CORPORATE GOVERNANCE AND FINANCIAL PERFORMANCE OF QUASI-GOVERNMENT ORGANIZATIONS IN KENYA

By
Erick Obegi Manduku

(Msc Finance student- Kenyatta University, Kenya; Email: ericmanduku@gmail.com);
Job Omagwa, PhD
(Department of Accounting and Finance, School of Business, Kenyatta University, Kenya
P.O. Box 43844 00100, Nairobi, Kenya; **Email:** omagwa.job@ku.ac.ke)
Nathan Mwenda, PhD
(Department of Accounting and Finance, School of Business, Kenyatta University, Kenya
P.O. Box 43844 00100, Nairobi, Kenya; **Email:** nathanmwenda@gmail.com)

ABSTRACT

The purpose of this study was to establish the effect of CG on financial performance of quasi-government organizations in Kenya. Specifically, the study sought to evaluate the effect of board structure, board remuneration, transparency and board independence on financial performance of Quasi-Governmental Organizations in Kenya. In addition, the study sought to establish the moderating effect of firm size on relationship between corporate governance and the financial performance of Quasi-Governmental Organizations in Kenya. The target population comprised of the 187 QGOs over a period of 8 years between 2013 and 2020. The study relied on secondary data which were collected with the aid of a document review guide. Data was analyzed using descriptive analysis, correlation analysis and multiple regression analysis. The study found that board structure had a significant effect on financial performance ($p<0.05$), board remuneration had a significant effect on financial performance ($p<0.05$), transparency had a significant effect on financial performance ($p<0.05$), board independence had a significant effect on financial performance ($p<0.05$) and lastly firm size had a moderating effect on the relationship between corporate governance and the financial performance ($p>0.05$). This research confirmed that in separation, CG significantly predicted financial performance. It is recommended that organizations should put in place CG practices that contribute positively towards financial performance.

Keyword: *Board Structure, Board Remuneration, Transparency, Board Independence, Firm Size and Financial Performance*

I. Introduction and background

Good CG is very important in organizations because it is deemed to help enhance company profitability. In Kenya, Quasi government organizations (QGOs) have faced serious challenges regarding their financial performance. Among the reasons for decrease in financial performance

involve corporate governance issues. This has gained a lot of focus in the recent past because of a series of firms being declared bankrupt. There has also been witnessed poor financial performance by quasi-government owned organizations. Corporate governance gives a description of the manner in which a corporation are run and governed. The desire of every firm is to enhance its financial performance. The issue whether or poor corporate governance can lead to decreased financial performance has become a major issue of discussion in corporate finance (Guzeh, 2012).

There have been witnessed several scandals in the corporate world. These scandals have been associated with poor corporate governance practices in many corporations. (Kumudin, 2011). Several authors have brought many arguments and definitions concerning CG depending on the characteristics of the entity that is being studied. The CG regulations on the governance of companies and organizations issued by the Kenya Capital Market Act (Cap 485A) define CG as the structure and process that assists in the direction and management of a firm aimed at enhancing shareholders value. Heremans (2007) defines financial performance as the well-being of a firm financially (Hales, 2005).

Financial performance and CG relationship of firms has been studied by several authors. However, these authors have how found conflicting findings on the best measures of enhancing financial performance of these organizations (Karani, 2015). Whereas some authors have concluded that CG that is desired causes increased FP of firms (Charkham, 1995; Kihara, 2006). Others authors such as Jarrell *et al.,* (1998) have realized a negative financial performance and CG relationship. Some other authors discovered that irrespective of the corporate governance embraced by an organization, there is no effect on the financial performance Lamport *et al. (*2010). Ondigo (2016) contends that better corporate governance practices tend to cause increased financial performance and this relationship is moderated by firm characteristics among them being firm size.

Quasi-Governmental Organizations (QGOs) are those organizations that tend to have both public and private owned firm’s characteristics. These organizations therefore do not neatly fit in either category. An example of such type of QGO is a firm incorporated nonprofit organization that is privately owned, but having government appointed board of directors running it. CGOs help in the provision of services to the citizens. They also contribute the total revenue in the country. Yener (2001) opines that CG is an important dealing with sleaze. Grand corruption is one of the biggest challenges facing Kenyan quasi government organizations. This research therefore, endeavours to make a determination of the CG effect on the financial performance of Kenyan quasi government organizations. The quasi-government organizations provide such services such as health care, water services and energy (Atieno, 2009).

