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DEPARTMENT OF PUBLIC POLICY AND ADMINISTRATION

INFLUENCE OF CORPORATE GOVERNANCE COMPLIANCE PROGRAMS AND PERFORMANCE OF STATE CORPORATIONS IN KENYA:

THE CASE OF NATIONAL SOCIAL SECURITY FUND (NSSF)

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MAY 2018

DECLARARION

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

Signed ……………………………….. Date ……………………

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

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ABSTRACT

State corporations are reluctant to provide concrete incentives for implementation of corporate compliance programmes. Currently, compliance is achieved by hiring expensive auditors who typically use a heuristic approach to select and investigate audit trails to show evidence about compliance. In addition to the impact on the organization's budget, compliance checking with this approach incurs a large overhead in terms of time consumed to check for compliance. The objectives of the study were to determine the influence of risk management processes, internal audit and controls processes, employees' education on compliance and communication, leadership and oversight on performance of state firms in African nation. The study was anchored on agency theory, neutral theory and conjointly the institutional theory. The study adopted a descriptive analysis technique. The target population of this study was 142 management workers operating in National social insurance Fund (NSSF). The study further focused on the best, middle and low-level management staffs directly handling the day to day management of the National social insurance Fund (NSSF) operations. The study used stratified sampling technique in arising with a sample size of 104 respondents' victimization Nassiuma (2012) formula. From each stratum, simple random sampling was used to opt for the respondents for the questionnaires. The primary data was collected using questionnaires which were pretested before administration. The quantitative data throughout this analysis was analyzed by descriptive statistics using SPSS. version twenty-one. Content analysis was used in analysis of qualitative data and results given in prose form. To bring out the quantitative meaning of the data, relationships and predictions among variables were determined using correlations and regression techniques. Data was presented using frequency tables. The study found that risk management processes, employees' education on compliance and communication, internal audit and controls processes as well as leadership and oversight greatly affect the state corporation's performance. The study concluded that leadership and oversight had the greatest influence on the performance of state corporations in Kenya followed by internal audit and controls processes then employees' education or training and communication while risk management processes had the least effect on the performance of state corporations in Kenya. The study recommends that risk management processes strategies employed by state corporations should support strong corporate governance, that state corporations should adopt the strategic training and development approach with its key principles of long term, and organization wide view instead of the current tactical approach and that risk based internal audit should be enhanced so as to improve performance in state corporations in Kenya.

ABBREVIATIONS AND ACRONYMS

ANOVA	Analysis of Variance
BCCI	Bank of Credit and Commerce International
BSE	Bombay Stock Exchange
CBK	Central Bank of Kenya
CCG	Center for Corporate Governance
CEO	Chief Executive Officer
CMA	Capital Markets Authority
CPA	Certified Practicing Accountants
ERS	Economic Recovery Strategy
FAQ	Frequently Asked Questions
GDP	Gross Domestic Product
GRC	Governance, Risk Management and Compliance
IAS	International Accounting Standards
ISO	International Organization for Standardization
KCGI	Kenyan Corporate Governance Index
KTB	Kenya Tourism Board
NEDs	Non-Executive Directors
NGOs	Non-Governmental Organizations
NHIF	National Hospital Insurance Fund
NSE	National Stock Exchange
NSSF	National Social Security Fund
OECD	Organization for Economic Cooperation and Development
ROA	Return on Assets

SCs	State Corporations
SME	Small and Medium Enterprises
SPSS	Statistical Package for the Social Sciences
UK	United Kingdom
US	United States
USA	United States of America
WSE	Warsaw Stock Exchange

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DEFINITION OF OPERATIONAL TERMS

Communication strategy is a two-way process in which state corporation reach a mutual understanding, in which stakeholders not only exchange (encode-decode) information, news, ideas and feelings but also create and share meaning.

Compliance checking and enforcement: this is the process of establishing internal controls by state corporations with which adherence to regulations is guaranteed

Compliance management: this is the ongoing process of identifying relevant regulations to the state corporation; assessing the risk of not obeying the identified compliance requirements; establishing effective internal controls to prevent/avoid/detect violations to compliance; maintain the effectiveness of these controls.

Compliance programs: These are internal audit systems, leadership and oversight, Employee education and Risk management systems instituted by state corporations to ensure that the provisions of the regulations imposed by a government agency are being met. They are formal internal programs and policy decisions specifying on state corporation's policies, procedures, and actions within a process to help prevent and detect violations of standards set by government laws and regulations.

Corporate governance: A system by which state corporations are directed and controlled. The system comprises of processes, customs, policies, laws, and institutions affecting the way a state corporation is directed, administered and controlled.

Performance : This is the results of activities of a state corporation over a given period of time and measured in terms of development index, performance contracting ratings, customer retention and operating cost and customer satisfaction levels.

Staff Training: This is an organized activity aimed at imparting information and/or instructions to improve the state corporation staff performance or to help him or her attain a required level of knowledge or skill.

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CHAPTER ONE: INTRODUCTION

1.1 Background of the Study

Corporations have become the preferred way of organizing productive activities in most countries (Rogers, 2008). One feature of corporations is both their strength and its weaknesses at the same time. Proper corporate governance has been touted as the panacea that mitigates the agency conflicts, achieving a level of convergence in the inherently divergent of interests of management and shareholders (Enobakhare, 2010).

Cognizant of the need to enhance the good governance of corporation, a host of global initiatives have been mooted to provide governance principles for the effective management and control of these organizations. Most of the initiatives are in the developed economies like the UK, the US, Canada, France, and Germany (Barako & Brown, 2008). However, developing countries are not far behind as witnessed by the recent proliferation of “Codes of Best Practice” from South Africa, Nigeria, and Brazil (Johnstone & Doig, 2012). Corporate governance is a key element in improving the economic efficiency of a firm. Good corporate governance also helps to ensure that corporations take into account the interests of a wide range of constituencies as well as of the communities within which they operate. Further, it ensures that their Boards are accountable to the shareholders.

As mentioned by Bowes (2010), compliance checking and enforcement is the act of establishing internal controls with which adherence to regulations is guaranteed. Compliance management is the ongoing process of identifying relevant regulations to the organization; assessing the risk of not obeying the identified compliance requirements; establishing effective internal controls to prevent/avoid/detect violations to compliance; maintain the effectiveness of these controls. Compliance requirements might not just stem from regulations. Rather, an organization might want to establish controls for its own internal policies and to benefit from best practices in the business domain (Johnstone & Doig, 2012). Moreover, compliance is a domain-specific problem where requirements vary from one domain to another.

The problem of corporate wrong doing has long been a matter of serious social concern. Both large bureaucratic organizations and smaller firms have the capacity to inflict serious harm, and often a strong competitive motive to cut corners in terms of legal compliance (Romano, 2011) Prosecutors have exploited their virtually unchecked power to extract and coerce ever greater concessions (from corporations), jeopardizing the very nature of our adversary system. It is a

state-sponsored shakedown scheme in which corporations are extorted to pay penalties grossly out of proportion to any actual misconduct (Shaw & Bunny, 2015).

Until very recently, corporations had become increasingly willing voluntarily to accept responsibility for monitoring their own activities. This trend, in part, was induced by the promotion and encouragement of corporate self-governance by government law enforcement authorities and regulators as well as by corporations' realization that their economic self-interest is served by preventing and detecting employee misconduct (Johnstone & Doig, 2012). Johnstone and Doig (2012) also indicated that if globalization was the development issue of the 1990s, governance is the development issue of the first decade of the new millennium. Understandably so, for the two are not distinct from each other – globalization demanded that markets and firms be competitive and achieving competitiveness require good governance.

Business failures and corporate malpractices usually leads to investors and regulators to publicly question the integrity of the actors involved in the system of financial governance and reporting. It is common when a new scandal occurs, reassurance is expected and deep-level changes are demanded. Authorities often respond to these calls through the issuance of new standards and regulation. However, in spite of more comprehensive standards and regulation, new acts of malfeasance are continually exposed and the interplay between new prescriptions and scandals continues (Humphrey et al., 2002). One may therefore wonder about the effectiveness of prescriptive responses adopted in the aftermath of corporate scandals.

According to Tipuric (2011), the governance of a successful corporation typically includes an effective board of directors that carries out its responsibilities with integrity and competence. An effective board must put in place systems to ensure that the organization obligations to its shareholders are met. They must ensure full and timely disclosure of performance of the business to its owners and the investments community at large. The majority of companies and managers adhere to existing laws and regulations, however, not all people act responsibly and ethically. Important developments during the last years have shown clearly how many companies are affected by corruption, falsification of balance sheets, bribery, fraud, human rights violation and environmental pollution.

In the year 1989 Drucker (1989) when examining the challenges managers would face in the 1990's predicted that the governance of corporations is likely to become an issue throughout the world (Barako & Brown, 2008). These predictions have come to pass as evidenced by the

interest that the subject of governance has generated in the media, professional, academic literature and society at large. Several reasons can be advanced for this interest in governance.

1.1.1 Compliance Programs

Shaw and Bunny (2015) identified the five essential elements of a corporate compliance program. These five elements are based upon the best practices as set out in the seven elements of a corporate compliance program under the US Sentencing Guidelines; the 13 Good Practices by the OECD on Internal Controls, Ethics, and Compliance; the FCPA Guidance's Ten Hallmarks of Effective Compliance Program and the UK Bribery Act's Six Principles of an Adequate Procedures compliance program. The five elements are: leadership, risk assessment, standards and controls, training and communication and oversight.

