by market-to-book ratio and return on assets) was
negatively correlated for Japanese firms but found no relationship between the two variables for its Australian counterpart. However, contrary to the Japanese firms the ratios of outside directors and female directors to total board numbers have a positive impact in the Australian sample (Bonn et al., 2011).

Contrary to the above findings, a positive impact on performance was recorded with larger board size by Mak and Li (2011) and Adams and Mehran (2011); however, in examining 147 Singaporean firms from 2014 data, Mak and Li (2011) support the argument that board structure is endogenously determined when the results of their OLS indicate that board size, leadership structure and firm size have a positive impact on firm performance but their 2SLS regressions do not support this result. Adams and Mehran (2011) found a positive relationship between board size and performance (measured by Tobin’s Q) in the U.S banking industry. Adam and Mehran’s results suggest that such performance relationship may be industry specific, indicating that larger boards works well for certain type of firms depending on their organizational structures. A meta-analysis based on 131 studies by Dalton and Dalton (2011) revealed that larger boards are correlated with higher firm performance.

Boards with a large number of directors can be a disadvantage and expensive for the firms to maintain. Planning, work coordination, decision-making and holding regular meetings can be difficult with a large number of board members. Generally, Empirical evidence on the relationship between board size and firm performance provide mixed results. While, Ahmadu et al (2011) and Mustafa (2011) found that larger boards are associated with poorer performance, Beiner et al (2011), Bhagat and Black (2012) and
Limpaphayom and Connelly (2011) found no significant association between board size and firm performance.

2.2.1.2 Board Composition

Boards mostly compose of executive and non-executive directors. Executive directors refer to dependent directors and non-Executive directors to independent directors (Shahadat, 2011). At least one third of independent directors are preferred in board, for effective working of board and for unbiased monitoring. Dependent directors are also important because they have insider knowledge of the organization which is not available to outside directors, but they can misuse this knowledge by transferring wealth of other stockholders to themselves (Beasly, 2014). A board composed of members who are not executives of a company, nor shareholders, nor blood relatives or in law of the family (Gallo, 2011). An independent board is generally composed of members who have no ties to the firm in any way, therefore there is no or minimum chance of having a conflict of interest because independent directors have no material interests in a company. Mak and Yuanto (2013) saw Jacobs (2011) stating that independent directors are important because inside or dependent directors may have no access to external information and resources that are enjoyed by the firm’s outside or independent directors (for example, CEOs of other firms, former governmental officials, investment bankers, Social worker or public figures, major suppliers). Moreover, for advice/counsel inside or dependent directors are available to the CEO as a function of their employment with the firm; their appointment to the board is not necessary for fulfillment of this function.
Staikouras et al (2013) found that board composition does not affect firm performance although its relationship with performance was found to be positive. These findings were similar to those of Adusei (2010) who found no relationship between board composition and bank performance in Ghana although board composition was found to have positive effect on bank efficiency. At the same time, Alonso and Gonzalez (2011) studied 66 banks in OECD countries from 2014 to 2013. They established an inverted U shaped relation between the measures of bank performance (Tobin’s Q, ROA, the annual market return of a bank shareholder) and board size which they posit justifies a large board but imposing an efficient limit on size. According to Rhoades et al (2010), boards dominated by outsiders or NEDs may help to mitigate the agency problem by monitoring and controlling the opportunistic behavior of management.

The results of previous studies that investigated the relationship between board composition and firm performance are inconsistent. Dehaena et al (2011), Omar (2013) and Rhoades et al (2010) found that NED has a positive relationship with financial performance. For example, Krivogorsky (2011) and Limpaphayom and Connelly (2011) also found a positive relationship between board composition (the proportion of independent directors on the board) and firm performance. Hasnah (2009) showed that Non-Executive Directors is significantly related to firm performance that is measured by ROA. On the other hand, Coles et al. (2011) demonstrated that there is a negative impact of outside directors on firm performance. Erickson et al. (2011) also found a negative relationship between greater board independence and firm value. However, Bhagat and Black (2012) and De Andres et al. (2011) found no significant relationship between the composition of the board and
the value of the firm. Based on above discussion and in the light of the agency theory, the following hypothesis can be empirically tested.

It is suggested that higher proportion of non-executive directors in the board helps to reduce the agency cost. Kee et al (2013) and Hutchinson and Gul (2013) support this view by showing that that higher levels of non-executive directors on the board weaken the negative relationship between the firm’s investment opportunities and firm’s performance. However, Weir et al (2012) dispute it by stating that there is no significant relationship between non-executive directors’ representation and performance. In contrast, in the U.K., Weir et al. (2010) find a negative relationship between non-executive director representation and performance. In addition, Yermack (2014) present that small board has a higher market valuation. Stronger support for the positive impact of non-executive directors comes from event study analysis. The studies by Shivdasani and Yermack (2011) show that the appointment of non-executive directors increases company value.

2.2.1.3 CEO Duality

The Chief Executive Officer (CEO) of an organization can play an important role in creating the value for shareholders. The CEO can follow and in Corporate Governance provisions in a firm to improve its value (Defond & Hung, 2011). In addition, the shareholders invest heavily in the firms having higher Corporate Governance provisions as these firms create value for them (Morin and Jarrell, 2011). The decisions of the board about hiring and firing a CEO and their proper remuneration have an important bearing on the value of a firm.
The tenure of a CEO is also an important determinant of the firm’s performance. CEOs are hired on short-term contracts and are more concerned about the performance of the firm during their own tenure causing them to lay emphasis on short and medium-term goals. This tendency of the CEO limits the usefulness of stock price as a proxy for corporate performance (Bhagat & Jefferis, 2012). The management of a firm can overcome this problem by linking some incentives for the CEO with the long-term performance of the firm (Heinrich, 2012).

CEO duality plays an important role in affecting the value of a firm. A single person holding both the Chairman and CEO role improves the value of a firm as the agency cost between the two is eliminated (Alexander, Fennell & Halpern, 2013). On the negative side, CEO duality lead to worse performance as the board cannot remove an underperforming CEO and can create an agency cost if the CEO pursues his own interest at the cost of the shareholders (White & Ingrassia, 2012).

Dehaena et al (2011) argued that when an individual is holding two top positions there is a tendency on the path of such individual to adopt personal interests’ strategies that could be detrimental to the firm as a whole. Mallette (2012) argued that in the combined roles, the chairman of the board has to make decisions potentially leading to the conflict of interest. Moreover, in the combined roles, the CEO can set the board’s agenda and can influence (if not control) the selection of directors of the board. They concluded in their paper that CEO duality can challenge a board’s ability to monitor executives. However, empirical analyses of the impact of duality on various corporate performance measures have yielded conflicting results. Bhagat and Bolton (2014), Coles et al. (2011) found negative significant relationship between
CEO duality and firm performance. In contrast, Carapeto, Lasfer and Machera (2011), Schmid and Zimmermann (2013) and Wan and Ong (2011) found no significant difference in the performance of companies with or without role duality.

2.2.1.4 Independence of Board Committees

Board independence is considered important for a board committee to be an effective monitor (Clark, 2011). Freeman (2011) report empirical evidence showing that the presence of monitoring committees (audit, nomination, and compensation committees) is positively related to factors associated with the benefits of monitoring. However, the presence of insiders in the compensation committees increases the probability of making decisions in favor of the CEO’s interests (Freeman, 2011). Moreover, when the CEO sits on the nominating committee or when no nominating committee exists, firms appoint fewer independent outside directors and more gray outsiders with conflicts of interest (Shivdasani & Yermack, 2011). In addition, the stock market’s reaction to appointments of independent outside directors is more positive when the director’s selection process is viewed as relatively independent of CEO involvement (Shivdasani & Yermack, 2011).

Though the issue of whether directors should be employees of or affiliated with the firm (inside directors) or outsiders has been well researched, no clear conclusion is reached. On the one hand, inside directors are more familiar with the firm’s activities and they can act as monitors to top management if they perceive the opportunity to advance into positions held by incompetent executives. On the other hand, outside directors may act as “professional referees” to ensure that competition among insiders
stimulates actions consistent with shareholder value maximization (Westphal & Milton, 2010):  

2.2.1.6 Frequency of Board Meetings  

Vafeas (2011) finds that the annual number of board meeting increases following share price declines and operating performance of firms improves following years of increased board meetings. In a similar vein, the depth of reporting refers to the quantity of information required to be reported, as well as the timeframe of reported data. More frequent meetings, as well as the timeframe of reported data, is important (Rice, 2012) because it provides the basis on which periodic and longitudinal data assessments may be made.  

Lipton and Lorsch (2012) find that the most widely shared problem directors face is lack of time to carry out their duties, and that board meeting time is an important resource in improving the effectiveness of a board. Yet, an opposing view is that board meetings are not necessarily useful because the limited time the outside directors spend together is not used for the meaningful exchange of ideas among themselves or with management (Jensen, 2013), a problem that is a by-product of the fact that CEOs almost always set the agenda for board meetings.  

2.2.1.7 Board Diversity  

In very recent times, researchers began to look at how board diversity might enhance corporate governance and firm performance (Fields & Keys 2013). In probably the first research of its kind, Carter et al (2013), in a study of Fortune 1,000 firms, find significant evidence of a positive relationship between board diversity, proxied by the percentage of women and/or minority races on boards of directors, and firm value,
measured by Tobin’s Q. Adams and Ferreira (2012), in using U.S. data, find that gender diversity of corporate boards provides directors with more pay-for-performance incentives and that the boards meet more frequently. Notwithstanding above, empirical studies on the relationship between board diversity and firm performance remain sparse to date. One explanation is insufficient development of testable theory.

Hermalin and Weisbach (2011) comment that board specific phenomena are not quite explained by principal-agent models and note that current theoretical framework including agency theory does not provide clear-cut prediction concerning the link between board diversity and firm value. On the other hand, firms have in recent years been increasingly pressured by institutional investors and shareholder activists to appoint directors with different backgrounds and expertise, under the assumption that greater diversity of the boards of directors should lead to less insider decision making processes and greater openness to change (Westphal & Milton, 2010).

2.2.2 Reporting Disclosure and Performance

Reporting Disclosure is an organizational report that gives information about economic, environmental, social performance. Sustainability reporting is not just report generation from collected data; instead it is a method to internalize and improve an organizations commitment to sustainable development in a way that can be demonstrated to both internal and external stakeholders. This accounting framework, called the triple bottom line (TBL), went beyond the traditional measures of profits, return on investment, and shareholder value to include environmental and social dimensions (Epstein et al., 2009).
The TBL is an accounting framework that incorporates three dimensions of performance: social, environmental and financial. This differs from traditional reporting frameworks as it includes ecological (or environmental) and social measures that can be difficult to assign appropriate means of measurement. The TBL dimensions are also commonly called the three Ps: people, planet and profits. They are referred to as the 3Ps (Savitz & Weber, 2014). Previous studies, the number of board meetings held during the year was used to gauge the relationship between the level of board monitoring activity and firm performance (Perry & Shivadasani, 2011).