II. Statement of the Problem

In Kenya, Quasi government organizations (QGOs) have faced serious challenges regarding their financial performance. Among the reasons for decrease in financial performance involve corporate governance issues. This has gained a lot of focus in the recent past because of a series of firms being declared bankrupt. There has also been witnessed poor financial performance by quasi-government owned organizations. According to Ondigo (2016) poor corporate governance is responsible for firm failure in Kenya. Whereas every firm is desirous to enhance its financial performances, the CG and financial performance is a vital matter that requires to be further

investigated. Though QGOs remain integral to the economic growth of Kenya, their financial performance has been quite erratic and on the decline in the past decade. This remains an area for further research in Kenya despite the government of Kenya being a key stakeholder in the QGOs context.

The recent wave of corporate scandals in several quasi-government organizations (Uchumi supermarket, 2015; Maasai Mara University, 2020; Mumias Sugar, 2015; Kenya Airways, 2016; Kenya Ports Authority, 2019; KPLC 2021, among others caused regulators, academics and researchers to be interested on the corporate governance mechanisms of the quasi-government organizations. The wider media coverage has caused accountability of the management, transparency and poor corporate governance.

Whereas a lot of research that is empirical has been undertaken on the CG and company performance relationship. The findings are varied. The conclusion of these authors were that desired CG causes increased company profitability (Maher&Anderson,2018); yet, other authors such as Oliyiwola and Temitope(2018) whose findings were that there difference performance and poor corporate governance have no difference in comparison with those with good the best corporate governance mechanisms. Jarrell *et al.,* (1998) argument is that negative financial performance and CG relationship exists. The study results that are conflicting are also documented by Piesses, (2005). The variation in the study findings give an indication of the inconsistency across companies on the issue of corporate governance mechanisms in firms.

There is extensive relevant empirical literature in Kenya. Ng'etich (2015) did an assessment of CG effect on the performance corporations that are owned by the state. The author's focus was on the water companies in Kenya while Ochego *et al.*, (2019) did a research on the CG effect on the Kenyan commercial banks' financial performance. The research indicated a statistical significant relationship exists between FP and firm value. The findings of the research laid emphasis on the need for companies to embrace better corporate governance to help improve financial performance. Some other studies have been done in the finance sector with some having a specific focus on specific institutions. Nevertheless, there are few known studies that have focused on the QGOs in Kenya.

Furthermore, studies that have been done in Kenya have discovered a relationship that is positive between corporate governance and FP: Fondo (2016), Otieno (2012), Ondigo (2016) and Wachira (2016). However, Marimuthu (2016), Maina, Gachunga and Ogutu (2017) found an insignificant relationship between CG and company financial performance. There this contradiction in the findings of the study causes knowledge gap. Furthermore, these studies have focused on firms in different industries. There is no known study that has focused on quasi-government organizations. Moreover, these studies have largely focused on isolated issues like board diversity, board structure, transparency and regulation, all of which are combined in this study.

In view of the empirical evidence highlighted above, most of the research done have centered on CG and financial performance relationship. There are no known studies that have incorporated firm size as a moderating variable. Furthermore, there are contextual gaps that have been identified. The contextual gaps are that most of the studies that have been done have not focused on the Quasi-government organizations (QGOs). There are few known studies that have focused

on QGOs. This study therefore focused on the QGOs. There are have also been differences in the study findings between authors. Some authors have found relationship that is positive between CG and financial performance whereas others have discovered a relationship that is negative. Moreover, these studies have largely focused on isolated issues like board diversity, board structure, transparency and regulation, all of which are combined in this study. Therefore, this study endeavors to make a determination of CG and the financial performance relationship of quasi-government organizations in Kenya.

III. Objective of the Study

The study sought to address the following specific objectives:

i. To evaluate the effect of board structure on financial performance of Quasi- Government Organizations in Kenya.
ii. To evaluate the effect of board remuneration on financial performance of Quasi-Governmental Organizations in Kenya.
iii. To establish the effect of transparency on financial performance of Quasi-Governmental Organizations in Kenya.
iv. To assess the effect of board independence on financial performance of Quasi-Governmental Organizations in Kenya.
v. To establish the moderating effect of firm size on relationship between corporate governance and the financial performance of Quasi-Governmental Organizations in Kenya.