The implementation of compliance programs is incredibly valued by state corporations as a necessary avenue for the creation of a culture of compliance (Florackis & Ozkan, 2010). Essentially, a compliance program is a set of protocols a company puts in place to prevent and deter unlawful conduct and to promote a culture of compliance. There are at least two reasons to invest the time and resources necessary to create such a program and make it effective. First, an effective compliance program provides management timely and accurate information about potential legal problems and a means of promptly redressing them. Second, if a company is ever investigated for a potential violation of laws, having an effective compliance program in place may significantly reduce any penalty imposed and may even convince prosecutors not to pursue penalties at all.

The development and implementation of a good compliance program offers an organization a variety of merits. As a fundamental matter, the true value of a compliance program lies in its ability to detect and prevent criminal and other improper activity by corporate employees. In other words, an effective compliance program will foster and encourage ethical conduct by employees in all aspects of the corporation's business. Constant reminders (and examples) to employees that it is the corporation's policy to abide by the law and to punish violators discourage and deter criminal behavior and other unethical conduct, discourage employee tolerance of improper activity, and encourage employees to report misconduct to management (Shaw & Bunny, 2015).

Additionally, Barako and Brown (2008), noted that the interdependence between the society and business demand that companies be accountable to the society as company decisions have far-reaching effects on the society and the environment. Companies not only provide essential goods

and services, they pay taxes, create employment and engage in community-based activities and have thus become development partners with the society. As society becomes increasingly dependent on companies it (society) becomes more concerned with corporate activities and their governance as they (companies) play a key role in the creation of wealth both at the national and the corporate level. Mallin (2010) says that society will scrutinize company activities and especially those of large and visible business so as to ensure accountability. In reaction to accounting scandals exposed at the beginning of the 21st century, new regulations dealing with auditors and audit committees have been promulgated in many countries (for example: the Sarbanes-Oxley Act of 2002 in the US; Instrument 52-110 in Canada).

Public attention following status corporate scandals and collapses in recent times of firms like Enron, Parmalatt, WorldCom, the Bank of Credit and Commerce International (BCCI), among others, without any warning wiped out the wealth of shareholders in one fell swoop, resulting in intense pressure to reexamine the governance of corporations (Wamalwa, 2013).

1.1.2 Compliance Programs and Performance

Compliance standard seems to be nothing better in Africa with most studies finding general non-compliance in the region. For instance, using 22 listed companies of Ghana Stock Exchange Tsamenyi *et al* (2007) finds that the compliance in Ghana is generally low. More recently, Olayiwola (2010) observed a significant divergence between corporate practices in Nigerian companies and corporate governance recommendations. Ogbechie *et al* (2009) further argued that even the existing compliance standard is questionable because companies are complying due to legitimation reasons. This criticism reflects institutional theory that suggests that when faced with externally imposed standards, organizations can sometimes respond by developing alternative standards for the same practices (Okhmatovskiy & David, 2012), or prefer compliance on paper that does not reflect in actual corporate practices. Hence, Olayiwola (2010) opined, Nigeria to reap benefit of compliance with best practice recommendations, some structural change is needed; or the economic reform process led by IMF and the World Bank needs to understand specific governance features of these countries.

Kenya has had its fair share of financial scams as demonstrated by the collapse of Lonrho, Trust Bank, Euro Bank, Kenya Finance Trust and Uchumi Supermarkets Limited. Many scholars ascribe corporate failure to a weak board, unable to exercise their mandate adequately (Stiles, 2013). Governments and boards of corporations have been forced to pay attention to fundamental issues of corporate governance as essential for public economic interest. In Kenya, the

institutions that have been at the forefront in sensitizing the corporate sector in Kenya on corporate governance are The Capital Markets Authority (CMA), the Nairobi Stock Exchange (NSE), the Center for Corporate Governance (CCG) and Central Bank of Kenya (CBK) which regulates the banking industry. Corruption has been a major impediment to the prosperity and general performance of state corporations in Kenya and as a result public funds have been lost at the expense of the tax payers' general benefit. Over the years, corruption has become a reality of monumental proportions in Kenya (Mwaura, 2007), it has in fact grown bigger in terms of participating personalities and the amount of money involved for instance the Goldenberg and the Anglo leasing scandals whose effects are still being felt to date led to a loss of colossal amount of public funds (Otungu, Nyongesa, Ochieng & Kaburu 2011). Recently, there have been cases of corruption reported by the media and some have been heard before different Parliamentary Committees touching on the governance of state corporations.

The failure of corporate governance within the state firms has been cited to possess expedited two mega money frauds that rocked the state within the recent past; the Goldenberg and therefore the Anglo-leasing scandals (Mwaura, 2007). In both cases, the government lost colossal amounts of public funds. Due to the huge amounts that were involved, the scandals have had and continue to have wide and negative implications on the country's economy.

State corporations are reluctant to provide concrete incentives for implementation of corporate compliance programs. Currently, compliance is achieved by hiring expensive auditors who typically use a heuristic approach to select and investigate audit trails to show evidence about compliance. In addition to the impact on the organization's budget, compliance checking with this approach incurs a large overhead in terms of time consumed to check for compliance (Enobakhare, 2010). In Kenya, State Corporations are critical as they form the backbone of the Kenyan economy contributing 10% of the GDP (ERS 2002-2007), and therefore of great concern to the stakeholders.

Lack of adequate corporate governance compliance in state corporations has been evidenced by the collapse of several state corporations being caused by failure in review of board performance, the board never met frequently as required, the board never got performance based contracts, misappropriation of state corporation assets, late or lack of performance of statutory audits by the Auditor General office and unwillingness of the government to take action to curb the gross misappropriation of state assets led to poor performance, loss of public faith in the institution, loss of revenue to the exchequer and eventually the collapse of many corporate

governance systems in place of such government institutions (ERS, 2015). The collapse of these state corporations can be attributed to lack of proper corporate governance compliance programs such as risk management processes, policies and procedures for day to day activities and internal audit processes to guide corporation's objectives.

1.1.3 National Social Security Fund (NSSF)

State corporations are a creation of the State Corporations Act, 19 ('the Act'). The corporations are managed through the Board of Directors (BoDs) whose membership and appointment is provided for under the Act. State corporations control key sectors of the economy and due to their centrality, a lot of public funds are allocated to them, it is important therefore, that the funds should be managed accurately and transparently in order to benefit the greater public population. The decisions of the board should therefore be independent and based on public interest, fair, transparent and within the rule of law. However, the societal expectation of accountability on the part of the trustee of the public funds (corporate directors) has not been fulfilled as corruption has infiltrated the decision-making process of the boards of the state corporations due to political influence and competing interests (Ongore & K'Oboyo, 2011).

Incidentally, this results in poor governance and consequently public funds are lost, further, it results in poor performance of the corporations and sometimes to their total collapse and ineffective service delivery to the public. Corruption in the SCs boards has manifested itself through abuse of office, political patronage, fraud, looting, nepotism and favoritism in licensing, among others. The mode of appointment of the directors who are responsible for overseeing the governance of the corporation is paternalistic in nature which concededly influences their independence due to patron-clientele relationship that is created between the appointing authority and the individual directors hence the obligation to please the patron at the expense of public interest (Kang'aru, 2010).

The legislature has enacted various laws to prevent and combat corruption generally, state corporations included, despite these laws, corruption still continues to be witnessed in state corporations to date. Good examples are the numerous cases against directors that have been litigated and reported in the recent past which include; the Kenya Tourism Board (KTB), National Social Security fund (NSSF) and the National Health Insurance Fund (NHIF).

The National Social Security Fund (NSSF) was established in 1965 by an Act of Parliament (CAP 258 of the Laws of Kenya) so as to administer a provident fund theme for all employees in Kenya. Initially the fund operated as a department underneath the Ministry of Labor however as

its membership grew and its operations became advanced, the NSSF Act was amended in 1987 to rework it into Associate in Nursing Autonomous State Corporation. Since 1988, the Fund has been in operation underneath a Board of Trustees, that is planted by representatives of three key stakeholders: the govt., workers, and employers.

In recent years NSSF has embarked in an ambitious reform programme intended to convert it from a National Provident Fund Scheme to a Social Insurance Pension Scheme. As a regenerate theme, the new NSSF can operate as a compulsory National social welfare Pension theme, serving as staff first pillar of social protection. Everybody with an income except those excluded by national and international law should be registered as a contributing member. Sadly, the history of NSSF has been marred by scandals and ill-conceived investment policies (Chelimo, 2012). Indeed, some regrettable investment decisions were made by the Fund in the early and mid-1990s. However, in recent times, aggressive reform policies have been implemented to prevent the errors of the past from recurring.

The NSSF operations currently are conducted in an environment of transparency, responsibility and with a revived commitment to economical delivery of Social Security services in Kenya. Membership has steadily grown over the years and by the end of 2007, the Fund had a cumulative registered membership of about three million. The average current membership accounts range from 900, 000 to 1.2 million. Today, NSSF continues to work on enhancing its organizational performance and improving the quality of services it provides to its members (Chelimo, 2012).

1.2 Statement of the Problem

State corporations are reluctant to provide concrete incentives for implementation of corporate compliance programmes. Currently, compliance is achieved by hiring expensive auditors who typically use a heuristic approach to select and investigate audit trails to show evidence about compliance. In addition to the impact on the organization's budget, compliance checking with this approach incurs a large overhead in terms of time consumed to check for compliance (Enobakhare, 2010). In Kenya State Corporations are critical as they form the backbone of the Kenyan economy contributing 10% of the GDP (ERS 2002-2007), and therefore of great concern to the stakeholders.