More universal and consistent reporting requirements should promote positive performance as it promotes transparency and mitigates capacity for opportunism on the part of both individual agent and units/departments (Mucciarone, 2011). In a similar vein, the depth of reporting refers to the quantity of information required to be reported, as well as the timeframe of reported data (Mucciarone 2011). The extent of reporting is related to the frequency with which reporting is required by the organizations governing board, but also relates to the breadth of reporting in terms of the number of divisions reporting through a single channel.

More frequent reporting, as well as the timeframe of reported data, is important (Rice, 2012) because it provides the basis on which periodic and longitudinal data assessments may be made. Longitudinal data is important because it provides the basis on which meaningful comparisons of findings and performance can be made (Bonn et al., 2011). That is, longitudinal data provides the mechanism by which comparisons of performance (i.e. the relativity of performance) can be deduced (Carrington, Coelli & Rao 2011). However, unless data reporting is periodic and
consistent, then longitudinal assessments are somewhat meaningless. For example, variables that are redefined over a period of time will mean that it will not necessarily be possible to compare performance between two time periods (Burns & Scapens 2010).

Periodically reported data needs to cover consistent time periods (Burns & Scapens 2010) (consistent one-year financial periods) in order to identify cyclical effects, trends, and causal factors. In terms of the objectives determined for organizations, the more specific and quantifiable the objectives, the more transparent and accountable governing agents will be (Nelson, 2009). This is because this not only provides clearer statement of objectives, but provides the basis on which incentives structures can be devised that link performance with these stated objectives.

There have been few studies in the literature measuring performance indicators and their reporting by government departments/statutory agencies (Jones & Pendlebury, 2010), and it was concluded that entities subjected to a greater amount of scrutiny were more likely to disclose information than those subjected to less scrutiny. Mucciarone’s (2011) study on oversight bodies included the Office of the Auditor-General and the Treasury Department. The above study results indicated that the Office of the Auditor-General had a significant positive impact on the disclosure of both financial and non-financial performance indicators. There have been limited studies in the literature measuring performance indicators and their reporting by Australian government departments. In Australia, Mucciarone (2011) studied factors which may influence the disclosure of types of performance indicators in annual reports of Australian Federal and State government departments.
2.2.3 Risk Management and Performance

2.2.3.1 Risk Identification

Risk identification sets out to identify an organization’s exposure to uncertainty. This requires an intimate knowledge of the organisation, the market in which it operates, the legal, social, political and cultural environment in which it exists, as well as the development of a sound understanding of its strategic and operational objectives, including factors critical to its success and the threats and opportunities related to the achievement of these objectives. Risk identification should be approached in a methodical way to ensure that all significant activities within the organisation have been identified and all the risks flowing from these activities defined. All associated volatility related to these activities should be identified and categorized (Shahadat, 2011).

Zsidison (2013) studied managerial perceptions of supply risk and used these to create a classification of supply risk sources. Johnson (2011) discussed risks specific to the toy industry (such as very high seasonality and the short life cycle of fad toys). Correct risk identification ensures risk management effectiveness. If risk managers do not succeed in identifying all possible losses or gains that challenge the organization, then these non-identified risks will become non-manageable (Greene & Trieschmann, 2011). The organisation will not account for them and will not take any actions related to them and the consequences could be much unexpected. The inability to identify possible gaining risks is as inappropriate as non-identified risks related to the loss. Missing a good positive possibility that an organisation seeks is a problem equal to bearing losses (Dickson & Hastings, 2010).
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Risk identification is a subjective component within this process. Each organization is responsible for its own risks and must identify them according to the company's perspective. In addition to those risks identified by specific organizations, there are risks common to companies within and across industries. Chopra and Sodhi (2011) presented a high-level categorization of potential risks in a supply chain, their associated drivers, and methods for defining appropriate mitigation strategies.

The first step in organizing the implementation of the risk management function is to establish the crucial observation areas inside and outside the company (Kromschroder & Luck, 2009). Then, the departments and the employees must be assigned with responsibilities to identify specific risks. There are many other approaches for risk identification, for instance, scenario analysis or risk mapping.

An organization can identify the frequency and severity of the risks through risk mapping which could assist the organization to stay away from high frequency and low severity risks and instead focus more on the low frequency and high severity risk. Risk identification process includes risk-ranking components where these ranking are usually based on impact, severity or dollar effects (Barton, 2013). Accordingly, the analysis helps to sort risk according to their importance and assists the management to develop risk management strategy to allocate resources efficiently. The techniques of risk identification are facilitative tools intended to maximize the opportunity of identifying all the risks or hazards inherent in a particular facility, system, or product. The tools may be categorized under the broad headings of intuitive, inductive and deductive techniques.
2.2.3.2 Risk Assessment

According to Pollard et al. (2011), risk assessment is the determination of quantitative or qualitative value of risk related to a concrete situation and a recognized threat (also called hazard). Quantitative risk assessment requires calculations of two components of risk: $R$, the magnitude of the potential loss $L$, and the probability $p$, that the loss will occur. Risk assessment consists in an objective evaluation of risk in which assumptions and uncertainties are clearly considered and presented.

Part of the difficulty of risk management is that measurement of both of the quantities in which risk assessment is concerned - potential loss and probability of occurrence - can be very difficult to measure. The chance of error in the measurement of these two concepts is large. A risk with a large potential loss and a low probability of occurring is often treated differently from one with a low potential loss and a high likelihood of occurring. In theory, both are of nearly equal priority in dealing with first, but in practice it can be very difficult to manage when faced with the scarcity of resources, especially time, in which to conduct the risk management process (Pollard et al., 2011).

Anderson (2011) has expressed concerns that risk assessment tends to be overly quantitative and reductive. For example, they argue that risk assessments ignore qualitative differences among risks. Some charge that assessments may drop out important non-quantifiable or inaccessible information, such as variations among the classes of people exposed to hazards. Furthermore, Commoner and O'Brien claim that quantitative approaches divert attention from precautionary or preventative measures (Hallenbeck, 2011). Obvious benefits of risk assessment are that the results serve as
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the basis for cost savings through avoidance and the judicious use of finite resources for risk mitigation. With respect to avoidance, it is often possible to undertake actions that will eliminate major downtime events.

Risk analysis plays a role alongside other decision tools for risk management (Pollard et al., 2011). Detailed risk analysis is not a prerequisite for effective risk management. In many industries there are accepted standards of performance and codes of practice that, if adhered to, provide high degrees of control. These are applied in familiar and well characterized situations where uncertainties and system vulnerabilities are well understood. However, complex, uncertain and novel systems, which deviate from routine operation, may require risk analysis, so as to better understand what drives the risk from or to the plant, process or operation, thereby allowing management measures for the reduction of unacceptable risks to be targeted for greatest effect (Pollard et al., 2011). This principle extends beyond the operation of technical systems to embrace all aspects of managing a business. This said, risk analysis is, in many respects, a practitioner-driven discipline.

2.2.3.3 Risk Mitigation

Operational risk mitigation strategies fall mainly into two categories: Preparedness to provide early warning, establish contingency plans, and develop capacity for emergency response and Prevention/mitigation measures to reduce vulnerability and risk on a long-term and permanent basis (Manganelli & Engle, 2011). One growing risk mitigation technique is the use of insurance to cover certain operational risk exposures. An organization can ensure that their processes are being accurately transacted by applying strict control metrics to the process. Utilizing tools such as
standard operating procedures and clearly defined training manuals can help to maintain uniformity of the process. To maintain the level of quality expected by customers, an organization must implement rigid metrics with which to gauge product quality. Metric tools such as 20-point quality checklists or statistical process control charts can help to minimize the potential for variation from the norm (Masiga, 2014).

Once the risks are assessed, a number of strategies can be used to manage the risk. These include: transferring risk, taking risk, eliminating risk, reducing risk and subdividing risk into individual levels for further analysis (Hallikas et al., 2011). Rice and Caniato (2013) classified mitigation techniques by failure mode in a business. According to Hahn et al. (2010) effective communication and coordination among all elements of the supply chain are essential to its success. Increasing the visibility of demand information across supply chain reduces the risks. Agility is defined as the ability to thrive in a continuously changing, unpredictable business environment. It is a business-wide capability that embraces organizational structures, information systems, logistics processes and in particular, mindsets. NHIF can minimize inventory risks by working with a highly responsive supplier (Chopra & Sodhi, 2011).

2.2.3.4 Risk Monitoring

The last step, risk monitoring, has received the least attention by supply chain risk researchers and the literature has shown little focus on the tools necessary for temporal risk monitoring. While the specific definition of internal control differs across the various models, a number of concepts are very similar across these models. In particular, the models emphasize that internal control is not only policies and procedures to help an organization accomplish its objectives but also a process or
system affected by people. In these models, people are perceived to be central to adequate internal control (Masiga, 2014).

These models also stress the concept of reasonable assurance as it relates to internal control. Internal control systems cannot guarantee that an organization will meet its objectives. Instead, internal control can only be expected to provide reasonable assurance that a company's objectives will be met. The effectiveness of internal controls depends on the competency and dependability of the organization's people. Limitations of internal control include faulty human judgment, misunderstanding of instructions, errors, management override of controls, and collusion. Further, because of cost-benefit considerations, not all possible controls were to be implemented. Because of these inherent limitations, internal controls cannot guarantee that an organization will meet its objectives (Coso, 2011).

Designing an appropriate regulatory framework requires consideration of several factors; the financial condition and structure of SAGAS institutions; their roles within the institution; and the capacity of the regulating entities to administer external regulation and supervision effectively (Hippolyte, 2010). Typically the main instruments of regulation and supervision in SAGAS are: The Executive Committee/Board of Trustees which meet to review the progress of the institution and its strategic planning.

The Board of Directors that establishes good business, financial, and risk management policies and procedures, and holds management accountable for the effective implementation of those policies. The internal controls and internal audit departments ensure that policies and procedures are implemented promptly and effectively.
External auditors who are knowledgeable and competent in Finance as an objective check on institution's policies, procedures and systems of control and audit to protect against fraud and mismanagement; and External supervision by the Regulatory Authority to ensure that management does not misuse, its power to use depositors funds for its benefit and maintains industry standards (usually in terms of "CAMEL", Capital adequacy, Asset quality, Management capability/systems, Earnings ratios and Liquidity (Owango & Kinyanjui, 2014)

Active risk monitoring ensures that effective counter-measures to control risks are appropriately implemented (Eloff et al., 2012). The results of implementing risk-reducing measures are evaluated to determine if the expectation that risk management reduces loss is met. Then, appropriate adjustments must be made so that the organization remains prepared against the exposure to risks. Thus, risk monitoring not only evaluates the performance of risk-reducing measures but also serves as a continuing audit function.