***Null hypotheses were formulated and tested for each specific objective at a significance level of 0.05.**

IV. Significance of the Study

These research findings will help makers of policies and regulators to obtain value information on that can assist formulating policies on corporate governance that can assist the government to run QGOs. The Kenyan government will have a good understanding of the role of politics will play a role on firms that are owned by the state. This will assist to make an improvement on the governance of QGOs in Kenya. The study findings will also assist the management of the QGOs to embrace good corporate governance practices that embraces remuneration and transparency. The study findings will also help regulators to come up with good and sound regulations that will assist in ensuring that QGOs are governed with transparency and accountability.

Scholars and academicians will utilize the findings of study to undertake further research. It will assist in understanding the mechanisms of CG and the reason as to why governance is affected by politics. This will assist in the furtherance of research what needs to be done in order to prevent political interference in the running of QGOs. This study will provide more insight into the agency theory. Firm managers sometimes make embrace poor corporate governance practices that cause to poor decisions on investment that may not have the interest of shareholders at heart. This leads to a conflict of interest.

This study also provides more insight into the stewardship theory. According to the stewardship theory managers can be trusted with the running of organizations and they work towards increased profitability of their companies. Therefore, managers of entities will seek to

promote the wealth of shareholders so as to grow firm profitability. This will be through embracing the best corporate governance practices**.** Therefore, this study provides more knowledge and information on finance literature and theory.

V. REVIEW OF LITERATURE

a. Theoretical Review

This section reviews theories related to CG and financial perfromance of firms.

Agency theory was founded by Jensen and Meckling (1976) stating that management and owners have different interests. The theorists present that the lesser the agency costs, the better the firm performance and value. The authors introduced the agency costs dimension to this hypothesis by suggesting that although debt brings forth specific advantages to the firm, it also increases the associated agency costs. The authors suggested that agency costs emanate conflicts between principals and agents. These kind of encounters exist between the debt-holders, shareholders and managers. The theoretical foundation asserts that the managers may not be fully dedicated to maximizing shareholder's wealth but rather may serve their own interests; resulting to wastage of the free cash flow through sub-optimal investments (Eisenhardt, 1989). For the current study, the theory is key for assessment as it provides that debt brings forth specific advantages to the firm. The less the agency costs, the better would be the performance and company valuation. By providing that debt financing is another crucial factor that determines how cash flow accessible to management and in so doing allow to control the agency problem.

Stewardship theory was first contributed to by Donaldson and Davis (1991). The author argues that mangers of companies are working towards the best interests of the orgnaisations. Therefore; they make decisions that are seeking to maximize the wealth of shareholders. Firm managers therefore are making every effort towards the profitability and success of the firm (Wan Yusoff, & Alhaji, 2012). This theory is based is based on the belief that the behavior of chief executives is very important in helping firms attain their goals and aspirations. The theory asserts the importance of firm managers making the best decisions in the management of their organizations that are geared towards enhancing profitability (Keay, 2017). This theory's importance to this research is in underscoring the importance of corporate governance in furthering financial performance of a firm. According to stewardship theory, CEO of a business entity can make desirable resolutions that will project him as a steward. This involves the manager ensuring that the company has good operations in place that promote growth in the company assets. Firm managers can also make decision that helps enhance firm profitability and therefore assist in enhancing shareholders' wealth.

Freeman (1984) developed the Stakeholder Theory. The author argued that whenever firm mangers make decisions, they should take into considerations of other players instead of concentrating on only on the interests of the shareholders. The author underscores the need for firms to engage in activities such as corporate social responsibilities. The theory stipulates the significance of having all other stakeholders into consideration such as creditor, suppliers and the government whenever the board directors make decisions in organizations. This theory takes into considerations of stewardship and agency theories (2017). The theory further assets that finance

scholars fail to take into consideration of many other individuals that may have an effect on firms (Mutua & Kilika, 2016). The importance of this theory is that the firm is not affected by those that have are engaged in the daily running and operations of the organization. The Argument by as Davis, Schoorman and Donaldson (1995) is that the prevailing notion that shareholders own firm is fictitious. The authors argue that the really power lies with the firm managers. Donaldson and Preston (1995) gave a contention to this effect that the rules and regulations have failed to impart the required disciple needed in organizations to take charge of rogue firm mangers. The relevance of this theory is in underscoring the importance of firm managers and the boards of directors take into consideration of other stakeholders into consideration. These decisions will be geared towards enhancing the financial performance in firms (Herremans, Nazari & Mahmoudian, 2016).