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contracts, misappropriation of state corporation assets, late or lack of performance of statutory audits by the Auditor General office and unwillingness of the government to take action to curb the gross misappropriation of state assets led to poor performance, loss of public faith in the institution, loss of revenue to the exchequer and eventually the collapse of many corporate governance systems in place of such government institutions (ERS, 2015). The collapse of these state corporations can be attributed to lack of proper corporate governance compliance programs such as risk management processes, policies and procedures for day to day activities and internal audit processes to guide corporation's objectives.

Previous local studies have focused on various aspects of corporate governance. Otiti (2010) studied corporate governance and performance in the Heritage Insurance Company Limited, documenting the corporate governance structures in listed companies; Kitonga (2012) studied the need for corporate governance audit in Kenya; Mwangi (2012) surveyed the corporate governance practices in the insurance industry; Mwangi (2013) investigated the determinants of corporate governance practices and Wambua (2010) documented the actions taken by boards of companies facing rapid performance declines. However, this study focused influenced of risk management processes, internal audit and controls processes, employees' education and leadership and oversight on performance of National Social Security Fund (NSSF) that has not been discussed by other studies. None of these studies focused on the relationship between corporate governance compliance programs and organizational performance which is the gap this study seeks to fill by focusing on state corporations in Kenya and more specifically on the National Social Security Fund (NSSF).

1.3 Objectives of the Study

The study was guided by the following objectives:

1. To establish the influence of risk management processes on the performance of National Social Security Fund (NSSF) in Kenya.
2. To determine how internal audit and controls processes influence performance of National Social Security Fund (NSSF) in Kenya.
3. To evaluate the extent to which employees' education on compliance and communication influence performance of National Social Security Fund (NSSF) in Kenya.
4. To assess the influence of leadership and oversight on performance of National Social Security Fund (NSSF) in Kenya

1.4 Research Questions

The study sought to answer the following research questions

1. What is the influence of risk management processes on performance of National Social Security Fund (NSSF) in Kenya?
2. What is the influence of internal audit and controls processes on performance of National Social Security Fund (NSSF) in Kenya?
3. To what extent does employees' education on compliance and communication affect performance of National Social Security Fund (NSSF) in Kenya?
4. How does leadership and oversight influence performance of National Social Security Fund (NSSF) in Kenya?

1.5 Assumptions of the Study

This study has the following assumptions: that the subjects of the study were willing to respond to the questions raised in the questionnaire in relation to influence of; risk management processes, internal audit and controls processes, employees' education on compliance and communication, leadership and oversight on performance of National Social Security Fund (NSSF) in Kenya. It is also assumed that there were no serious changes in the composition of the target population that would be fundamental enough to affect the effectiveness of our sample. That the study was carried out as planned and the researcher was in good health to accomplish all the objectives.

1.6 Justification and Significance of the Study

Corporate governance schemes that fail to reach the objectives for which they have been designed, are not likely to be highly effective in preventing individuals from committing illegal acts. Compliance programmes considered can help mitigate the discrepancy between managers and shareholders in a manner that makes corporate liability more effective. Therefore, compliance programmes can complement corporate liability regimes by addressing the internal workings of companies, especially in cases where companies have neither the incentives nor the means to address such issues internally.

Corporate failures have come about as a result of bad corporate decisions made by its leaders in attempts to expropriate rents. The enactment of codes of good corporate governance across the globe justifies the importance of this topic. Policy makers, the print and electronic media, and other interested groups have come to believe that performance is significantly influenced by good governance practices guided by corporate compliance programs. However, the study of corporate governance is very broad and tedious. As a result, most studies concentrate on a few internal or external control mechanisms.

Kenya in particular has experienced corporate scandals in private and public companies as well as state corporations and the governance challenges that have been cited are director's conflicts of interest, lack of honesty in management, corruption, lack of independence and abuse of power leading to corporations being run in the directors' interests as opposed to corporate interest. NSSF faces threat of insolvency due to various challenges such as poor management of funds and constant complaints from retirees in relation to delays in processing of their claims to enable them receive their benefits after retirement.

Studies linking corporate governance compliance programs to performance are very few and have been done in isolation to the other performance measures. Most studies have also been done in more developed countries. There is the need for a comprehensive study that integrates all these varied study types that have received mention above and this is what this study (within its scope) seeks to address.

This study research has both academic and policy implications. First of all, it would enrich our knowledge about corporate governance, the compliance status, practical situation of corporate governance in our country and the magnitude of disclosure of corporate governance by the companies of our country.

The findings of this study would be used as policy paper by the Government, private sector, NGOs, academia and civil society. The study would also provide further motivation for future researchers to investigate its effectiveness in ensuring improved governance standards in Kenya. Therefore, it would be interesting to examine the extent to which the State Corporations are complying with the programs in governance oversight to obtain the benefit of the Code compliance.

Corruption being a national phenomenon has also attracted discussion in various dimensions. However, not so much literature has been written on how the two can be aligned to prevent and combat corruption. This research sought to fill this gap and add value to the existing literature and hopefully, the findings of the research would be used by students in their various curriculums for research and knowledge purposes. The strategies to be proposed can be applied by policy makers of the state corporations in the governance and offer checks and balances to seal the loopholes that breed and perpetrate corruption in the state-owned corporations.

1.7 Scope and Limitation of the Study

The study was restricted to the effectiveness of compliance programs in governance oversight in state firms. The compliance programs under review embrace the chance management processes,

employees' education and communication, internal audits processes and eventually leadership and oversight. This study took a span of three months between February and should 2016.

The study encountered reluctance by respondents to reveal data which was classified as confidential. this may be overcome by carrying an introduction letter showing it's an instructional work and reassuring the respondents of confidentiality. The scientist conjointly encountered a challenge in securing the workers precious time considering their busy operating schedules. The scientist built correct arrangements with staff to avail themselves for the study off-time hours further as motivating the workers on the worth of the study. The scientist was also compelled to exercise utmost patience and care and seeable of this the scientist took every effort to acquire sufficient information from respondents.

CHAPTER TWO: LITERATURE REVIEW

2.1. Introduction

This chapter describes available literature in the subject matter of this study. The chapter starts with a review of the theoretical foundation. It also offers a critical analysis of previous studies that have been done by other scholars in the area. It finally presents the research gap which the research intends to explore and a conceptual framework.

2.2 Empirical Review

Understanding corporate governance practices by measuring compliance with codes or best practice recommendations is very popular amongst developed and developing countries. Studies have empirically proved that disclosure of compliance with best practice recommendations not only has a positive impact on the stock market (For example: Fernández- Rodríguez *et al.*, 2004; Igor *et al.*, 2006) or improves performance (Bauwhede 2009; Mallin and Ow-Yong, 2012), but also helps the country to remain abreast. Findings of non-compliance further allow countries to trace the gap between the standards and reality following an appropriate action for code improvement.

Moreover, a very recent study (Claessens & Yurtoglu, 2015) on the corporate governance practices in emerging markets stated that understanding corporate governance practices against best practices is vital particularly for the developing countries, because it helps to improve the governance standard, which in turn benefits companies through greater access to financing, lower cost of capital, better performance and more favorable treatment of all stakeholders; and all of these benefits are imperative for Bangladesh in attaining and sustaining its development goals.

Consistent with the upper degree of compliance, developed countries codes appear to yield positive impact on firm performance too. for example, the foremost distinguished example may be La Claessens and Yurtoglu (2015) WHO analyzed the variations in governance standards in twenty-seven countries and claim that companies with higher governance standards were probably to possess higher valuation.

Gompers *et al*. (2003) is another in style study investigation the impact of compliance on firm worth. They used twenty-four distinct provisions relating shareholders' rights for a sample of around 1500 companies per annum from the United States of America market throughout 1990s. The study created a 'Governance Index' to proxy for the shareholders rights and therefore the

information was derived from secondary sources. Compliance was measured in a straightforward way – by adding 1 point to each firm's score in case of compliance with every provision. This particular method of measuring compliance is found to be common across studies on code compliance. However, consistent with the findings of Seal (2006) their empirical findings indicate that good-governed companies perform better than the poorly governed firms from the market since the equity return of good-governed companies is much higher than the poorly-governed companies. Some other studies on the US market (Brockman *et al*., 2010) also indicate that there has been a notable improvement in corporate practices, and in many aspects, compliance yields a positive impact on firm performance; but reinforces the fact that it is the degree of compliance with the Codes, rather than the mere disclosure of compliance, which has significant impact on firm value.

Nevertheless, some studies have also emerged which cast doubt on the effectiveness of codes. Although the study found a positive relationship between corporate governance standards and share price, but surprisingly contrary to other studies (Gompers *et al*., 2003), found a negative relation between governance standards and operating performance. Using theoretical support and a sample of European countries in 2000-2001, Bauwhede (2009) argues that despite considerable variation in corporate governance practices during the study period, return on assets (ROA) increases in the extent of compliance with international best practices concerning board structure and functioning. The study thus claimed that, the negative evidence as reported by Bauer *et al* (2004) was not because of the Anglo-Saxon orientation of Code or any other reason, but due to the fact "that poorly governed companies were using the available discretion over the timing of asset sales to cover up their inherently lower operating performance.

However, there are a few studies which reports non-compliance in developed countries. For instance, some studies (Mallin & Ow-Yong, 2012) have paid attention to small and medium firms (SME). Their findings show generally less compliance than larger firms. Jansson (2015) thus argued that Codes are made for larger firms and less attention has been paid to the compliance of SMEs which are causing non-compliance. Some recent studies (Plant *et al*., 2011) have found non-compliance in family-owned companies and claim that development of code alone is not sufficient to ensure better governance; compliance processes in family owned companies need more attention. Moreover, some scholars have further argued that non-compliance is inevitable if the code itself increases the possibility for camouflage and symbolic compliance if it is ambiguous and lacks theoretical rationale.