2.3 Summary and Research Gap

The study was hinged on stewardship theory, stakeholder theory and agency theory. Steward theory suggests that a firm's board of directors and its CEO, acting as stewards, are more motivated to act in the best interest of the firm rather than for their own selfish interests. Through stakeholder theory corporate governance ensures that the board of directors is accountable not only to shareholders but also to non-shareholder stakeholders, including those who have a vested interest in seeing that the corporation is well governed. The study reviewed that board attributes such as larger boards are more likely to be associated with an increase in board diversity in terms of
experience, skills, gender and diversity. The study also reviewed that sustainability reporting is a method used to internalize and improve an organizations commitment to sustainable development in a way that can be demonstrated to both internal and external stakeholders.

However, Most studies (Bauer & Guenster, 2013; Beiner et al, 2010; Schmidt & Zimmermann, 2010) focus on statistical significance and not on the explanatory power (adjusted R²) of corporate governance indices. Without the use of a single index, there are also other questionable relationships, such as the effect of independent boards on firm performance. In every index, a firm with more independent board members is better governed. However, Bhagat and Jeffersis (2012) reviewed several empirical articles on this topic and concluded that this relationship is fragile. Some studies even report a negative relationship between the number of independent directors and firm performance. Furthermore, Larcker et al (2010) have some critical notes on the use of a single indicator that contains ill-defined and complex corporate governance constructs, such as board independence. From the literature it is evident that none of the studies focused on the nexus between corporate governance practices and performance of semi-autonomous government agencies in Kenya. This study therefore sought to fill this gap by focusing on the nexus between corporate governance practices and performance of the National Hospital Insurance Fund (NHIF).

2.4 Conceptual Framework

As shown in Figure 2.1, aspects of corporate governance practices affecting financial performance of NHIF, each of these variables cause a notable and explainable change
in the dependent variable as explained in other sections of this chapter. Below is the diagrammatic relationship represented by the independent and dependent variables.

**Board attributes**
- Board Size
- Board Composition
- CEO Duality
- Board independence
- Frequency of Board Meetings
- Board Diversity

**Reporting disclosure**
- Accountability
- Disclosures
- Quantity of information
- Timeliness of reported data
- Consistency/frequency of reporting

**Risk Management**
- Risk identification
- Risk appraisal/assessment
- Risk Mitigation
- Risk monitoring

**Intervening Variables**
- The constitution
- Institutional infrastructure
- Coverage
- Legal frameworks

**NHIF performance**
- Service delivery
- Rate of new product development
- Customer retention and operating cost
- Customer satisfaction
- Innovations

**Affects**

---

**Independent Variables**

**Dependent Variable**

Figure 2.1: Conceptual Framework

**Source:** Researcher (2016)

Boards compose of executive and non-executive directors. Executive directors refer to directors who engage in the day-to-day management of the organization while non-executive directors refers to directors who do not engage in the day-to-day management of the organization, but is involved in policy making and planning exercises. Wetukha (2013) investigated the relationship between board composition and financial performance of listed firms at the Nairobi Securities Exchange and found a positive relationship between board independence, board size and CEO
duality and financial performance of companies listed at the NSE. This study therefore seeks to establish if board size, board composition, CEO duality, board independence, frequency of board meetings and board diversity will have the same effects on performance at NHIF.

Reporting Disclosure is an organizational report that gives information about economic, environmental, social performance. Among the studies done on reporting disclosure indicated that transparency reporting enhances organizational performance in an organization. Mucciarone (2011) found that universal and consistent reporting requirements promote positive performance as it promotes transparency and mitigates capacity for opportunism on the part of both individual agent and units/departments. The study will measure transparency reporting using accountability, disclosures, quantity of information (specific and quantifiable) timeliness of reported data and consistency/frequency of reporting.
CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Introduction

This chapter provides a discussion of the outline of the research methodology that was used in this study. It focuses on the research design, population of study, sample and sampling techniques, data collection methods and comes to a conclusion with the data analysis and data presentation methods that were used in this study.

3.2 Research Design

The study adopted a descriptive research design aimed at establishing the relationship between corporate governance practices and performance of National Hospital Insurance Fund. A descriptive design is concerned with determining the frequency with which something occurs or the relationship between variables (Bryman & Bell, 2013). Thus, this approach is suitable for this study, since the study intends to collect comprehensive information through descriptions which were helpful for identifying variables. Bryman and Bell (2011) assert that a descriptive design seeks to get information that describes existing phenomena by asking questions relating to individual perceptions and attitudes. According to Polit and Beck (2013), in a descriptive study, researchers observe, count, delineate, and classify. They further describe descriptive research studies as studies that have, as their main objective, the accurate portrayal of the characteristics of persons, situations, or groups, and/or the frequency with which certain phenomena occur.

The study was a case study in nature. The case study research design is selected because the study is a survey involving collection of data at in one institution. In addition, the cross sectional survey is preferred because it enables assessing
relationships between variables and it provides opportunity to identify moderators between variables (Tashakkori & Teddlie, 2013). Singleton (2009) describes a descriptive cross-sectional survey as a comprehensive design that enables large and diverse amounts of data to be collected within a short time frame and analyzed quantitatively, giving a credible presentation of results.

3.3 Target Population

According to Pole and Lampard (2012), a target population is classified as all the members of a given group to which the investigation is related, whereas the accessible population is looked at in terms of those elements in the target population within the reach of the study. The population of study comprised of 172 respondents comprising of senior managers, middle level managers and working in National Hospital Insurance Fund headquarters in Nairobi.

Table 3.1: Target Population

<table>
<thead>
<tr>
<th>Category</th>
<th>Population</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Senior managers</td>
<td>26</td>
<td>15.0</td>
</tr>
<tr>
<td>Middle level managers</td>
<td>34</td>
<td>19.5</td>
</tr>
<tr>
<td>Low level managers</td>
<td>113</td>
<td>65.5</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>172</strong></td>
<td><strong>100.0</strong></td>
</tr>
</tbody>
</table>

Source: HR Records (2015)
3.4 Sampling Procedure and Sample Size

Sampling is a deliberate choice of a number of people who are to provide the data from which the study draws conclusions about some larger group whom these people represent (Jankowicz, 2011). Proportional stratified random sampling was used basing the strata on the various management levels. This was put on a sampling frame as shown in table 3.2 below, and from this the sub samples was chosen at random.

According to Mugenda and Mugenda (2013), in order to obtain reliable information and for generalization to take place, a sample of 10% of the target population is sufficient and so 40% is considered to be even better. The study therefore selected 69 respondents from procurement staff in National Hospital Insurance Fund. The sample population is computed as;

\[ \frac{40\%}{100\%} \times 172 = 69 \text{ (Total sample size)} \]

\[ \frac{40\%}{100\%} \times 26 = 10 \text{ (Senior managers)} \]

\[ \frac{40\%}{100\%} \times 34 = 14 \text{ (Middle level managers)} \]

\[ \frac{40\%}{100\%} \times 113 = 45 \text{ (Low level managers)} \]
Table 3.2: Sampling Frame

<table>
<thead>
<tr>
<th>Population</th>
<th>Ratio</th>
<th>Sample</th>
</tr>
</thead>
<tbody>
<tr>
<td>Senior managers</td>
<td>26</td>
<td>0.4</td>
</tr>
<tr>
<td>Middle level managers</td>
<td>34</td>
<td>0.4</td>
</tr>
<tr>
<td>Low level managers</td>
<td>113</td>
<td>0.4</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>172</strong></td>
<td></td>
</tr>
</tbody>
</table>

Source: Author (2015)

3.5 Data Collection Instrument

Primary data was obtained using self-administered questionnaires. The questionnaire is made up of both open ended and closed ended questions covering issues associated to insurance company performance. The open ended questions were used so as to encourage the respondent to give an in-depth and felt response without feeling held back in illuminating of any information and the closed ended questions allow respondent to respond from limited options that had been stated. According to Saunders (2012), the open ended or unstructured questions allow profound response from the respondents while the closed or structured questions are generally easier to evaluate. The questionnaires were used in an effort to conserve time and money as well as to facilitate an easier analysis as they are in immediate usable form.
3.6 Pilot Testing of the Instruments

The purpose of the pilot testing was to establish the validity and reliability of the research instrumentation and to enhance face validity (Joppe, 2009). From the pilot results reliability and validity was tested. The pilot testing was conducted using the questionnaire to 20 management staff of the NHIF. The pilot group was done through random sampling. Sekaran and Bougie (2010) recommend that the questionnaire pre-tests was done by personal interviews in order to observe the respondents reactions and attitudes. All aspects of the questionnaire were pre-tested including question content, wording, sequence, form and layout, question difficulty and instructions. The feedback obtained was used to revise the questionnaire before administering it to the study respondents.

3.6.1 Validity of the Instruments

According to Golafshani (2013), validity is the accuracy and meaningfulness of inferences, based on the research results. One of the main reasons for conducting the pilot study is to ascertain the validity of the questionnaire. The study used both face and content validity to ascertain the validity of the questionnaires. Content validity draws an inference from test scores to a large domain of items similar to those on the test. Gillham (2014) stated that the knowledge and skills covered by the test items should be representative to the larger domain of knowledge and skills.

3.6.2 Reliability of the Instruments

Instrument reliability on the other hand is the extent to which a research instrument produces similar results on different occasions under similar conditions. It's the degree of consistency with which it measures whatever it is meant to measure (Bell,
Reliability is concerned with the question of whether the results of a study are repeatable. A construct composite reliability coefficient (Cronbach alpha) of 0.7 or above, for all the constructs, is considered to be adequate for this study (Rousson, Gasser & Seifer, 2012).

3.7 Data Collection Procedure

The researcher obtained an introduction letter from the university which was presented to each manager so as to be allowed to collect the necessary data from the respondents. The drop and pick later method is preferred for questionnaire administration so as to give respondents enough time to give well thought out responses. The research assistants personally administered the research instruments to the respondents. This enables the researcher to establish rapport, explain the purpose of the study and the meaning of items that may not be clear as observed by Best and Khan (2013).

3.8 Data Analysis Method

Once the data was been collected, it was processed by editing it and coding into the Statistical Package for Social Sciences (SPSS). This study used the quantitative method of data analysis. The data was analysed by use of descriptive statistics (mean score and percentages) and inferential statistics multiple regression. Data was coded and thereafter analyzed with the aid of Statistical Package for Social Sciences (SPSS) and presented using tables and pie charts to give a clear picture of the research findings at a glance. Conceptual content analysis was used to analyze qualitative data or aspect of the data collected from the open ended questions. The information was displayed by use of bar charts, graphs and pie charts and in prose-form. This was done
by tallying up responses, computing percentages of variations in response as well as describing and interpreting the data in line with the study objectives.