Mayer and Rowan (1979) propounded this theory. This theory offers an emphasis of organizations as systems that have norms. The theory argues that there is need for deeper and better understanding in organizations that can assist in creating better schemes, norms for firm behaviours (Scott, 2004). There are many components of firm behavior that assists in giving a better understanding of firms and their goals. The theory brings a better understanding on the finance idea of imperfect markets (Dornbusch & Reynoso, 2003). Institutional theory emphasizes is its view on the regulatory perspective. The author's argument is that better legal and regulatory framework assist in the promulgation of good governance mechanism (Stulz *et al.,* 2004). Weir *et al.,* (2002) asserts that there is a link between mechanisms of CG and institutional theory. The theory offers an explanation of an organization by putting consideration of its noms, schemes and processes as guidelines for firm social behavior. The theory explains that firm procedures are emphasized on by firm mangers because of their indispensable role in helping enhance financial performance of firms.

b. Empirical Review

This section reviews various studies which inform the study relationship, Meyer and De Wet (2013) assessed the dynamics of board structures and the FP of listed companies in South African. The authors used regression analysis. The research results found that the proportion of directors who are independent to those who are not significantly and positively affected firm performance as operationalized by EPS and enterprise value. However, it had no significant effect on Tobin's Q ratio. Board ownership had significantly and positively correlated with firm performance as operationalized by earnings per share, enterprise value and Tobin's Q ratio. The research focused firms that are listed. The current study's focus will be on the quasi-government organizations. The study measured financial performance by Tobins'Q ratio. The current study measured financial performance by using net operating income.

Wanjau, Muturi, and Ngumi (2018) studied on board transparency effect on performances of companies in the listing in East Africa The research employed correlation and descriptive research designs. The authors found a significant effect that is positive of transparency on firm performance. Purposive sampling was also adopted which is a non-random technique and prone to sampling error. The study's focus was on the companies that are listed in East Africa. Focus of the current study is on quasi-government organizations. The study was focused on only one

explanatory variable (board transparency) of corporate governance. The current study sought to factor other independent variables such as board diversity and board structure.

Zatttoni (2017) studied on board independence effect on financial performance in IPO Firm and the national business system moderating role. The study findings indicate that whereas there is an effect that is direct of independence, significantly national-level institutions moderate the relationship independence and performance. The author suggests form the study findings that the board structures are dependent on the country context. However, the legal and regulatory framework is insignificant. The study was focused on IPO firms. The focus of the current study is on the quasi-government organizations.

VI. RESEARCH METHODOLOGY

The target population of this study comprised of all the 187 QGOs in Kenya for the 8-year period from 2013 to 2020. The choice of this period for analysis is the wide disparities reported with regard to financial performance of the said organizations during the review period. Cochran's formular for determining the sample size was used to arrive at a sample size of 65 organizations. The causal or explanatory research design was utilized as a result of the nature of problem and data availability to determine and explain already existing relationships, if any, between CG and financial performance of QGO. Moreover, the research approach allows conclusions and inferences to be made to the larger population.

Data collected were cleaned and then categorized in line with the research. Diagnostic tests were carried out to determine and ascertain that the data sets meet the general assumptions for regression analysis. The study then undertook the main analysis which embraced descriptive analysis (means and standard deviation), correlational analysis using Pearson Correlation Analysis and multiple linear regression analysis. The multiple regression analysis and Pearson correlation analysis were the main inferential statics guiding the generalizations.

VII. RESULTS, FINDINGS AND DISCUSSION

The section presents result and relevant interpretations as well as discussion in the form of comparing and contrasting the study findings with other studies.

a. Descriptive Analysis

This section highlights the descriptive statistical analysis of the collected data for every variable under study, it indicates the means, standard deviation, and the least possible and maximum figures.