The compliance status in developing economies is in sharp contrast with that of the developed countries. While developed countries are showing high degree of compliance, developing countries are far behind and most of the studies reflect non-compliance. Klapper and Love (2014) is one of the earliest studies considering a group of emerging countries to understand their governance practices and the impact on firm performance. Following the same methodology of Gompers *et al*. (2003), the study has used data from 14 emerging markets and finds that the level of compliance is a major issue for emerging markets. The study also indicates that there is wide variation in firm-level governance among sample companies and that the average firm level governance is lower in countries with weaker legal systems (Klapper & Love, 2014).

Quite a good number of studies have emerged from Africa region. Such as ayiwola (2010) studied Nigerian companies; Wanyama *et al* (2009) concentrated on Uganda; Tsamenyi *et al* (2007) studied Ghana; whilst Rogers (2008) considered the overall African block for understanding their corporate governance practices – but interestingly non-compliance is the general findings of all these studies. Wanyama *et al* (2009) added to such claim by stating that pervasive corruption and weak ineffective regulatory framework hampers the attempt of corporate governance reform in Uganda and unless corrective measures are undertaken to reform the regulatory framework, mere development of codes would not be able to improve corporate practice in this region. Interestingly, non-compliance with codes of corporate governance has also been found from the studies on South Asian developing countries. However, this similarity is not surprising, because most of the developing countries share some commonalities in the socio-economic and governance reformulation structure, corporate governance framework and framework related problems.

Shah and Butt (2009) measured the extent that Pakistani companies comply with Code provisions. Based on 114 sample listed companies, the authors analyzed the impact of quality of governance on the expected cost of equity. The authors constructed their own corporate governance index and measured quality of governance by assigning weight to the components of the index. Using simple ordinary least squares method, the study indicates a positive association between the variables but, unfortunately the status of compliance is found to be the same as other developing countries- low level of compliance.

Evidence from India also reveals the same result in the case of the level of code adherence. Even though authors like Kaur and Mishra (2010) and Bhasin (2010) have studied corporate governance practices in India from different points in time, the findings are generally the same:

‘low level of compliance or to certain cases non-compliance with Code of corporate governance’. For instance, one of the most comprehensive researches on India (Hossain, 2008) investigated the financial reporting and disclosure system of the banks in India. As of 2004, out of a total of 58 the author studied 38 banks comprising of both public and private sector banks listed on the Bombay Stock Exchange (BSE), and the National Stock Exchange (NSE). Using content analysis, he observed variation in the disclosure patterns between public sector and private sector banks in relation to total corporate governance disclosures and the mandatory and voluntary elements of the index prepared for his study. The author concluded that the overall levels of disclosure were relatively low with only the best disclosers reaching at least 50% of the index; and suggested that the variation might be due to the weak regulatory supervision or poor internal compliance or control of compliance and public-sector banks' compliance might be weaker due to bureaucratic inefficiencies in monitoring. The findings are similar with other studies on India (Ahmed, 2006; Kaur & Mishra, 2010).

The plausible reasons behind these optimistic results is also with the very fact that countries like China and Kuwait area unit thought of as chop-chop moving rising countries with stable economic process. Their capital markets also are well developed and robust enough to afford a Western model of company governance. Moreover, whereas finding out the company governance of Poland, Mallin and Ow-Yong (2012) reported that since 1995, Poland has elementary legislative changes and privatization policies that really contributed to a robust and healthy trend in Polish economic process – and these build them completely different from different developing countries news important non-compliance. Mallin and Ow-Yong (2012) further state that the fixed income market in Poland is very dynamic with rapid growth to meet the demand of both domestic and foreign investors; whereas most of the developing countries are in a battle to gain the trust of investors due to their weak legal regulation, pervasive corruption and ineffective regulatory systems. Nonetheless, even with these progressive infrastructural features, none of these could achieve high level of compliance with OECD Principles so far.

Kimeu (2012) study monitored the effectiveness of the Kenya Association of Stockbrokers (KASIB) code of ethics by looking at whether members complied with factors known to make for effective codes such as leadership and method of code implementation, and the role of the Capital Markets Authority (CMA) of Kenya when it came to codes. The study was descriptive and used questionnaires to collect data from stockbrokers while secondary data was used in gathering information about the CMA. Results were mixed showing that while some Kenyan stockbrokers do have codes of ethics which detail sanctions for violations and offer some form of

ethics training, others do not. The piecemeal implementation suggests that Kasib seems to lack teeth to enforce these compliance factors necessary for code effectiveness. While the CMA encourages codes of ethics it does not actively monitor their implementation as its main concern is with fraud. As such, it regulates the stockmarket through market surveillance, on and off site inspections of stockbrokers and has recently moved to risk profiling. This suggests that the haphazard implementation of codes of ethics may be due to the lack of enforcement of codes by the CMA. This study recommends engagement between stockbrokers and the CMA on code of ethics issues so that codes of ethic can be adopted and implemented successfully by stockbrokers. Kasib also needs to enforce its code of ethics by punishing members that do not adhere to the code.

Lishenga and Mbaka (2014) investigated the the extent to which differences in the extent of firm level corporate governance reporting help to explain firm performance in a cross-section of companies listed at the Nairobi Stock Exchange. Constructing a broad Kenyan corporate governance index (KCGI) for Kenyan public firms, we document a positive relationship between governance practices and firm performance. This has implications for investing community if an investment strategy that bought high-KCGI firms and shorted low-KCGI firms would earn significant abnormal returns.

2.2.1 Risk Management Processes

Companies face numerous regulative constraints, which, in addition to other sources of uncertainty, constitute the risk that needs to be taken into account. Risk management is used by companies strategically in order to minimize the cost of the occurrence of uncertainty. Competition law is seen as a serious source of risk by companies, especially if company executives are liable for breach of competition law provisions (Kimeu, 2012)

A direct consequence is that antitrust compliance needs to be organized to minimise the antitrust risk. Thus, compliance programmes can be seen as an ‘investment in risk management (Bauwhede, 2009; Mallin & Ow-Yong, 2012). In dealing with such a risk, companies can optimise the way in which they identify the business units and practices that are particularly prone to such practices and the manner they tackle them. The effectiveness of resources and processes is partly determined by the assessment of risk in the first place.

Prioritising high-risk areas and employees enables resources to be allocated in a strategic manner, which is paramount to the effectiveness of corporate compliance. In its Antitrust Compliance Toolkit, the International Chamber of Commerce provides practical guidance on

how the antitrust risk should be assessed. It is suggested that a company should link its approach to antitrust risk to that of the company's general risk management methodology Claessens and Yurtoglu, 2015). The CMA rightly provides a risk-based framework for the organisation of compliance, so that compliance can be tailored to the specific risks of a company (Siddiqui, 2010). As such, the CMA also encourages companies to address competition risk as part of a wider risk management strategy, which enables antitrust compliance to be more integrated into business practice. In other words, there is a strategic choice to be made, prior to the implementation of a compliance programme.

According to Chua and Rahman (2011), organizations must use reasonable efforts to avoid delegating substantial authority to individuals with a history of engaging in illegal activities or other behavior inconsistent with an effective compliance and ethics program. Many organizations today are increasingly relying on third parties to handle a variety of outsourced operational functions. Outsourcing functions that are beyond an organization's core strengths makes good business sense, however, organizations must also use proper safeguards to ensure they are dealing with reputable and ethical organizations as you cannot outsource your liability along with operational functions.

In addition to managing and confirming employee attestations, an effective GRC software solution should also include Third Party Risk Management capabilities enabling an organization to address the critical requirements of vendor compliance and risk management. The application should provide high-level risk profile charts to monitor risk trends, identify "watch list" organizations and proactively identify underlying causes of increasing risk (Kaur & Mishra, 2010).

2.2.2 Internal Audit and Controls Processes

Effective compliance programs include proactive monitoring and auditing functions that are designed to test and confirm compliance with legal requirements and with the organization's written compliance standards (Seal, 2006). A company must audit its compliance program to make sure its elements are actually being implemented and periodically evaluate the program's effectiveness. For example, auditors may ask employees what they perceive as the "unwritten rules" within the company to determine whether the compliance program's goals match its actual operation. Separately, a company must provide employees with effective mechanisms through which to anonymously or confidentially report potential misconduct or seek guidance on

compliance issues, protect such individuals against retaliation, and adequately follow up on their reports (Siddiqui, 2010; Yoshikawa *et al.*, 2007).

Internal controls are meant to limit the way organizations are allowed to act. The restrictions can affect different aspects. For instance, in financial institutions like banks, a control objective could be to report large amount deposits coming from foreign banks. This control objective could be established to mitigate the risk of financing criminal acts, For example: terroristic attacks (Tangpong *et al.*, 2010). Other compliance requirements could restrict the usage of clients personal data within an organization.

The external auditing is necessary as a proof of organization compliance for authorities and regulatory bodies. However, external auditing does not help the organization have a self-assessment and continuously repeatable evaluation of its compliance status (Tipuric, 2011). Thus, it is necessary for the organization to introduce approaches that help assess the compliance status internally.