In addition, a univariate regression model was applied to determine the relative importance of each of the four variables with respect to NHIF performance. Regression is able to estimate the coefficients of the linear equation, involving one or more independent variables, which best predicted the value of the dependent variable (Coben, 2010).

The model specification is as follows; \[ Y = \alpha + \beta_1X_1 + \beta_2X_2 + \beta_3X_3 + \varepsilon \]

Where;

- \( Y \) = NHIF performance
- \( X_1 \) = Board attributes
- \( X_2 \) = Reporting disclosure
- \( X_3 \) = Risk Management
- \( \varepsilon \) = error term
- \( \beta_1 - \beta_3 \) = coefficient of determination
- \( \alpha \) = constant

In testing the significance of the model, the coefficient of determination (R\(^2\)) was used to measure the extent to which the variation in NHIF performance is explained by the variations in corporate governance determinants. F-statistic was also computed at 95% confidence level to test whether there is any significant relationship between corporate governance and NHIF performance.
3.9 Ethical Considerations

According to Kerridge, Lowe and McPhee (2011), ethics involves making a judgment about right and wrong behavior. Ethics as noted by Minja (2009) is referred to, as norms governing human conduct which have a significant impact on human welfare. Indeed as observed by Devettere (2000), ethics is about choice between good and bad. In this study, independence is of concern since the researcher is an insider in the NHIF and the information relevant to the study is of strategic importance. However, the researcher observed objectivity in the analysis of the data and ensure anonymity during data collection by using research assistants.

The researcher observed the following standards of behaviour in relation to the rights of those who become subject of the study or are affected by it: First, in dealing with the participants were informed of the objective of the study and the confidentiality of obtained information, through a letter to enable them give informed consent. Once consent is granted, the participants maintained their right, which entails but is not limited to withdraw or decline to take part in some aspect of the research including rights not to answer any question or set of questions and/or not to provide any data requested; and possibly to withdraw data they have provided. Caution was observed to ensure that no participant is coerced into taking part in the study and, the researcher sought to use minimum time and resources in acquiring the information required. Secondly, the study adopted quantitative research methods for reliability, objectivity and independence of the research data.
4.1 Introduction

This chapter discusses the interpretation and presentation of the findings obtained from the field. The chapter presents the background information of the respondents, findings of the analysis based on the objectives of the study. Descriptive and inferential statistics have been used to discuss the findings of the study.

Table 4.1: Response rate

<table>
<thead>
<tr>
<th></th>
<th>Questionnaires Administered</th>
<th>Questionnaires filled &amp; Returned</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Respondents</td>
<td>69</td>
<td>64</td>
<td>91.3</td>
</tr>
</tbody>
</table>

Source: Research Data (2016)

The study targeted a sample size of 69 respondents from which 64 filled in and returned the questionnaires making a response rate of 91.3%. This response rate was satisfactory to make conclusions for the study as it acted as a representative. According to Mugenda and Mugenda (2003), a response rate of 50% is adequate for analysis and reporting; a rate of 60% is good and a response rate of 70% and over is excellent. Based on the assertion, the response rate was excellent.
4.1.1 Prerequisite Tests Results

The study performed tests on statistical assumptions: that is, test of regression assumption and statistic used. This included pilot test, sampling adequacy tests and multicollinearity test.

4.1.1.1 Pilot Test Results

In this study the reliability of the instruments was tested using Cronbach alpha. Cronbach alpha value is used in the research to verify the reliability of the construct. A total of 17 questionnaires were obtained among management staff of the NHIF. Reliability of all the three constructs representing the dependent (Performance of NHIF) and the independent variables (board attributes, risk management and reporting disclosure) attracted a Cronbach alpha statistics of more than 0.7. A Cronbach alpha of more than 0.7 indicates that the data collection instrument is reliable Field (2009).

Table 4.2: Reliability Analysis

<table>
<thead>
<tr>
<th>Variable</th>
<th>Cronbach Alpha coefficient score</th>
<th>No. Of Items</th>
<th>Comments</th>
</tr>
</thead>
<tbody>
<tr>
<td>Board attributes</td>
<td>0.889</td>
<td>6</td>
<td>Reliable</td>
</tr>
<tr>
<td>Reporting disclosure</td>
<td>0.730</td>
<td>4</td>
<td>Reliable</td>
</tr>
<tr>
<td>Risk management</td>
<td>0.930</td>
<td>4</td>
<td>Reliable</td>
</tr>
<tr>
<td>Performance of NHIF</td>
<td>0.804</td>
<td>6</td>
<td>Reliable</td>
</tr>
</tbody>
</table>
A pilot study was carried out to determine reliability of the questionnaires. The pilot study involved the sample respondents. Reliability analysis was subsequently done using Cronbach’s Alpha which measured the internal consistency by establishing if certain item within a scale measures the same construct. Gliem and Gliem (2003) established the Alpha value threshold at 0.7, thus forming the study’s benchmark. Cronbach alpha was established for every objective which formed a scale. The table shows that risk management had the highest reliability ($\alpha = 0.930$), followed by board attributes ($\alpha = 0.889$) and finally the reporting disclosure ($\alpha = 0.730$). This illustrates that all the variables were reliable as their reliability values exceeded the prescribed threshold of 0.7.

4.1.1.2 Sampling Adequacy Tests

In order to establish the validity of study’s variables, tests of sampling adequacy were used. This enabled the study identify whether the items were appropriate for factorial analysis. The Table below shows Kaiser-Meyer-Olkin (KMO) test of sampling adequacy and Bartlett's test of sphericity. The test results show that the scales had values above the threshold of 0.5 as established by Williams, Brown and Onsman (2012). Williams, Brown and Onsman stated that KMO of 0.50 is acceptable degree for sampling adequacy with values above 0.5 being better.

Bartlett's Test of sphericity which analyzes if the samples are from populations with equal variances produced p-values less than 0.05 ($p < 0.001$). Since the Bartlett's test
significances were less than 0.05 further indicates an acceptable degree of sampling adequacy (sample is factorable).

Table 4.3: Kaiser-Meyer-Olkin (KMO) and Bartlett's Test

<table>
<thead>
<tr>
<th>Scale</th>
<th>Kaiser-Meyer-Olkin</th>
<th>Measure of Sampling Adequacy.</th>
<th>Bartlett's Test of Sphericity</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Approx. Chi-</td>
<td>df</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Square</td>
<td></td>
</tr>
<tr>
<td>Board attributes</td>
<td>.814</td>
<td>928.302</td>
<td>63</td>
</tr>
<tr>
<td>Reporting disclosure</td>
<td>.779</td>
<td>74.437</td>
<td>63</td>
</tr>
<tr>
<td>Risk management</td>
<td>.852</td>
<td>429.893</td>
<td>63</td>
</tr>
</tbody>
</table>

Source: Research Data (2016)

4.1.1.3 Multicollinearity Test

Problem may arise when two or more predictor variables are correlated. In the presence of multi collinearity, Mason and Perreault (2011) demonstrate that the coefficient estimates may change erratically in response to small changes in the model or the data. However, the decision to finally drop an item also depends on a second step, where the variance inflation factor (VIF) is applied according to Greene (2013). The VIF detects multicollinearity by measuring the degree to which the variance has been inflated.
Table 4.4: Summary of Collinearity Statistics

<table>
<thead>
<tr>
<th>Model</th>
<th>Collinearity Statistics</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Tolerance</td>
<td>VIF</td>
</tr>
<tr>
<td>Board attributes</td>
<td>0.924</td>
<td>2.728</td>
</tr>
<tr>
<td>Reporting disclosure</td>
<td>0.786</td>
<td>1.423</td>
</tr>
<tr>
<td>Risk management</td>
<td>0.634</td>
<td>1.352</td>
</tr>
</tbody>
</table>

Source: Research Data (2016)

The Variance inflation factor (VIF) was checked in all the analysis which is not a cause of concern according to Baum (2006) who indicated that a VIF greater than 10 is a cause of concern. The basic assumption is that the error terms for different observations are uncorrelated (lack of autocorrelation) and therefore no problem of multicollinearity.

4.2 General Information

The study sought to establish the background information of the respondents including respondents’ gender, age group, academic qualification and period of service.

4.2.1 Gender Distribution

The research sought to determine the gender distribution across the study population. This was done in view of ensuring fairness in uptake of respondents’ opinions, and alleviates the probability of study findings suffering from gender biasness.
Table 4.5: Gender Distribution

<table>
<thead>
<tr>
<th>Gender</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Male</td>
<td>37</td>
<td>57.8</td>
</tr>
<tr>
<td>Female</td>
<td>27</td>
<td>42.2</td>
</tr>
<tr>
<td>Total</td>
<td>64</td>
<td>100.0</td>
</tr>
</tbody>
</table>

Source: Research Data (2016)

Table 4.5 shows distribution of respondent in terms of their gender, as per the study results, majority respondents turned out to be males as shown by 57.8% whereas 42.2% of the rest indicated that they were females. These findings show a fair distribution of respondents in terms of gender.

4.2.2 Age bracket

Different age groups are perceived to hold diverse opinions in regard to different matters, sourcing a wide range of opinions could present an in-depth understanding of the matter under investigation, in this essence the study sought to determine the age distribution across the study population.

Table 4.6: Age category

<table>
<thead>
<tr>
<th>Age</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>18-25 years</td>
<td>10</td>
<td>15.6</td>
</tr>
<tr>
<td>26-36 years</td>
<td>14</td>
<td>21.9</td>
</tr>
<tr>
<td>36-45 years</td>
<td>16</td>
<td>25.0</td>
</tr>
<tr>
<td>46-55 years</td>
<td>16</td>
<td>25.0</td>
</tr>
</tbody>
</table>
Based on the study results as shown in table 4.6, most of the respondents as shown by 25% were either aged between 46-55 years or 36-45 years, 21.9% of the respondents were aged between 26-36 years, 15.6% of the respondents were aged between 18-25 years while 12.5% of the respondents were aged over 56 years. From the research findings, the study deduces a fair distribution of respondents across age groups.

### 4.2.3 Academic Qualifications

Researchers and academic scholars have argued that an individual academic qualification is closely associated with the degree to which an individual perceive and interpreted written material or verbal massages. In this essence establishing respondent’s academic qualification deemed important especially in determining the respondent’s ability to interpret and answer the questionnaire while sticking to the subject.