Table 1: Descriptive

Variable	Obs	Mean	Std.Dev	Min	Max
Board structure	540	.5845231	7.012699	7	41
Board remuneration	540	130,915	4736.113	102,915	300769

Transparency	540	.2911398	4.3046357	.01	0.66
Board independence	540	.3589034	3.8835017	7	45
Firm size	540	11.4973015	3.11378	11.006	32.269
Financial performance	540	-.2120199	.3923425	-.654	1.952

Source: Research data, 2023

The results in Table 1 indicates that the mean of board structure as measured by the proportion of executive directors to non-executive directors on the boards of directors was 0.5845 indicating that for every one executive director in quasi-government organizations, there were two non-executive directors, the organizations had a minimum of 7 and a maximum of 41 non-executives. The standard deviation was very high indicating that board structure significantly varied across the stipulated period. The finding is in line with Lehn et al. (2009) where it is argued that large boards of directors can offer a higher standard of advice; in other words, if the complexity of the business increases, the board will try to add new directors with the necessary knowledge to provide guidance. Accordingly, works such as Booth and Deli (1999), Coles et al. (2008) or Farag and Mallin (2017) argue and conclude that, when faced with the greater complexity of the business, more advice is required and this is reflected in a larger number of directors.

The remuneration of directors of quasi-government organizations was Ksh. 102,915. The highest paid director in quasi-government organizations received Ksh. 300,000. Furthermore, the standard deviation was very high indicating that board remuneration varied highly across the stipulated period. In view of Table 1 indicates that the mean of transparency as measured by the ratio of voluntary disclosure to mandatory disclosure, the overall mean of transparency was 0.29113, the standard deviation of 4.3046357 was very high indicating that transparency among the organizations under study significantly varied across the stipulated period.

According to Table1 indicates that the mean of board independence as measured by the proportion of independent directors on the total number of directors was 0.358903 indicating that 35.58 percent of the total board of directors were independent directors, the organizations had a minimum of 7 and a maximum of 45 independent directors. The standard deviation was 3.8835017, indicating that number of independent directors significantly varied across the organizations during the study period.

The average natural log of total assets for the period between 2013 and 2020 was 11.4973015, the standard deviation was 3.11378 indicating great variation in total assets among quasi-government organization. This is supported by Elbanna (2010) who found out that firm size especially in large firms show higher levels of financial performance.

Table 1 indicates that the mean of financial performance as measured by the proportion of surplus of revenue over income was -0.2120199 indicating that most of the quasi organizations incurred more expenses than they generated income. The standard deviation was 0.3923425 with a minimum of -0.654 and a maximum of 1.952 indicating that revenues and expenses of the organizations under study varied significantly across the stipulated period.

b. Regression Analysis

The study carried out panel regression analysis to establish the relation among study variables. Specifically the study used fixed effect and random effect model.

Corporate Governance and Financial performance

The research sought to establish the effect of corporate governance on financial performance of quasi-government organizations in Kenya. The results are shown in Table 2

Table 2: Corporate Governance on Financial performance

Financial performance	Coefficient	Std. Error	Z	P>|z|	Model
Board structure	0.402	0.066	6.04	0.000	RE
Board remuneration	0.737	0.227	3.24	0.001	
Transparency	0.904	0.236	3.83	0.000	
Board independence	0.188	0.095	1.99	0.047	
-Cons	.244	.070	3.51	0.000	
Statistics	**Model 1a**				
Wald chi2(4)	10.30				
Prob> chi2	0.0357				
R-Squared	0.4032				

Source: Research Data, 2023

From the results in Table 2, the model is shown below:

$$\mathbf{Y_{it} = 0.244 + 0.402X_{1it} + 0.737X_{2it} + 0.904X_{3it} + 0.188X_{4it}}$$

Where:

Y_{it}= FP of QGO i at time t

βo= Intercept

$\beta_1, \beta_2, \beta_3$= coefficients

X_{1it} = Board structure of QGO i at time t

X_{2it} =Board Remuneration of QGO at time t

X_{3it} =Transparency of QGO at time t

X_{4it} =Board Independence of QGO at time t

ε i = error term

The results in Table 2 indicate that the independent variables of (board structure, board remuneration, transparency and board independence) were found to be satisfactory variables in explaining financial performance of quasi-government organizations in Kenya. The P-values of board structure, board remuneration, transparency and board independence were less than 5%

hence statistically significant. The R2 of 0.4032 indicated that 40.32 percent of the change in QGO in Kenya was explained by corporate governance.