Organizations must ensure that the compliance and ethics programs are followed by employees. They must also create mechanisms for auditing and reporting on the effectiveness of the programs. As with the other key elements of effective compliance and ethics programs, an effective GRC software solution acting as a "compliance system of record" should enable an organization to support this requirement (Letza *et al.*, 2008). Automating scheduled compliance assessments on a quarterly or even monthly basis should enable an organization to closely monitor high risk areas and assign the necessary remediation tasks and deadlines. The remediation projects should be captured in the system and the data made available via dashboards and alerts to all stakeholders. By providing this level of visibility, managers, executives and/or board members should be able to monitor relevant information and maintain an always-up-to-date awareness of the organization's compliance status. Additionally, key compliance areas identified as deficient should be targeted for internal audits.

An effective GRC software solution should support the entire audit process including the management of risk assessments, development of audit plans and associated audits, definition of audit objectives and steps, tracking audit activities, generation of work papers, development of findings and recommendations, and the management of remediation plans (Chancharat *et al.*, 2012).

Organizations must establish standards, procedures and controls to prevent and detect unethical conduct. According to the Guidelines, these standards of conduct and internal controls should be

reasonably capable of reducing the likelihood of misconduct. The standards should be incorporated into a written code of conduct that enables audit systems and other procedures to have a reasonable chance of preventing and detecting wrongdoing (Lin & Chuang, 2011).

An effective GRC software solution must enable an organization to create, organize, and manage the life cycle of policies and procedures. Policy and procedure documents are managed electronically from start to finish, including collaboration, approval, revisions, and revision history. Users should have the ability to search through approved policies to read them with access limited to appropriate parties via security controls (Tangpong *et al.*, 2010). The key capabilities should include improve visibility and control by serving as an internal audit system of record; comprehensive audit plan management throughout the life-cycle of each audit, including resource assignments and work-plan creation; manage and track tasks and staff time; complete meeting management with tracking of meeting agendas, attendance and minutes; graphical reporting of audit activities, statuses, and results; document recommendations, management responses and oversight of remediation projects and also monitoring internal audit activities with a variety of robust, configurable reports and online dashboards.

2.2.3 Employees' Education on Compliance and Communication

According to Mallin (2010), the existence of an education and training program is an important component of compliance programs for a number of reasons, including the following: promotes understanding of and compliance with relevant federal, state and local laws and regulations; enables implementation of the compliance program's policies and procedures and ensure that employees understand their role in the compliance process; demonstrate the organization's commitment to compliance and ensure that commitment is carried out throughout the organization; and to communicate the effect that industry standards and governmental requirements have on an organization's business activities and to improve skills for identifying potential compliance issues.

Compliance programs operate most effectively in organizations that encourage employees and business partners to report suspected wrongdoing so that it can be investigated and properly addressed (Chizema & Kim, 2010). The organization must take reasonable steps to communicate periodically and in a practical manner, its standards and procedures, and other aspects of the compliance and ethics programs throughout all levels of an organization, including senior management and the board of directors.

To address these requirements, an effective GRC software solution should act as a "compliance system of record" enabling an organization to manage and disseminate information regarding regulations change and generate automated alerts to ensure that the appropriate individuals are kept abreast of the latest updates (Hussain & Mallin, 2003). Then, as new policies are authored or existing policies are revised and approved, the system can be used to keep employees informed through education and training. The system should streamline internal risk assessments (centralized or distributed), as well as the development of action plans for areas identified as having compliance gaps, and the creation of a dynamic body of evidence of compliance (Mutawaa & Hewaidy, 2010).

The certification and standards for compliance programmes may further steer the voluntary implementation of compliance programmes by companies. As was suggested previously, a company may have a strategic incentive to signal that it has implemented an effective compliance programme. The use of certification based on a standard could help companies to implement compliance voluntarily, with broader objectives than solely to reduce antitrust risk. In the context of requirements imposed on suppliers or bidding companies, a widely accepted standard may encourage a company to voluntarily adopt a compliance programme on their own instead of adopting the principles imposed by the third-party company (Kaur & Mishra, 2010).

Initiatives to certify compliance programmes do exist. In Brazil, companies can obtain a certificate if their compliance programmes fulfill certain requirements (Hossain, 2008). However, it seems that this certification system is no longer used by companies. The non-governmental body ISO is currently reflecting on the adoption of a corporate compliance standard, based on the existing Australian/New Zealand 3806-2006 standard for compliance programmes. Not specific to competition compliance, this standard would provide principles and guidance for the design, implementation, maintenance and improvement of an effective compliance programme. The aim is to offer companies the possibility to demonstrate their commitment with compliance, based on a standard recognized internationally (Kaur & Mishra, 2010). The current 3806-2006 standard sets out 12 principles grouped into four categories: commitment, implementation, monitoring and maintenance, and continual improvement. These aspirational principles set the basis for a voluntarily implementation by companies.

In 2011, The German Public Auditors' Institute put in place an audit standard called the 'Principles of proper auditing of compliance management system'. The standard encompasses three layers of audit. The first type of audit consists of assessing the conceptual content and

documentation of the compliance system. The actual design corresponding to the compliance principles set out by the company is the object of the second layer of the audit. The effectiveness of the processes in place is tested in the third type of audit.165 Management and supervisory boards can then request a targeted type of auditing, according to the particularities of their company. ThyssenKroup was the first company to have its compliance programme audited following this standard, and it advertised this certification widely (Bebenroth, 2013).

Resources spent on voluntary compliance standards would constitute a strategic investment for a company, which would be decided along with other strategies, possibly sending a strong signal to third parties. Also, the certification of a compliance programme may facilitate cooperation with state corporations in the event of an investigation. The compliance incentive would certainly be strengthened if the certification were coupled with the possibility of obtaining a fine reduction, under conditions described above. The investment in compliance certification should remain a business incentive rather than a systematic guarantee of benefitting from a fine reduction. State corporations should take the opportunity to engage in such an exercise, as it constitutes a potential source of voluntary implementation of effective compliance programmes.

Organizations must establish standards, procedures and controls to prevent and detect unethical conduct. According to Bauwhede (2009), these standards of conduct and internal controls should be reasonably capable of reducing the likelihood of misconduct. The standards should be incorporated into a written code of conduct that enables audit systems and other procedures to have a reasonable chance of preventing and detecting wrongdoing. According to Bebenroth (2013), education and training programs should typically include information regarding how the organization's compliance program operates; information on specific laws and regulation (For example:, reimbursement, coding, prompt payment requirements) which impact the organization; and the consequences of noncompliance (For example:, recoupment, fines, penalties, exclusion) to both the organization and the individual. The key capabilities should include: the system should automatically receive new and updated laws and regulations from a variety of external sources, and initiate risk assessments based on changing laws and regulations; automate the distribution of new and revised policies and compliance assessments to all relevant personnel, provide education and training of new or revised regulations and policies, automate compliance gap assessments as well as remediation plans and projects using an automated facility ion such as workflow, provide a forum or message board to serve as a knowledge base of authored research and "frequently asked questions (FAQ) relative to compliance and legal issues, as well as, facilitated communication and collaboration throughout selected levels of the organization, link

all evidence of compliance to each law and regulation. This is critical for efficiently demonstrating proof of compliance during an audit or exam. It also include monitoring regulatory compliance status using configurable reports and online dashboards.

2.2.4 Leadership and Oversight

A company should provide a specific senior govt or committee of executive's overall responsibility for the compliance program. However, a company's "governing authority" generally its board of administrators should administer its implementation. Additionally, all management, not simply those with direct oversight of the program, should perceive the company's policies relevant to their business unit and make sure that staff underneath their management perceive follow those procedures (Gornik-Tomaszewski & Jermakowicz, 2010).

Organizations should involve multiple layers of management within the compliance and ethics process with the aim of making guaranteeing the effectiveness of the programs. Selected people in every management level should be befittingly knowledgeable of the program. The rules impose specific duties on numerous levels of management as well as the board of administrators, senior management and people with primary responsibility for the compliance and ethics programs (Barako & Brown, 2008).

An effective GRC software solution must enable an organization to configure and organize their relevant information in a consolidated "role-based" view, providing facilities such as personal home page dashboards (Tipuric, 2011). The solution should also be equipped with alerts and reminders to support the appropriate level of awareness and timely actions that may be needed. In both Britain and America chief executives and the top management have been at the centre of unethical behaviour (Bauwhede 2009). Research in Africa has replicated this view with pointing out that corrupt leadership is one of the variables responsible for the gap between ethics definition and ethics enforcement in Nigeria. She points out that those serving under corrupt leaders are afraid of reporting unethical behaviour because of they may be transferred or they could be in turn identified as corrupt.

In Kenya, Kimeu (2012) points out that since some Kenyan stockbrokers are family owned there is a blurring between ownership and management which indicates poor leadership and a lack of corporate governance. Kang'aru (2010) notes that greed, rapid expansion, a lack of controls on the part of management and family ownership are some key features of the collapsed stockbrokers like Discount Securities and Nyaga Stockbrokers. This has led the stockbroking industry in Kenya to adopt a code of conduct for stockbrokers (Okoth, 2009) and the CMA to

prescribe a code for stockbrokers to implement in its Corporate Governance Regulations for Market Intermediaries for 2011. However while 58% of the 100 largest companies use ethical codes (Jansson, 2015) there have been major cases of unethical behaviour by business leaders in spite of companies having corporate codes of ethics, which were expected to reduce unethical business behavior.

While this may point to a failure in codes, Reed (2012) suggested that a lack of management support for ethical codes of behaviour hinders the effectiveness of ethical codes. This was corroborated by a study by Turnbull (2007), found that when a code of ethics was combined with sanctions and the interest of top management was it likely to affect ethical decision making. A Deloitte & Touche USA Workplace Survey done in 2007 listed the behaviour of management and direct supervisors with positive reinforcement for ethical behaviour as the top factors in promoting an ethical workplace. Of note in this survey was the factors such as salary and influence by peers came after the first three factors.