#### Table 4.7: Academic Qualifications

<table>
<thead>
<tr>
<th>Academic Qualifications</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Diploma</td>
<td>21</td>
<td>32.8</td>
</tr>
<tr>
<td>First Degree</td>
<td>28</td>
<td>43.8</td>
</tr>
<tr>
<td>Masters</td>
<td>11</td>
<td>17.2</td>
</tr>
<tr>
<td>PhD</td>
<td>4</td>
<td>6.3</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>64</strong></td>
<td><strong>100.0</strong></td>
</tr>
</tbody>
</table>
Based on the study results on education level as shown in table 4.7, the study noted that most of the respondents as shown by 43.8% were holders of first degree, 32.8% of the respondents had college diploma certificates, 17.2% of the respondents had college diploma certificates Masters Degree whereas 6.3% of the respondents held PhDs. From the findings the study deduces that all the respondents were well educated which implies that they were in a position to respond to research question with ease.

4.2.4 Period of Service Worked at NHIF

Employees' period of service in an organization is associated with gained experience especially on organizational internal process, therefore determining employees period of service at NHIF was crucial based on the perception that experienced employees had deeper understanding on organizational internal operational processes.

Table 4.8: Period of service

<table>
<thead>
<tr>
<th>Period of service</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Below 2 years</td>
<td>13</td>
<td>20.3</td>
</tr>
<tr>
<td>2 - 5 Years</td>
<td>12</td>
<td>18.8</td>
</tr>
<tr>
<td>6 -7years</td>
<td>14</td>
<td>21.9</td>
</tr>
<tr>
<td>over 8 years</td>
<td>25</td>
<td>39.1</td>
</tr>
<tr>
<td>Total</td>
<td>64</td>
<td>100.0</td>
</tr>
</tbody>
</table>

Source: Research Data (2016)
Results on table 4.8 on the respondent's period of service show that majority of the respondents (39.1%) had worked with the organisation for more than 8 years, 21.9% of the respondents had worked with the organisation for a period 6-7 years, 20.3% of the respondents had worked with the organisation for not more than 2 years whereas 18.8% of the respondents had worked with the organisation for a period of 2 - 5 Years. From the findings, the study deduces that majority of the respondents had worked with the organisation for a considerable period of time which implies that they were in a position to give credible information relating to this study.

4.3 Board Attributes

Board attributes are perceived to influence the performance of the National Hospital Insurance Fund. For a board to be effective, directors must possess, to some degree, the following attributes: be independent of management, be able to carry out their duties in a competent manner, be active or diligent in fulfilling their board responsibilities, and possess appropriate behavioral attributes, this study hypothesizes that Board size, board independence, CEO duality, board diversity, board composition and frequency at which board members held meeting all influence the performance of the National Hospital Insurance Fund. Under this sub section the study investigates the influence of board attributes on performance of National Hospital Insurance Fund.

4.3.1 Influence of Board Attributes On Performance of NHIF

The study sought to determine the extent to board attributes influence the performance of the National Hospital Insurance Fund.
Table 4.9: Influence of Board attributes on performance of NHIF

<table>
<thead>
<tr>
<th>Extent</th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Very great extent</td>
<td>23</td>
<td>35.9</td>
</tr>
<tr>
<td>Great extent</td>
<td>30</td>
<td>46.9</td>
</tr>
<tr>
<td>Moderate extent</td>
<td>6</td>
<td>9.4</td>
</tr>
<tr>
<td>Little extent</td>
<td>5</td>
<td>7.8</td>
</tr>
<tr>
<td>Total</td>
<td>64</td>
<td>100.0</td>
</tr>
</tbody>
</table>

Source: Research Data (2016)

From the research findings in Table 4.9, most of the respondents (46.9%) were of the opinion that board attributes influences the performance of the national hospital insurance fund to a great extent, 35.9% of the respondents indicated to a very great extent, 9.4% of the respondents indicated to a moderate extent whereas 7.8% of the respondents indicated to little extent. This implies that board attributes influences the performance of the national hospital insurance fund to a great extent.
Table 4.10: Aspects of board attributes and their influence on the performance of NHIF

<table>
<thead>
<tr>
<th>Aspect</th>
<th>No Extent</th>
<th>Low Extent</th>
<th>Moderate</th>
<th>Great</th>
<th>Very Great</th>
<th>Mean</th>
<th>Std</th>
</tr>
</thead>
<tbody>
<tr>
<td>Board Size</td>
<td>0%</td>
<td>0%</td>
<td>12.5%</td>
<td>54.7%</td>
<td>32.8%</td>
<td>4.20</td>
<td>0.65</td>
</tr>
<tr>
<td>Board Composition</td>
<td>0%</td>
<td>0%</td>
<td>3.1%</td>
<td>53.1%</td>
<td>43.8%</td>
<td>4.41</td>
<td>0.56</td>
</tr>
<tr>
<td>CEO Duality</td>
<td>0%</td>
<td>0%</td>
<td>4.7%</td>
<td>46.9%</td>
<td>48.4%</td>
<td>4.44</td>
<td>0.59</td>
</tr>
<tr>
<td>Board independence</td>
<td>0%</td>
<td>0%</td>
<td>6.3%</td>
<td>56.3%</td>
<td>37.5%</td>
<td>4.31</td>
<td>0.59</td>
</tr>
<tr>
<td>Frequency of Board</td>
<td>0%</td>
<td>0%</td>
<td>6.3%</td>
<td>50.0%</td>
<td>43.8%</td>
<td>4.38</td>
<td>0.60</td>
</tr>
<tr>
<td>Meetings</td>
<td>0%</td>
<td>0%</td>
<td>7.8%</td>
<td>54.7%</td>
<td>37.5%</td>
<td>4.30</td>
<td>0.61</td>
</tr>
</tbody>
</table>

Source: Research Data (2016)

Table 4.10 shows the extent, to which the above aspects of board attributes influence the performance of the National Hospital Insurance Fund.

4.3.1.1 Board Size

From the research findings, the study noted that the average weighted mean for board size was recorded at 4.20 which translates to great extent as per the likert scale. In more refined words, this implies that board size influences the performance of the National Hospital Insurance Fund to a great extent. Further the study established that board with a smaller number of members is more efficient as smaller board can
efficiently monitor the management. The findings are in line with the argument by Eisenberg, Sundgren and Wells (2008) that the size of the board should match with the size of the firm to avoid scenarios of having too small boards which will be overburdened with the firm's work which will lead to underperforming, and at the same time boards should not be too large as the inefficiency of large boards will also lead to underperforming of the board members. The findings are also in line with the research by Yesuf and Mesut (2014) that board size is an important component of corporate governance among government entities similarly.

4.3.1.2 Board independence

Respondents also agreed that board independence influences the performance of the National Hospital Insurance Fund to a great extent as shown by a mean average of 4.31. Respondents further reported that independent directorships are an important concept for publicly owned entities, experienced independent directors can help work with outside consultants to create a suitable compensation package and otherwise address the concerns of relatives who do not participate directly in day-to-day operations but may own an equity interest in the company. A board of directors with an independent member can help demonstrate the commitment of leadership to operate the company with the highest levels of integrity and objectivity. The findings are in support of the research by Gani & Jermias (2006) that board independence is tied to company performance.
4.3.1.3 CEO Duality

Further respondents indicated that that CEO Duality influences the performance of the National Hospital Insurance Fund to a great extent as shown by a mean average of 4.44 adding that the institution has both a chairman and a CEO. Further respondents intimated that CEO Duality leads to superior corporate performance as it allows straight leadership for purposes of strategy implementation and formulation. Duality may result into significant benefits of the leadership performances of both CEOs and chairman in that CEO Duality provides an efficient leadership by increasing the probability that expectations of the board and management intersects, duality prevents a potential rivalry between the CEO and chairman which increases leadership during crises. CEO duality prevents the confusion as a result of the existence of two public spokesmen, the CEO and the chairperson and that duality encourages entrepreneurship and innovation through improving the competencies of the corporation in an industry. The findings concur with agency theorists Hillman and Dalziel (2003) who advocate for a separate positioning of chairman and CEO.

4.3.1.4 Board diversity

The study results on board diversity recoded an average mean of 4.30 which translates to great extent in the measurement scale, in other words this means that board diversity influences the performance of the National Hospital Insurance Fund to a great extent. Further the study noted that CEOs and diverse boards suffered more conflicts, clashes in outlook, or communication breakdowns and that diverse board were the most successful at innovating and establishing effective operational systems. The findings are in line with the research by Duc and Thuy (2013) that Board
competency has a complex of set behaviors' built on the components of knowledge, skills and attitude different qualification apart from the educational background e.g. the years of experience, and expertise should be catered for when looking at the competency of the directors during appointment. The findings are also in support the research by Shahadat, (2011) a diverse board can best understand the complex make-up of a company’s customer base and their needs.

4.3.1.5 Frequency of Board Meetings

The average weighted mean for frequency of board meetings recorded at 4.38 which translated to great extent as per the measurement scale; in simpler terms this implies that the frequency of board meetings influences the performance of the national Hospital Insurance Fund to a great extent. Respondents further reported that board meetings at NHIF are scheduled periodically, an agenda is followed and proper minutes are kept. Additionally, information is sent to NHIF board members before the meetings so they have enough time to review the information and prepare for the meeting. The findings are in support of the research by Lipton and Lorsch (2012) that the most widely shared problem directors face is lack of time to carry out their duties, and that board meeting time is an important resource in improving the effectiveness of a board.

4.3.1.5 Board Composition

The study noted that average weighted mean for board composition recorded at 4.41 which translates to greater extent as per the measurement scale. This implies that board composition influences the performance of the National Hospital Insurance Fund to a great extent. The study also established that outside directors are better
monitors of financial reporting (Klein, 2003) which can be associated with a range of other benefits, firms with a greater proportion of outside directors tend to have better corporate credit ratings. Outside directors who were experienced executives are more likely to resist greenmail, which is the private repurchase of company stock at a premium price paid to an apparent corporate raider to terminate what management considers a hostile takeover attempt. The finding are in line with the research by Conyon and Peck (2008) that outside directors are more likely to tie executive compensation to market performance rather than to increases in firm size through corporate acquisition.

4.4 Reporting Disclosure

Under this sub section the study investigates the effect of reporting disclosure on performance of National Hospital Insurance Fund.

4.4.1 Influence of reporting disclosure performance of NHIF

The study sought to determine the extent to which reporting disclosure influence the performance of the National Hospital Insurance Fund.

Table 4.11: Influence of reporting disclosure performance of NHIF

<table>
<thead>
<tr>
<th>Extent</th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Very great extent</td>
<td>22</td>
<td>34.4</td>
</tr>
<tr>
<td>Great extent</td>
<td>35</td>
<td>54.7</td>
</tr>
<tr>
<td>Little extent</td>
<td>7</td>
<td>10.9</td>
</tr>
<tr>
<td>Total</td>
<td>64</td>
<td>100.0</td>
</tr>
</tbody>
</table>

Source: Research Data (2016)
Table 4.11 shows the extent to which reporting disclosure influence the performance of the National Hospital Insurance Fund. From the research findings, majority of the respondents as shown by 54.7% were of the opinion that reporting disclosure influences the performance of the national hospital insurance fund to a great extent, 34.4% of the respondents indicated to a very great extent whereas 10.9% of the respondents indicated to moderate extent. This implies that reporting disclosure influences the performance of the National Hospital Insurance Fund to a great extent.