The results also indicate that board structure has a significant effect on financial performance (net operating income ratio) of quasi-government organizations (β = 0.402; P = 0.000). This means that a unit increase in board structure would lead to a 0.402 units increase in net operating ratio of quasi-government organizations in Kenya. The findings concur with Riany and Wagude (2018) findings that the board structure greatly influenced the financial performance of the sugar milling companies. Gacheru (2013) discovered a significant affirmative relationship between board structure and the ROE. Moreover, Ashari and Krismiaji (2020) found that the results of the business were positively influenced by board structure. Osemene and Fakile (2019) revealed that the financial competence and board structure had a significant impact on the financial performance of deposit money banks.

The results also show that board remuneration has a significant effect on financial performance (net operating income ratio) of quasi-government organizations (β = 0.188; P = 0.047). This means that a unit increase in board remuneration would lead to a 0.188 units increase in net operating ratio of quasi-government organizations in Kenya. The findings disagree with Aduda and Musyoka (2011) who found a negative association between executive compensation and financial performance, while Muriuki and Kariuki (2018) found that the financial performance of NSE-listed commercial banks was positively influenced by executive allowances. Mavrakana and Psillaki (2019) found that bank efficiency was positively correlated with board compensation. An important link between the basic fees of non-executive directors, the salaries paid in shares and the additional remuneration for membership of the board of directors and the present and potential success of the financial business was found by Müller (2014).

The results also show that transparency has a significant effect on financial performance (net operating income ratio) of quasi-government organizations (β = 0.904; P = 0.000). This means that a unit increase in transparency would lead to a 0.904 units increase in net operating ratio of quasi-government organizations in Kenya. The findings agree with those of Wanjau et al. (2018) that transparency and financial performance of listed firms in Kenya are significantly related.

Lastly, the results also show that board independence has a significant effect on financial performance (net operating income ratio) of quasi-government organizations (β = 0.904; P = 0.000). This means that a unit increase in transparency would lead to a 0.904 units increase in net operating ratio of quasi-government organizations in Kenya. The findings disagree with Hamdan and Mubarak (2017) who found that independence from the board had an inverse effect on firm outcomes. The independence of the board from Oyedokun (2019) had a negative effect on financial performance that was negligible.

Corporate Governance, Firm Size and Financial performance

The research sought to establish the moderating effect of firm size on the relationship between corporate governance and financial performance of Quasi-Government Organizations in Kenya. To test for the moderation effect, regression analysis was conducted by using two models as described by Whisman and Mclelland (2005). Model one, tested the relationship of corporate governance and financial performance. Model two tested the significance of the interaction term

(U) in the equation and their significance evaluated when controlling for corporate governance. To confirm moderation, the influence of the interaction term should be significant.

The results are shown in Table 3.
Table 3: Moderation Analysis

a) Model 1_Corporate Governance versus Financial Performance

	Coefficient	Std. Error	Z	P>|z|	Model
Corporate governance	0.402	0.066	6.04	0.000	RE
Firm size	.4458	.1491	2.99	0.003	
-Cons	.244	.070	3.51	0.000	
Statistics	**Model**				
Wald chi2(4)	10.30				
P-value	0.0357				
R-Squared	0.4032				

b) Model 2_Corporate Governance, Firm size, Interaction terms versus Financial Performance

	Coefficient	Std. Error	t	P>|z|	Model
Corporate Governance	0.737	0.227	3.24	0.001	RE
Firm size	0.904	0.236	3.83	0.000	
Firm size*corporate governance	0.188	0.095	1.99	0.047	
_cons	0.336	0.026	12.69	0.000	
Statistics					
F(3,540)	2.81				
P-value	0.0390				
Wald chi2(3)	22.65				
P-value	0.0001				
R-Squared	0.4571				

$Y = 0.336 + 0.737CG + 0.904M + 0.188U + \varepsilon$
Where: Y= Financial Performance
CG= Composite index of Corporate Governance indicators (board structure, board remuneration, transparency and board independence)
M=Firm Size

U=interactions term of Corporate governance & Firm Size

The outcome in Table 3 (b), shows that Wald Chi square is highly significant ($p = 0.000 < 0.05$), suggesting that corporate governance, firm size and the interactions of corporate governance with firm size determined financial performance.