Leadership is so important that according to Bauwhede (2009), informal methods like the manager's example and behavior which suggest integrity are likely to have more effect on employees than even formal methods like ethics training and programs. The role of leadership in an organization therefore, is to create an ethical environment in the organization by creating structures to support the code, a process known as mainstreaming.

Mainstreaming is the creation of an ethical culture in an organization by providing support and structures to integrate it with core operations of the organization such as having codes, putting sanctions in place for code violations and top management support for these initiatives. Mainstreaming was used to measure to what extent stockbrokers have adopted an ethical culture. According to Nnabuife (2010), the key capabilities should include: task lists, calendars and reminders that serve as a "compliance inbox". The status of any tasks that have been assigned by other users, or automatically by the system should be listed here. users can also receive task notices in their e-mail inbox. They also include charts and graphs that are automatically updated based on selected criteria. Charts and graphs should also provide direct drill-down to underlying details to support rapid analysis of root cause issues. Links to preconfigured reports that provide up-to-date information based on criteria that the individual has specified and automated links to news feeds for articles and publications relevant to compliance, risk management and audit management topics. These should also be capable of providing access to the latest updates from the regulating agencies.

2.3 Summary and Research Gap

From the literature reviewed, maintaining a strong corporate governance compliance program designed to help prevent state corporation's employees from engaging in illegal practices such as bribery, collusion, money laundering and fraud sounds simple enough. In reality, it's much more challenging. Development of codes is the right starting point for reforming corporate practices, but in developing countries which are characterized by pervasive corruption, and a weak legal system, the mere development of a code will not guarantee that de facto, practice will improve; it needs change in the overall framework (For example: Aboagye and Otieku, 2010; Dartey-Baah and Amponsah-Tawiah, 2011).

Understanding corporate governance practices by measuring compliance with codes or best practice recommendations is very popular amongst developed and developing countries. Studies have empirically proved that disclosure of compliance with best practice recommendations not only has a positive impact on the stock market. Corporate governance compliance requirements might affect more than one state corporation process. Silveira & Saito, 2009; Wanyama *et al.*, 2009), critics argue that the theoretical propositions of the Anglo-American model are in conflict with the traditional cultures, values, corporate and legal infrastructures of developing countries.

Every country is unique with its own socio-economic structure. Thus before making any comment on the Code, studies should be carried out to understand the extent to which the Code has been complied with. Moreover going back to the claim of the corporate governance scholars (Mallin, 2010) that a code should reflect country specific needs and address international expectations. Competition law is seen as a serious source of risk by companies, especially if state corporations executives are liable for breach of competition law provisions (Kimeu, 2012).

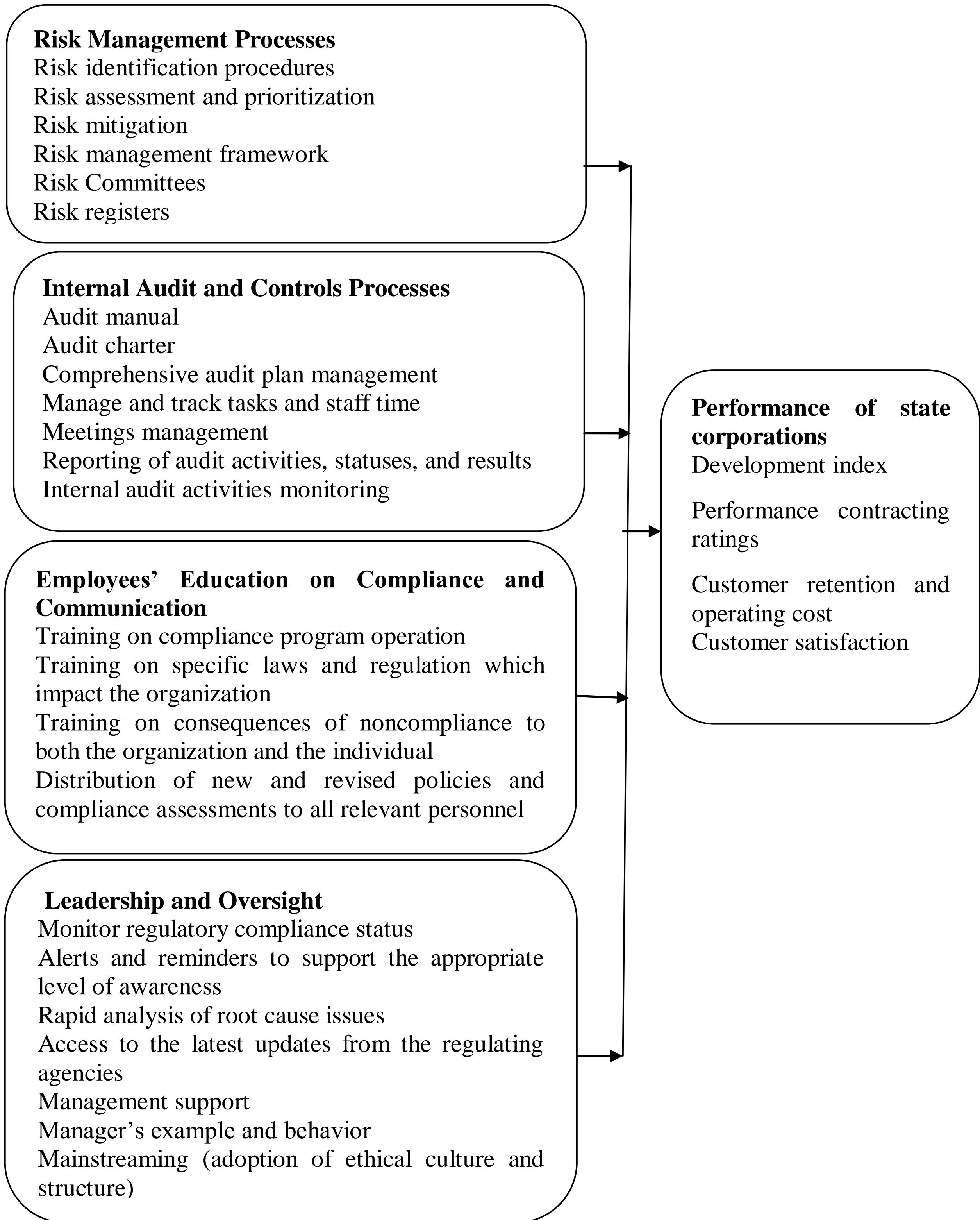
Moreover, local studies on the corporate governance practices in emerging markets have been done such as; Otiti (2010), Kitonga (2012), Mwangi (2012), Mwangi (2013). Nevertheless, none of the studies reviewed has combined all of these issues and explored possible solutions. This study therefore seeks to fill the literature gaps by establishing the effect of corporate governance compliance programs on performance of National Social Security Fund (NSSF) in Kenya.

2.4 Conceptual Framework

A conceptual framework is a model that presents and explains the relationship between various variables. In a conceptual framework there are two types of variables: dependent variables and independent variables. In this study, as shown in Figure 2.1, the independent variables include risk management processes, internal audit and controls processes, employee's education/training

and communication and also leadership and oversight while the dependent variable is performance of state corporations.

Compliance Programs



Independent Variables **Dependent Variable**

Figure 2.1: Conceptual Framework

Source: Researcher (2016)

2.5. Theoretical Review

Corporate governance has been viewed from different perspectives using different theoretical lens. For instance, Sir Adrian Cadbury viewed corporate governance from a control perspective and defines it as a system by which companies are directed and controlled (Cadbury, 2002); whilst Siddiqui (2010) emphasized more on the relationship perspectives and considered it as a means to "deal with the ways in which suppliers of finance to corporations assure themselves of getting a return on their investment.

Some other scholars (Letza *et al.*, 2008; Mallin, 2010; Solomon, 2007) rather preferred to view corporate governance from a wider perspective to incorporate various stakeholder groups into the company's objectives. They argued that it is not only for shareholders, rather as a social entity, a company should be accountable to its various stakeholder groups who have a long term relationship with the company and who have the potential to impact firm performance. Although most of these definitions emphasize on the structure of rights and responsibilities of different stakeholders in a company, they differ due to the diversity of corporate practices around the world (Chizema & Kim, 2010). In addition, Mallin (2010) suggested many disciplines (like law, economics, finance) have influenced the development of corporate governance and thus theories that have fed into it are quite varied. Thus being driven from different theoretical perspectives, corporate governance has been defined in different ways and stylized in different formats for identifying the purpose of the corporation, deciding who should have the control, identifying the problems or finding an optimal solution (Letza *et al.*, 2008). However, literature indicates that despite this wide diversity, most of the current perspectives on corporate governance can be categorized into two contrasting paradigms: shareholder and stakeholder (Friedman & Miles, 2012; Letza *et al.*, 2008). Whilst from the camp of shareholding, corporate governance is seen as a mechanism to deal with these issues by narrowing its vision to satisfy the needs of only shareholders, the opposite camp advocates having much wider vision to satisfy the needs of stakeholders (Letza *et al.*, 2008). The theoretical review discusses these two theoretical perspectives of governance with the aim to understand the way they have influenced the present study and other studies on code compliance.