Table 4.12: Aspects of reporting disclosure and their influence the performance of NHIF

<table>
<thead>
<tr>
<th></th>
<th>No Extent</th>
<th>Low Extent</th>
<th>Moderate Extent</th>
<th>Great Extent</th>
<th>Very Great Extent</th>
<th>Mean</th>
<th>Std deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Accountability</td>
<td>0%</td>
<td>3.1%</td>
<td>17.2%</td>
<td>60.9%</td>
<td>18.8%</td>
<td>4.02</td>
<td>0.60</td>
</tr>
<tr>
<td>Quantity of information (specific and quantifiable)</td>
<td>0%</td>
<td>0%</td>
<td>4.7%</td>
<td>51.6%</td>
<td>43.8%</td>
<td>4.39</td>
<td>0.58</td>
</tr>
<tr>
<td>Timeliness of reported data</td>
<td>0%</td>
<td>0%</td>
<td>7.8%</td>
<td>50.0%</td>
<td>42.2%</td>
<td>4.34</td>
<td>0.62</td>
</tr>
<tr>
<td>Consistency/frequency of reporting</td>
<td>0%</td>
<td>0%</td>
<td>3.1%</td>
<td>59.4%</td>
<td>37.5%</td>
<td>4.34</td>
<td>0.54</td>
</tr>
</tbody>
</table>

Source: Research Data (2016)

Table 4.12 shows the extent to which the various aspects of reporting disclosure influence the performance of the National Hospital Insurance Fund.
4.4.1.1 Accountability

The study results on organizational accountability recorded a mean average of 4.02 which translates to great extent as per the measurement scale. This implies that organizational accountability which is a sub measure of reporting disclosure influences the performance of the National Hospital Insurance Fund to a great extent. Further the study noted that in view of enhancing accountability organizational workforce at NHIF collectively acts consequentially to promote the timely accomplishment of the organization’s mission, executives and managers at NHIF are responsible for holding their subordinates accountable for the effective and efficient conduct of activities supporting mission achievement. The findings are in support of the literature by Carrington, Coelli and Rao (2011) that organization must act accountably in order to achieve the critical mass necessary for the existence of an accountable organization. According Burns and Scapens (2010), some individuals such as the chief executive officer, must exhibit and reinforce accountable behaviors for the organization to be truly accountable.

4.4.1.2 Quantity of information (specific and quantifiable)

The study results on quantity of information recorded a mean average of 4.39 which translates to great extent as per the measurement scale. This implies that the quantity of information which is a sub- measure of reporting disclosure influences the performance of the National Hospital Insurance Fund to a great extent. In view of ensuring quantity of information at NHIF, respondents reported that the organization has prepared quality manual that include a description of the elements of the quality Info management system specifying users interaction with the system at all level and
procedures. The organization also has an established procedure for internal communication between the various levels and functions regarding the quality management system and its effectiveness. The findings are in support of the research by the Cipriano (1995) who opined that information management has been a key factor affecting the effective implementation of the standard.

Further the respondents reported that NHIF organization ensures that information is always accurate, that information timely relevance and easy to understand, protection of information from unauthorized access or revision and that the information is not compromised through corruption or falsification. NHIF uses of the information not only from its own perspective but also from the perspective of the public. The findings are consistent with Gallo (2011) who observed that information quality guidelines are intended to improve the quality of the information disseminated by the organization to the public by formalizing the existing pre-dissemination review processes, and establishing a new administrative mechanism.

4.4.1.3 Timeliness of Reported Data

The study results on timeliness of reported data recorded a mean average of 4.34 which translates to great extent as per the measurement scale. This implies that the timeliness of reported data which is a sub-measure of reporting disclosure influences the performance of the National Hospital Insurance Fund to a great extent. In view of ensuring timeliness of reported data, respondents reported that the organization has information reporting guidelines and procedures. All the existing information reporting mechanisms, guidelines, and procedures aim at achieving information quality. NHIF has administrative mechanisms, guidelines, and procedures in place to
correct or change poorly entered information. The findings are in line with the research by Hermalin and Weisbach (2011) who indicated that government entities should strive to continually improve the usefulness of its information products and the manner in which they are disseminated in order to win public trust.

4.4.1.4 Consistency/Frequency of Reporting

The study results on consistency/frequency of reporting recorded a mean average of 4.34 which translates to great extent as per the measurement scale. This implies that the consistency/frequency of reporting which is a sub-measure of reporting disclosure influences the performance of the National Hospital Insurance Fund to a great extent. Further respondents reported that the in periodic reports, NHIF endeavors to provide a more complete view of an organization's position, performance, and longer term potential and sustainability than financial reporting alone. Further, it provides critical information for external stakeholders to make decisions, in particular with respect to those aspects of an organization's operations that are not fully reflected in financial statements such as the perceived value of human resources, intellectual capital and other intangibles. The findings are in line with consistency in reporting advocated by Perry and Shivadasani (2011) which promotes transparency and accountability, and assists management of organizations and those charged with governance in making important business decisions and demonstrating their stewardship responsibilities.

4.5 Risk Management

Risk management is the identification, assessment, and prioritization of risks (defined in ISO 31000 as the effect of uncertainty on objectives) followed by coordinated and economical application of resources to minimize, monitor, and control the probability
and/or impact of unfortunate events, under this section the study explores some of the risk management strategies currently being employed at NHIF and their effect on its performance.

4.5.1 Influence of Risk Management on Performance of NHIF

The study sought to determine the extent to which risk management influence the performance of the National Hospital Insurance Fund.

<table>
<thead>
<tr>
<th>Extent</th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Very great extent</td>
<td>14</td>
<td>21.9</td>
</tr>
<tr>
<td>Great extent</td>
<td>47</td>
<td>73.4</td>
</tr>
<tr>
<td>Moderate extent</td>
<td>3</td>
<td>4.7</td>
</tr>
<tr>
<td>Total</td>
<td>64</td>
<td>100.0</td>
</tr>
</tbody>
</table>

Source: Research Data (2016)

Table 4.13 shows the extent to which risk management influence the performance of the National Hospital Insurance Fund. From the research findings, majority of the respondents (73.4%) were of the opinion that risk management influences the performance of the national hospital insurance fund to a great extent, 21.9% of the respondents indicated to a very great extent whereas 4.7% of the respondents indicated to moderate extent. This implies that risk management influences the performance of the National Hospital Insurance Fund to a great extent.
Table 4.14: Aspects of risk management and their influence the performance of NHIF

<table>
<thead>
<tr>
<th>Aspect</th>
<th>No Extent</th>
<th>Low Extent</th>
<th>Moderate Extent</th>
<th>Great Extent</th>
<th>Very Great Extent</th>
<th>Mean</th>
<th>Std deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Risk identification</td>
<td>0%</td>
<td>0%</td>
<td>14.1%</td>
<td>42.2%</td>
<td>43.8%</td>
<td>4.44</td>
<td>0.50</td>
</tr>
<tr>
<td>Risk appraisal/assessment</td>
<td>0%</td>
<td>0%</td>
<td>10.9%</td>
<td>42.2%</td>
<td>46.9%</td>
<td>4.36</td>
<td>0.68</td>
</tr>
<tr>
<td>Risk Mitigation</td>
<td>0%</td>
<td>0%</td>
<td>9.4%</td>
<td>43.8%</td>
<td>46.9%</td>
<td>4.38</td>
<td>0.65</td>
</tr>
<tr>
<td>Risk monitoring</td>
<td>0%</td>
<td>0%</td>
<td>4.7%</td>
<td>56.3%</td>
<td>39.1%</td>
<td>4.34</td>
<td>0.57</td>
</tr>
</tbody>
</table>

Source: Research Data (2016)

Table 4.14 shows the extent, to which the above aspects of risk management influences the performance of the National Hospital Insurance Fund.

4.5.1.1 Risk Identification

The study results on risk identification recorded a mean average of 4.44 which translates to great extent as per the measurement scale. This implies that the risk identification which is a sub-measure of risk management influences the performance of the National Hospital Insurance Fund to a great extent. Further the respondents reported that the organization has a worthwhile risk identification strategy in place which aims at identifying potential problems before they occur so that risk-handling activities may be initiated. The study noted that among the risk identification
strategies employed at NHIF include deep analysis on organizational strengths-Weaknesses-Opportunities-Threats, use of Risk Questionnaires and Risk Surveys, use of Flowchart Method and brainstorming. The findings are in support of the research by Greene and Trieschmann (2004) that risk identification should be approached in a methodical way to ensure that all significant activities within the organisation have been identified and all the risks flowing from these activities defined.

4.5.1.2 Risk Appraisal/Assessment

The study results on risk appraisal/assessment recorded a mean average of 4.36 which translates to great extent as per the measurement scale. This implies that the risk appraisal/assessment which is a sub-measure of risk management influences the performance of the National Hospital Insurance Fund to a great extent. Further the respondents reported that NHIF has periodically conducts risk appraisal/assessment, risk assessment at NHIF helps to save costs by being proactive instead of reactive, set risk management standards, based on acceptable safe practices and legal requirements, provides the resources and know-how required to enable the organization to assess the risks on itself. The findings are in support of the argument by Hallenbeck (2011) that risk assessment results to cost savings through avoidance and the judicious use of finite resources for risk mitigation.

4.5.1.3 Risk Mitigation

The study results on risk mitigation recorded a mean average of 4.38 which translates to great extent as per the measurement scale. This implies that the risk mitigation which is a sub-measure of risk management influences the performance of the National Hospital Insurance Fund to a great extent. The study also noted that National
Hospital Insurance Fund has an active risk mitigation strategy that engages in characterization of the root causes of risks that have been identified and quantified in earlier phases of the risk management process, evaluates risk interactions and common causes, identifies alternative mitigation strategies, methods, and tools for each major risk assessed, prioritizes mitigation alternatives, and select and commit the resources required for specific risk mitigation alternatives in the organization. The findings are in support of the research by Manganelli and Engle (2011) that an organization can ensure that their processes are being accurately transacted by applying strict control metrics to the process.