The coefficient corporate governance at $\beta = 0.737$, $P = 0.001$ is less than the significance level of 0.05. Indicates that corporate governance has a statistically significant positive effect on the financial performance as measured by net operating cost. The regression coefficient of 0.737 obtained at this level indicates that a unit increase of the corporate governance would lead to 0.737 increase in net operating cost hence financial performance.

The coefficient corporate governance at $\beta = 0.904$, $P = 0.000$ is less than the significance level of 0.05. Indicates that firm size has a statistically significant positive effect on the financial performance as measured by net operating cost. The regression coefficient of 0.904 obtained at this level indicates that a unit increase of the firm size would lead to 0.904 increase in net operating cost hence financial performance.

The coefficient corporate governance and firm size at $\beta = 0.188$, $P = 0.047$ is less than the significance level of 0.05. Indicates that corporate governance and firm size (the interaction term) has a significant effect on the financial performance as measured by net operating cost. The regression coefficient of 0.188 obtained at this level indicates that a unit increase of the corporate governance and firm size would lead to 0.188 increase in net operating cost hence financial performance. According to Whisman and Mclelland (2005) three most common methods of determining for moderation under this model. (1) determining whether or not the increment in (R-square) is greater significantly than zero, (2) determining whether or not the coefficient B_4 differs from 0, and (c) determining whether or not the partial correlation between the product of Firm size and corporate governance, having CG and FP controlled, differs from 0. This research employed determining whether or not the increment in (R-square) was significantly greater than zero. As indicated in Table 4.10, in model 1, R-square = 0.4032, while in model 2 R2 = 0.4571.

The results indicate that a change in R-square was recorded after the inclusion of the interaction term. The R-square change was 0.0539 i.e. [0.4571– 0.4032]. The study therefore rejected the null hypothesis and confirmed that firm size had a significant moderating effect on the relationship between corporate governance and financial performance of Quasi-Government Organizations in Kenya. These findings imply that corporate governance and firm size play a significant role in enhancing financial performance of Quasi-Government Organizations in Kenya.

IX. CONCLUSION AND RECOMMENDATIONS

a. Conclusion

The study sought to fill the contextual, conceptual and methodological gaps that that existed. The study concludes that board structure has a significant effect on financial performance of quasi government organizations in Kenya. The study concludes that transparency has a significant effect on financial performance of quasi government organizations in Kenya. Also,

the study concludes that board independence has a significant effect on financial performance of quasi government organizations in Kenya. Further, the study concludes that board remuneration has a significant effect on financial performance of quasi government organizations in Kenya. Lastly, the study concludes that firm size moderately affected the relationship between corporate governance and financial performance of quasi government organizations in Kenya.

b. Recommendations

The study recommends that since transparency affect financial performance of quasi-government organization in Kenya, the management should adhere to laid down regulations on transparency so as to avoid agency conflicts with shareholders and creditors. The information disclosed by the corporation should be adequate to enable stakeholders to make informed decisions and should be forward looking. The management should develop systems to ensure that all the necessary information concerning the financial performance of the corporation is accessible by all stakeholders at any time.

The study recommends that since board remuneration affect financial performance of quasi-government organization in Kenya, the management should adequately compensate its board members as good compensation motivates them to work towards enhancing the entities' financial performance.

The study recommends that since board independence affect financial performance of quasi-government organization in Kenya, the management should shareholders of Kenyan quasi-organizations should ensure that most of the members among the boards are independent and non-executive to check the actions of the management and reduce agency conflicts.

The study recommends that since board structure affect financial performance of quasi-government organization in Kenya, the management should ensure that the size of the board is optimal and that it contains a sufficient number of members, as this will ensure that the quorum needed is available to the board.

X. Contributions to Knowledge

The findings of this study make a contribution to the existing body of knowledge on corporate governance and financial performance. The major contribution of the study is that corporate governance predict financial performance. Some previous studies have evaluated the relationships among corporate governance and financial performance. However, the attributes of the four variables used in these previous studies were different, results contradictory and inconclusive.

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