2.5.1 Agency theory

Agency theory is the most dominant theory of corporate governance (Ermongkonchai, 2010) which argues that in the modern corporation, in which share ownership is widely held and management roles are separated from ownership functions, managerial actions may depart from those required to maximize shareholder returns. Jensen and Meckling (2006) introduce the

‘principal-agent’ framework and state that agency theory identifies the agency relationship where one party, the principal, delegates work to another party, the agent; the agency relationship is thus seen as a contractual link between the principals and the agents who are appointed by the principals and delegate some decision-making authorities (Shankman, 2009).

According to this dominant theory, universal agency issues arise as a result of people being opportunist and individuals in an agency relationship have different goals and interests. Thus, it is very unlikely that agents will always act in the best interests of the principal. Due to this constant temptation for agents to maximize their own interests, the agency relationship has the potential for losses to occur to shareholders (Hendry, 2005). Agency theory thus suggests that managers/agents must be monitored and institutional arrangements must provide some check and balances to make sure they do not abuse the power (Mallin, 2010). Agency cost arise from managers’ misuse of their position, and also from the costs of monitoring them to prevent abuse (Mallin, 2010).

The traditional shareholder perspective has its origin in agency theory and regards the corporation as a legal instrument for shareholders to maximize their own interests in the form of investment returns (Letza *et al*., 2008). It strongly emphasizes that shareholders are the primary stakeholders of a company, and any act for social purposes beyond the shareholders’ interests will create scope for managers to abuse their power and for government to intervene in corporate decisions and thus there is a possibility that corporate resources will be allocated in an inefficient way. Hence, taking an extreme position against the stakeholder view, the shareholder perspective of corporate governance argues that maximizing shareholders return should be the only social responsibility of business, and any other social responsibilities activities may be dangerous for the company.

The shareholder approach is logically most compatible with Anglo-American model of corporate governance. Being predominant in the common law countries (For example: US, UK, Canada, Australia, New Zealand), shareholding views of corporate governance are also known as the Anglo-American model of governance (Aguilera and Jackson, 2013; Cohen and Boyd, 2010). Reed (2012) characterized this Anglo-American model or the shareholder perspective of governance by: 1) a single tiered board structure which gives almost exclusive primacy to shareholder interests; 2) a dominant role for financial markets (both as the major source for investment funds and as a disciplinary mechanism to address the agency problem); 3) a

correspondingly weak role for banks and; 4) little or no industrial policy involving firms cooperating with government agencies (and labor bodies).

The Shareholding camp of governance argues that the best solution to the agency problem "is to determine the most efficient contract governing the principal-agent relationship and an optimal incentive scheme to align the behaviour of the managers with the interest of owners". In addition, to secure shareholders' interests and to ensure a better governance standard in companies, a three tier hierarchical governance mechanism (shareholders' general meeting, the board of directors and executive managers) is designed as a checks and balances mechanism in the corporate structure. The shareholder perspective of governance also considers that hostile takeovers, mergers and acquisitions are some of the most effective mechanisms through which the market can control under-performing corporations and thus protect the rights of its investors (Rogers, 2008).

The effectiveness of Anglo-American model is dependent on several assumptions. It assumes that there is a low degree of concentration of ownership and limited bank shareholdings; discipline of the market (product, financial, managerial talent), maintaining a competitive international market; accurate, reliable and timely information flows to the capital market; the securities market is highly liquid and sophisticated; and last but not the least, there is a well-developed legal infrastructure to protect against wealth transfer and insider trading (Klapper & Love, 2014). Mallin (2010) further highlights the importance of the legal system by stating that the propositions of agency theory is largely applicable to the US and the UK, where the legal system provides good protection of minority shareholders; and that may not be the situation in many other countries.

Advocates of agency theory claim that CEO duality is more likely to create conflict of interest against the compliance programmes and may have a negative impact on shareholders' interest and performance, however, scholars like Donaldson and Davis (2004) refute such claims by arguing that vigilant boards favour CEO duality because it "contributes to a unity of command at the top of a corporation that helps ensure the existence, or the illusion, of strong leadership"; and CEO duality allows companies to serve the shareholders even better. Considering these arguments, some recent studies are suggesting that corporate governance compliance which are based on agency theory must be modified according to the context of the new economy (Chancharat *et al*., 2012; Lin & Chuang, 2011). While these criticisms have their own theoretical grounds, it cannot be ignored that the theory itself is sound, and thus a corporate governance

model, like the Anglo-American model, has had a certain weight in dealing with real life issues of good governance compliance.

2.5.2 Stakeholder Theory

In sharp comparison to the normal knowledge of the investor approach, the neutral perspective of governance emerged in late twentieth century (Letza *et al*., 2008). Stakeholder theory views the corporation as a locus in relation to wider external stakeholders' interests rather than merely shareholders' wealth. In its basic form the theory states that the successful management of stakeholder relationship is the key for firms' success (Jansson, 2015). The concept 'stakeholder' first appeared in the management literature in 1963 and was indicated to generalize the notion of stockholder "to those groups without whose support the organization would not exist (Reed, 2012). However, nowadays the concept is more specific as it is clearly been referred to as those groups or individuals who can affect, or are affected by, the achievement of the organization's objectives; and thus it includes different interest groups such as employees, customers, suppliers, government, and society at large.

Hillman and Keim (2001) have summarized four major propositions of stakeholder theory, i) the firm has relationships with many constituent groups (stakeholders) that affect and are affected by its decisions; ii) the theory is concerned with the nature of these relationships in terms of both processes and outcomes for the firm and its stakeholders; iii) the interests of all (legitimate) stakeholders have intrinsic value and no set of interests is assumed to dominate the others; and finally, iv) the theory focuses on managerial decision making (Jones & Wicks, 2009).

Donaldson and Preston (2005) extend this understanding by identifying that the stakeholder approach of governance can be categorized into two groups: normative and instrumental. Whilst "the normative approach emphasizes 'intrinsic value' in stakeholder and views stakeholders as 'ends', the instrumental approach is only interested in how stakeholders' value can be used for improving corporate performance and efficiency and regards stakeholders as 'means.

In stylizing the governance model, the normative approach argues that corporations are granted as social entities for general community needs (Suchman, 2005), thus executives are representatives and guardians of all corporate stakeholders' interest. Letza *et al* (2008) in their paper stated that the most popular perspective, the instrumental approach legitimizes "stakeholder value on the grounds of stakeholder as an effective means to improve efficiency profitability, competition and economic success. Following these assumptions, a good number of studies (Tangpong *et al*., 2010; Tipuric, 2011) have emerged stating that stakeholders'

involvement in company's strategic decision making is indispensable for ensuring successful business strategy; and to do so, as Greenwood suggests, stakeholder engagement should be understood as a practice the organization undertakes to involve stakeholders in a positive manner in organizational activities. However, previous studies indicate that, the recommended process of stakeholder integration/ stakeholder management varies among researchers.

Scholars like Letza *et al* (2008) state that the abuse of executive power model' also takes a stakeholder perspective of governance because this model also emphasizes stakeholder welfare which are anchored in the compliance programmes. According to this model, as stated by Letza *et al* (2008), the major governance problem emerges when companies allow excessive power to executive managers who may abuse their power in pursuit of their own interests. It claims that good governance can be established when the companies can protect themselves well from such abuse. Hence this model recommends statutory changes in corporate governance, such as a "fixed four-year term for chief executive officers, independent nomination of NEDs and more powers for NEDs.

Overall, stakeholder perspective of governance argues that corporate governance issues can be better resolved through encouraging stakeholders' participation and by establishing an environment where business ethics, employees' participation, inter-firm co-operation, trust and long-term relationships are encouraged. If implemented properly, the advocates of the stakeholder model believe this wide approach of governance is able to offer a certain competitive edge to companies. For instance, Kelly *et al* (2007) claimed that companies which draw on the experience of all of their stakeholders will be more effective and this social cohesion is a fundamental requirement for being internationally competitive. Turnbull (1997) viewed stakeholder theory from a cybernetic perspective and claimed that governance compliance efficiency can be improved through authentic information as generated through the stakeholders' participation. He also claimed that appropriate stakeholder governance compliance adherence could improve equity and self-governance in the private sector, the quality of democracy in the public sector, and the efficiency of both sectors (Turnbull, 1997). Hillman and Keim (2001) opine that stakeholder relationships are distinctive to individual firms, thus making any kind of imitation difficult for rivals. Enobakhare (2010) further added to such claim and stated that stakeholder engagement has influence over stakeholders' satisfaction and thus improves their commitment towards company.

2.5.3 Institutional Theory

One of the major limitations of existing studies of governance is its excessive dependence on agency theory to outline the rationale of the governance model (Seal, 2006). While some authors (For example: Daily *et al.*, 2013) argue that social aspects of evolution of governance have received scant attention in agency theory, some others (Siddiqui, 2010; Yoshikawa *et al.*, 2007) opine that it is ineffective to explain major corporate governance compliance issues in developing countries. These limitations have forced researchers (Siddiqui, 2010) to explore alternative theoretical frameworks, and amongst them institutional theory has been a very popular choice.

According to Chua and Rahman (2011), institutional theory explains why so many businesses have similar organizational structures and cultural elements even though they are separate entities, and how organizations as institutions shape the behavior of individual members. In simple words, it explains why different organizations structure themselves in a similar manner (Siddiqui, 2010). Institutional theory emphasizes the fact that many dynamics in the corporate environment may stem from cultural norms, values and rituals. Thus, the social and cultural environment should also be taken into account in understanding corporate governance practices (Chua and Rahman, 2011). Consistent with such propositions, this chapter of the study explores these dynamics of the corporate environment to support a systematic analysis of the research findings.