4.5.1.4 Risk Monitoring

The study results on risk monitoring recorded a mean average of 4.34 which translates to great extent as per the measurement scale. This implies that the risk monitoring which is a sub-measure of risk management influences the performance of the National Hospital Insurance Fund to a great extent. Respondents further reported that the management of NHIF has a risk monitoring control system in place that ensures that risk responses are implemented as planned, risk response actions are as effective as expected, proper policies and procedures are followed to ensure tracking identified risks, monitoring residual risks, identifying new risks, and executing risk response plans. The findings are in line with the research by Eloff et al (2012) that active risk monitoring ensures that effective counter-measures to control risks are appropriately implemented.
### 4.6 Performance of NHIF

#### Table 4.15: performance at NHIF for the last five years

<table>
<thead>
<tr>
<th></th>
<th>Greatly Improved</th>
<th>Improved</th>
<th>Constant</th>
<th>Decreasing</th>
<th>Greatly decreased</th>
<th>Mean</th>
<th>Std deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Service delivery</td>
<td>50.0%</td>
<td>46.9%</td>
<td>3.1%</td>
<td>0%</td>
<td>0%</td>
<td>4.50</td>
<td>0.50</td>
</tr>
<tr>
<td>Number of people registered</td>
<td>39.1%</td>
<td>51.6%</td>
<td>9.4%</td>
<td>0%</td>
<td>0%</td>
<td>4.30</td>
<td>0.63</td>
</tr>
<tr>
<td>Rate of new product/service development</td>
<td>50.0%</td>
<td>45.3%</td>
<td>4.7%</td>
<td>0%</td>
<td>0%</td>
<td>4.45</td>
<td>0.59</td>
</tr>
<tr>
<td>Customer retention and operating cost</td>
<td>42.2%</td>
<td>50.0%</td>
<td>7.8%</td>
<td>0%</td>
<td>0%</td>
<td>4.34</td>
<td>0.62</td>
</tr>
<tr>
<td>Customer satisfaction</td>
<td>34.4%</td>
<td>53.1%</td>
<td>9.4%</td>
<td>3.1%</td>
<td>0%</td>
<td>4.25</td>
<td>0.62</td>
</tr>
<tr>
<td>Innovations</td>
<td>45.3%</td>
<td>43.8%</td>
<td>10.9%</td>
<td>0%</td>
<td>0%</td>
<td>4.34</td>
<td>0.67</td>
</tr>
</tbody>
</table>

**Source: Research Data (2016)**

Table 4.15 shows the performance at NHIF for the last five years. From the research findings majority of the respondents reported very great improvement in service delivery as shown by a mean of 4.50. Great improvement was also reported in rate of new product/service development as shown by a mean of 4.45. Other organizational areas that were reported to have recorded positive growth included new product innovations, customer retention and operating cost as shown by a mean of 4.34, and finally in the organization also recorded positive growth in customer satisfaction as shown by a mean of 4.25. Further the study noted that there is need to set long term
strategic objectives for improved performance of the organization, the management of NHIF should continually involve all the stakeholders in pinpointing improvement opportunities, benchmarking organizational performance, set new goals and examine key processes.

4.7 Regression Analysis

In this study, a multiple regression analysis was conducted to test the influence among predictor variables. The research used statistical package for social sciences (SPSS V 21.0) to code, enter and compute the measurements of the multiple regressions.

Table 4.1: Model Summary

<table>
<thead>
<tr>
<th>Model</th>
<th>R</th>
<th>R Square</th>
<th>Adjusted R Square</th>
<th>Std. Error of the Estimate</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>.855</td>
<td>.731</td>
<td>.6811</td>
<td>.7435</td>
</tr>
</tbody>
</table>

Source: Research Data (2016)

R-Squared is a commonly used statistic to evaluate model fit. R-square is 1 minus the ratio of residual variability. The adjusted $R^2$ also called the coefficient of multiple determinations, is the percent of the variance in the dependent explained uniquely or jointly by the independent variables. 68.11% of the changes in the performance of the National Hospital Insurance Fund could be attributed to the combined effect of the predictor variables (board attributes, reporting disclosure and risk management). This is in line with Research by Bauer and Guenster (2013) who indicated that organizations with a higher corporate governance were performing better. The findings however contradict earlier findings by Ongore (2011) who argued that
corporate governance structures negatively influence performance of state corporations.

**Table 4.2: Summary of One-Way ANOVA results**

<table>
<thead>
<tr>
<th>Model</th>
<th>Sum of Squares</th>
<th>df</th>
<th>Mean Square</th>
<th>F</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Regression</td>
<td>12.918</td>
<td>3</td>
<td>4.306</td>
<td>6.223</td>
<td>0.015</td>
</tr>
<tr>
<td>Residual</td>
<td>41.52</td>
<td>60</td>
<td>0.692</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>54.438</td>
<td>63</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: Research Data (2016)

The probability value of 0.015 indicates that the regression relationship was highly significant in predicting how board attributes, reporting disclosure and risk management influenced the performance of the National Hospital Insurance Fund. The F calculated at 5% level of significance was 6.223 since F calculated is greater than the F critical (value = 2.5252), this shows that the overall model was significant.

**Table 4.16: Coefficients**

<table>
<thead>
<tr>
<th>Model</th>
<th>Unstandardized Coefficients</th>
<th>Standardized Coefficients</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>B</td>
<td>Std. Error</td>
</tr>
<tr>
<td>1 (Constant)</td>
<td>-1.653</td>
<td>.217</td>
</tr>
<tr>
<td>Board Attributes</td>
<td>.482</td>
<td>.149</td>
</tr>
</tbody>
</table>
As per the SPSS generated table above, the equation \( Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \varepsilon \) becomes:

\[
Y = -1.653 + 0.482X_1 + 0.441X_2 + 0.589X_3
\]

The regression equation above has established failure to account for board attributes, reporting disclosure and risk management the performance of the national hospital insurance fund have a negative value of -1.653. The regression results show that a unit increases in board attributes would increase the performance of the national hospital insurance fund county by a factor of 0.482. The findings are in line with the argument by Eisenberg, Sundgren and Wells (2008) that the size of the board should match with the size of the firm to avoid scenarios of having too small boards which will be overburdened with the firm's work which will lead to underperforming, and at the same time boards should not be too large as the inefficiency of large boards will also lead to underperforming of the board members.

The study also found that a unit increase in reporting disclosure enhance the performance of the national hospital insurance fund by a factor of 0.441 and vice versa. The findings are in support of the literature by Carrington, Coelli and Rao (2011) that organization must act accountably in order to achieve the critical mass necessary for the existence of an accountable organization.
Finally, it was clear that a unit increase in risk management would enhance performance of the national hospital insurance fund by a factor of 0.589. The findings are in support of the research by Greene and Trieschmann (2004) that risk management should be approached in a methodical way to ensure that all significant activities within the organisation have been identified and all the risks flowing from these activities defined.

The analysis was undertaken at 5% significance level. The criteria for comparing whether the predictor variables were significant in the model was through comparing the obtained probability value and $\alpha=0.05$. If the probability value was less than $\alpha$, then the predictor variable was significant otherwise it wasn’t. All the predictor variables were significant in the model as their probability values were less than $\alpha=0.05$. 
CHAPTER FIVE: SUMMARY OF FINDINGS, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

This chapter gives a summary of the study’s findings and the conclusion from the provided findings and the recommendations made. The recommendation and conclusions reached were mainly focused in meeting the study’s objectives. The researcher had sought to establish the effect of board attributes on performance of National Hospital Insurance Fund, to assess the effect of reporting disclosure on performance of National Hospital Insurance Fund and to establish how risk management affect the performance of National Hospital Insurance Fund,

5.2 Summary of the Findings

5.2.1 Board Attributes

The study revealed that board attributes influences the performance of the national hospital insurance fund to a great extent, the research also noted that that board size influences the performance of the National Hospital Insurance Fund to a very great extent. Further the study established that board with a smaller number of members is more efficient, smaller board can efficiently monitor the, management, respondents also reported that an increase in board size can be associated with a decrease NHIF firm value Special attention should be taken upon when dealing with the number of board members.

Investigation on Board independence showed that board independence level influences the performance of the National Hospital Insurance Fund to a great extent,
independent directorships are an important concept for publicly owned entities, experienced independent directors can help work with outside consultants to create a suitable compensation package and otherwise address the concerns of relatives who do not participate directly in day-to-day operations but may own an equity interest in the company and that board of directors with an independent member can help demonstrate the commitment of leadership to operate the company with the highest levels of integrity and objectivity.

Further the research noted that CEO duality influences the performance of the National Hospital Insurance Fund to a great extent since the NHIF have the roles separated. CEO duality leads to superior corporate performance as it allows straight leadership for purposes of strategy implementation and formulation, duality may result into significant benefits of the leadership performances of both CEOs and chairman in that CEO duality provides an efficient leadership by increasing the probability that expectations of the board and management intersects, duality prevents a potential rivalry between the CEO and chairman which increases leadership during crises. CEO duality prevents the confusion as a result of the existence of two public spokesmen, the CEO and the chairperson and that duality encourages entrepreneurship and innovation through improving the competencies of the corporation in an industry.

The study results on board diversity showed that board diversity influences the performance of the national hospital insurance fund to a great extent. Diverse boards suffered more conflicts, clashes in outlook, or communication breakdowns, diverse
board were the most successful at innovating and establishing effective operational systems.

The frequency of board meetings was found to influence the performance of the national hospital insurance fund to a great extent. Respondents further reported that board meetings at NHIF are scheduled periodically, an agenda is followed, and proper minutes are kept. Additionally, information is sent to NHIF board members before the meetings so they have enough time to review the information and prepare for the meeting.

The study noted that board composition influences the performance of the national hospital insurance fund to a great extent. The study also established that outside directors are better monitors of financial reporting which can be associated with a range of other benefits, firms with a greater proportion of outside directors tend to have better corporate credit ratings, outside directors who were experienced executives are more likely to resist greenmail, which is the private repurchase of company stock at a premium price paid to an apparent corporate raider to terminate what management considers a hostile takeover attempt.

5.2.2 Reporting Disclosure

Investigation on reporting disclosure showed that reporting disclosure influences the performance of the national hospital insurance fund to a great extent, further the study noted that accountability influences the performance of the National Hospital Insurance Fund to a great extent. Further the study noted that in view of enhancing accountability organizational workforce at NHIF collectively acts consequentially to promote the timely accomplishment of the organization's mission, executives and
managers at NHIF are responsible for holding their subordinates accountable for the effective and efficient conduct of activities supporting mission achievement.

The study results on quantity of information showed that the quantity of information affects the performance of the National Hospital Insurance Fund to a great extent. In view of ensuring Quantity of information at NHIF, the organization has prepared quality manual that include a description of the elements of the quality Info management system specifying users interaction with the system at all level and procedures. The organization also has an established procedure for internal communication between the various levels and functions regarding the quality management system and its effectiveness.

Further the study noted that NHIF ensures that information is always accurate, that information timely relevance and easy to understand, NHIF ensures protection of information from unauthorized access or revision, to ensure that the information is not compromised through corruption or falsification, NHIF uses of the information not only from its own perspective but also from the perspective of the public.

The study revealed that timeliness influences the performance of the National Hospital Insurance Fund to a great extent. In view of ensuring timeliness of reported data, the organization has information reporting guidelines and procedures. All the existing information reporting mechanisms, guidelines, and procedures aim at achieving information quality. NHIF has administrative mechanisms, guidelines, and procedures in place to correct or change poorly entered information.
The study results showed that the consistency/frequency of reporting which is a sub-measure of reporting disclosure influences the performance of the National Hospital Insurance Fund to a great extent, NHIF endeavors to provide a more complete view of an organization’s position, performance, and longer term potential and sustainability than financial reporting alone; and provides critical information for external stakeholders to make decisions, in particular with respect to those aspects of an organization’s operations that are not fully reflected in financial statements, such as the perceived value of human resources, intellectual capital, and other intangibles.

5.2.3 Risk Management

The study noted that risk management influence the performance of the National Hospital Insurance Fund to a great extent, organization has a worthwhile risk identification strategy in place, which aims at identify potential problems before they occur so that risk-handling activities may be initiated the study noted that among the risk, identification strategies employed at NHIF include deep analysis on organizational, strengths-weaknesses-opportunities-threats, use of risk questionnaires and risk surveys use of flowchart method and brainstorming.

The study also noted that risk appraisal/assessment which is a sub-measure of risk management influences the performance of the National Hospital Insurance Fund to a great extent. Further the NHIF periodically conducts risk appraisal/assessment strategy bin place, risk assessment at NHIF helps to save costs by being proactive instead of reactive, set risk management standards, based on acceptable safe practices and legal requirements, provides the resources and know-how required to enable the organization to assess the risks on itself.
The study results on risk mitigation showed that the process of risk mitigation influences the performance of the national hospital insurance fund to a great extent. The study also noted that national hospital insurance fund has an active risk mitigation strategy that engages in characterization of the root causes of risks that have been identified and quantified in earlier phases of the risk management process, evaluates risk interactions and common causes, identifies alternative mitigation strategies, methods, and tools for each major risk, assessed and prioritizes mitigation alternatives, and select and commit the resources required for specific risk mitigation alternatives in the organization.

The study results on risk monitoring showed that the risk monitoring which is a sub-measure of risk management influences the performance of the National Hospital Insurance Fund to a great extent. The management of NHIF has a risk monitoring control system in place that ensures that risk responses are implemented as planned, risk response actions are as effective as expected, proper policies and procedures are followed to ensure tracking identified risks, monitoring residual risks, identifying new risks, and executing risk response plans.

5.2.4 Performance of NHIF

Investigation on performance at NHIF for the last five years showed a positive performance in the last five years, from the research findings noted a great improvement in rate of new product/service development, great improvement was also reported in service delivery, other organizational areas that were significant growth was reported included new product innovations, customer retention and operating cost and finally in the organization also recoded positive growth in
customer satisfaction. Further the study noted that there is need to set long term strategic objectives for improved performance of the organization the management of NHIF should continually involve all the stakeholders people in pinpointing improvement opportunities, benchmarking organizational performance, set new goals and examine key processes.

5.3 Conclusion

The study concluded that board attribute affected the performance of National Hospital Insurance Fund. The study noted that when a board becomes too big, it often moves into a more symbolic role, rather than fulfilling its intended function as part of the management. A board of directors with an independent member can help demonstrate the commitment of leadership to operate the company with the highest levels of integrity and objectivity. It was clear that CEO duality encourages entrepreneurship and innovation through improving the competencies of the corporation in an industry.

The study also concluded that reporting disclosure through level of organizational accountability, quantity of information, showed that timeliness of reported data and consistency/frequency of reporting influenced the performance of National Hospital Insurance Fund. The research noted that enhancing accountability organizational workforce at NHIF collectively acts consequentially to promote the timely accomplishment of the organization's mission.

The study further deduced that aspects of risk management such as risk identification, risk appraisal risk mitigation and risk monitoring had a positive influence on the performance of National Hospital Insurance Fund. Specifically the study noted that
risk identification strategy at NHIF helped identify potential problems before they occur so that risk-handling activities may be initiated, risk assessment at NHIF helps to save costs by being proactive instead of reactive.

5.4 Recommendations for Policy Implications

Based on the study objectives, the study makes the following:

Special attention should be taken when dealing with the number of board members. The size of the board should match with the size of the NHIF to avoid scenarios of having too small boards which will be overburdened with the firm's work which will lead to underperforming, and at the same time boards should not be too large as the inefficiency of large boards will also lead to underperforming of the board members.

The study encourages heterogeneity of director expertise in boards' composition as this was found to play a critical role in decision making. Careful attention must be given on ratios in areas of director expertise as leaning on one side may sidelined investment thus crippling performance.

Firms should aim at increasing the ratio of executive directors for they will not have mixed Interests. Increasing the level of the proportion of independent directors should simultaneously increase NHIF performance, as they are more effective monitors of managers.

Executive officers (CEOs) should operate under fixed-term employment agreements; a long contract term agreement should be avoided it promises the executive that he will not get fired if payoffs do not materialize quickly, this may allow him to underperform since there exists no threats of dismissal.
The management of NHIF should provide financial statement users with a clear picture of their operational and derivatives activities. They should disclose meaningful summary information, both qualitative and quantitative, on the scope and nature of their operational and derivatives activities and illustrate how these activities contribute to their earnings profile.

NHIF should disclose information produced by their internal risk measurement and management systems on their risk exposures and their actual performance in managing these exposures. Linking public disclosure to internal risk management processes helps ensure that disclosure keeps pace with innovations in risk measurement and management techniques.

5.5 Recommendations for Further Studies

The focus of this study was to investigate the effect of corporate governance practices on performance of the National Hospital Insurance Fund (NHIF) where variables studied were only limited to three which included, board attributes, reporting disclosure and risk management. It is therefore suggested that: the study variables only accounted for 68.11% percent changes on performance of the National Hospital Insurance Fund. The study recommends that other factors accounting for the remaining 31.89% of the performance of NHIF need to be identified and their effects assessed as well.
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APPENDICES

Appendix I: Transmittal Letter

MOHAMUD M ALI

P.O BOX,

Nairobi, KENYA.

Dear Respondent,

RE: DATA COLLECTION

I am a student at the Kenyatta University pursuing a Degree of Master of Public Policy and Administration. I am currently conducting a Research study on CORPORATE GOVERNANCE PRACTICES AND PERFORMANCE OF SEMI-AUTONOMOUS GOVERNMENT AGENCIES: THE CASE OF NATIONAL HOSPITAL INSURANCE FUND.

You have been selected to participate in this study and I would highly appreciate if you assisted me by responding to all questions as completely, correctly and honestly as possible. Your response will be treated with utmost confidentiality and will be used only for research purposes of this study only.

Thank you in advance for your co-operation.

Yours Faithfully,

MOHAMUD M ALI
Appendix II: Research Questionnaire

This questionnaire is to collect data for purely academic purposes. The study seeks to investigate the corporate governance practices and performance of semi-autonomous government agencies: the case of National Hospital Insurance Fund. All information will be treated with strict confidence. Do not put any name or identification on this questionnaire.

Answer all questions as indicated by either filling in the blank or ticking the option that applies.

PART A: GENERAL INFORMATION

1) What is your sex
   Male [ ] Female [ ]

2) What is your age bracket
   18-25 years [ ] 26-36 years [ ] 36-45 years [ ]
   46-55 years [ ] over 56 years [ ]

3) Academic Qualifications
   PhD [ ] Masters [ ]
   First Degree [ ] Diploma [ ]

4) For how long have you worked at NHIF
   Below 2 years [ ] 2 - 5 Years [ ] 6 -7years [ ] over 8 years [ ]

PART B: Board attributes

5) To what extent do you think board attributes influence the performance of the National Hospital Insurance Fund?
   Very great extent [ ] Great extent [ ]
6) Please indicate the extent that the following aspects of board attributes influence the performance of the National Hospital Insurance Fund:

<table>
<thead>
<tr>
<th></th>
<th>Very Great Extent</th>
<th>Great Extent</th>
<th>Moderate Extent</th>
<th>Low Extent</th>
<th>No Extent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Board Size</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Board Composition</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>CEO Duality</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Board independence</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Frequency of Board Meetings</td>
<td></td>
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<tr>
<td>Board Diversity</td>
<td></td>
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</tr>
</tbody>
</table>

7) In your opinion how does reporting disclosure influence the performance of the National Hospital Insurance Fund?

PART C: Reporting disclosure

8) To what extent does reporting disclosure influence the performance of the National Hospital Insurance Fund?

   a. Very great extent  
   b. Moderate extent  
   c. Very low extent  
   d. Great extent  
   e. Low extent
9) What is your level of agreement with the following aspects of reporting disclosure that influence the performance of the National Hospital Insurance Fund?

<table>
<thead>
<tr>
<th>Aspect</th>
<th>Very great extent</th>
<th>Great extent</th>
<th>Moderate extent</th>
<th>Low extent</th>
<th>Very low extent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Accountability</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Quantity of information (specific and quantifiable)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Timeliness of reported data</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Consistency/frequency of reporting</td>
<td></td>
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</tr>
</tbody>
</table>

10) In your opinion how does reporting disclosure influence the performance of the National Hospital Insurance Fund?

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PART D: Risk Management

11) To what extent does risk management influence the performance of the National Hospital Insurance Fund?

a. Very great extent [ ]  b. Moderate extent [ ]  c. Very low extent [ ]

d. Great extent [ ]  e. Low extent [ ]
12) What is your level of agreement with how the following aspects of risk management influence the performance of the National Hospital Insurance Fund?

<table>
<thead>
<tr>
<th>Aspect</th>
<th>Very great extent</th>
<th>Great extent</th>
<th>Moderate extent</th>
<th>Low extent</th>
<th>Very low extent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Risk identification</td>
<td></td>
<td></td>
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<tr>
<td>Risk appraisal/assessment</td>
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<tr>
<td>Risk Mitigation</td>
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<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Risk monitoring</td>
<td></td>
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</tr>
</tbody>
</table>

13) In your opinion how does reporting disclosure influence the performance of the National Hospital Insurance Fund?

PERFORMANCE OF NHIF

14) What has been the trend of the following aspects of performance at NHIF for the last five years?

<table>
<thead>
<tr>
<th>Aspect</th>
<th>Greatly Improved</th>
<th>Improved</th>
<th>Constant</th>
<th>Decreasing</th>
<th>Greatly decreased</th>
</tr>
</thead>
<tbody>
<tr>
<td>Service delivery</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Number of people registered</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Rate of new product/service</td>
<td></td>
<td></td>
<td></td>
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<td></td>
</tr>
</tbody>
</table>
development
Customer retention and operating cost
Customer satisfaction
Innovations

15) How can the governance of NHIF be improved to improve on the performance of the entity?

THANK YOU