The concept of organization legitimacy lies at the heart of institutional theory and makes it different from the early management theories. Suchman (2005) explains legitimacy as the "the generalized perception or assumption that the actions of an entity are desirable, proper, or appropriate within a social system. Whilst, Seal (2006) states that institutional theory explores the role of extra-organizational institutions in developing organizational structures, policies; and the ways firms respond to such external, macro pressures for receiving support and legitimacy. However, companies may also seek legitimacy to ensure persistence, credibility and validity.

The literature indicates that legitimacy has been measured in several terms of acceptance, reasonableness, appropriateness, and congruity (Siddiqui, 2010). However, to be more specific, this study views legitimacy as the social acceptance resulting from adherence to regulative, normative and cognitive norms and expectations. Isomorphism is a central and multifaceted concept of institutional theory. Enobakhare (2010) defined isomorphism as a constraining

process that forces one unit in a population to resemble other units that face the same set of environmental conditions.

The increasing interest on isomorphism is fundamentally because it leads to legitimacy. According to Davis (2004), institutional isomorphism is manifested empirically as increased conformity, organizations conforming to commonly used strategies, structures, and practices appear rational and prudent to the social system and, therefore, are generally considered acceptable. Consistent with their opinions, while working on Bangladeshi corporate governance, Siddiqui (2010) opined that companies prefer legitimacy as stakeholders are likely to provide resources to organizations that appear desirable, proper and appropriate. Chua and Rahman (2011) argued that isomorphism, or compliance with expectations, is an integral part for organizational success. They also highlighted on "the choices organizations have to make in response to, or in compliance with, their institutional environment, which comprises: (1) powerful institutional constituents such as influential stakeholder groups, and (2) the rules and requirements with which they must comply to gain the desired rewards of support and legitimacy. Thus, the theory is of particular help in the present study to explain why organizations incur costs or allocate resources to increase their legitimacy to obtain favorable institutional resources.

According to Reed (2012), institutional isomorphic change occurs through three different mechanisms - coercive, mimetic and normative isomorphism. They stated that the "coercive isomorphism results from both formal and informal pressures exerted on organizations by other organizations upon which they are dependent and by cultural expectations in the society within which organizations function. Such pressures may be felt as force, as persuasion or as invitations to join in collusion and in some cases organizational change is a direct response to government mandate", whilst "mimetic isomorphism results from standard responses to uncertainty Donaldson and Preston (2005), and this uncertain environment is the case when organizational goals are not clearly defined or when organizational technology is poorly understood. Normative isomorphism on the other hand emerges from professionalism. Mallin (2010) further stated that three aspects of professionalization are important sources of isomorphism: resulting from formal education and of legitimation in a cognitive base generated by university specialists; the growth and elaboration of professional networks; and professional and trade associations.

These three mechanisms are of great interest amongst researchers. In the case of Bangladesh a few studies (Siddiqui, 2010) have also adopted an institutional approach to understand corporate

governance developments in the country. For instance, Siddiqui (2010) investigated the development of corporate governance standards in Bangladesh and reported that the major actors of governance are exposed to different levels of legitimacy and threat, and behave accordingly. The paper concluded by claiming that "despite having a socio economic structure that does not support the shareholder model, Bangladesh has adopted the shareholder model of corporate governance. Siddiqui (2010) thus raised concerns arguing that on the basis of agency-based notions of market efficiency, the model will not be entirely suitable for Bangladesh. Similar findings emerge from the study of Mir and Rahman (2005) who investigated the International Accounting Standards (IAS) adoption process in Bangladesh and report that isomorphic pressure forced the country to 'carbon copy' most of the IAS and labelled them as 'Bangladesh Accounting Standards', which are less likely to ensure efficiency for companies. While these findings provide an important beginning of the understanding of the Code/standard development process in Bangladesh, this study intends to extend the understanding through the examination of the compliance Code implementation process at the firm level. Drawing on the same institutional framework this study therefore explores whether, after the introduction of the compliance Code, firms are behaving similarly in the compliance Code adoption process and why.

CHAPTER THREE: RESEARCH METHODOLGY

3.1 Introduction

This chapter sets out various stages and phases that were followed in completing the study. It describes the methods that were used in the collection of data pertinent in answering the research questions. The following subsections are included; research design, target population, sampling design, data collection instruments, data collection procedures and finally data analysis.

3.2 Research Design

Nachmias and Nachmias (2010) describe research design as a logical model of proof that allows the researcher to draw inferences concerning causal relations among the variables under investigation. According to Sekaran (2010), the various issues involved in the research design concern the purpose of the study, the type of investigation, the type of the sample, which was used, the methods by which the required data was collected, as well as the process that was followed for the analysis.

The study adopted a descriptive research design aimed at investigating the effect of corporate governance compliance programs on performance of state corporations in Kenya with reference to the National Social Security Fund (NSSF). This approach is suitable for this study, since the study sought to collect comprehensive information through descriptions which was helpful for identifying variables. Bryman (2009) assert that a descriptive design seeks to get information that describes existing phenomena by asking questions relating to individual perceptions and attitudes. The method was chosen since it is more precise and accurate as it involves description of events in a carefully planned way (savings and credit co-operatives). A descriptive research design determines and reports the way things are (Nassiuma, 2012). Sekaran (2010) observes that a descriptive research design was used when data are collected to describe the current status of persons, organizations, settings or phenomena.

3.3 Population

According to Nassiuma (2012), a population is a well-defined or set of people, services, elements, and events, group of things or households that are being investigated. The target population of this study was 142 management staff working in National Social Security Fund (NSSF). The study focused more on the top, middle and low-level management staffs who are

directly dealing with the day to day management of the National Social Security Fund (NSSF) since they are the ones conversant with the subject matter of the study.

Table 3. 1: Target Population

Cadre of Staff	Frequency	Percentage
Top management	11	7.7
Middle level management	34	23.9
Low level management	97	68.3
Total	**142**	**100.0**

3.4 Sample Frame and Sampling Technique

The sampling technique describes the sampling unit, sampling frame, sampling procedures and the sample size for the study. The sampling frame describes the list of all population units from which the sample was selected (Cooper & Schindler, 2003). To obtain the desired sample size for the study with the population of 142, Nassiuma (2012) formula was used as shown;

$$n = \frac{N(cv^2)}{Cv^2 + (N-1)e^2}$$

Where ***n***= sample size

N = population (142)

Cv= coefficient of variation (take 0.6)

e= tolerance of desired level of confidence (take 0.05) at 95% confidence level)

$$n = \frac{142(0.6^2)}{0.6^2 + (142-1)0.05^2} = 104.26 \text{ (rounded to } 104)$$

The study employed stratified random sampling technique in coming up with a sample size of 104 respondents from a total of 142 of representatives of management staff working in National Social Security Fund (NSSF). Stratified random sampling is unbiased sampling method of grouping heterogeneous population into homogenous subsets then making a selection within the individual subset to ensure representativeness (Bryman & Bell, 2003). The goal of stratified random sampling was to achieve the desired representation from various sub-groups in the population. In stratified random sampling subjects are selected in such a way that the existing sub-groups in the population are more or less represented in the sample (Sekaran, 2010). The method was used since the population was divided into distinct groups bearing distinct characteristics. From each stratum, simple random sampling was used to select the respondents for the questionnaires.

Table 3. 2: Sampling Frame

	Frequency	Sampling ratio	Sample size
Top management	11	0.73	8
Middle level management	34	0.73	25
Low level management	97	0.73	71
Total	**142**		**104**

3.5 Data Collection Instruments

Data collection is a means by which information is obtained from the selected subjects of an investigation (Sproul, 2011). The primary research data was collected from the management staff working at National Social Security Fund (NSSF). Andre (2012) explains that primary data is data that is used for a scientific purpose for which it was collected. Closed ended questions 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; while the open-ended questions were used as they encourage the respondent to give an in-depth and felt response without feeling held back in revealing of any information. With open ended questions, a respondent's response gives an insight to his or her feelings, background, hidden motivation, interests and decisions

3.6 Data Collection Procedure

This refers to means by which the researcher used to gather the required data or information. The study used primary data. On the primary data, questionnaires were used to collect data. The researcher administered the questionnaire individually to all respondents. Care and control by the researcher was exercised to ensure all questionnaires issued to the respondents were received. To achieve this, the researcher maintained a register of questionnaires, which was sent and received. The questionnaire was administered using a drop and pick later method to the sampled respondents.

3.7 Validity Test

According to Somekh and Cathy (2010), validity is that the degree by that the sample of take a look at things represents the content the take a look at is intended to live. Content validity that may use by this study may be a live of the degree to that information collected employing an explicit instrument represents a particular domain or content of a specific construct. Experts' opinions were requested to investigate the representativeness and suitableness of queries and provides suggestions of corrections to be created to the structure of the analysis tools. to ascertain the validity of the analysis, instrument the scientist can look for the opinions of consultants within the field of study particularly the lecturers and supervisors within the

department of public policy and administration. This facilitated to boost the content validity of the info that was collected. It conjointly facilitates the required revision and modification of the analysis instrument thereby enhancing validity.

3.8 Reliability Test

According to Welman and Kruger (2014), reliability refers to the extent to which the obtained scores may be generalized to different measuring occasions, measurement. Reliability refers to the consistency of a measure of a concept (Bryman, 2009). Reliability is achieved when the same research process is repeated and reproduces results within stated confidence limits. Bells (2003) cited in (Eriksson, 2007) states that the reliability of an investigation is satisfying if another researcher can conduct the same research and draw the same conclusions. Reliability is concerned with estimates of the degree to which a measurement is free of random or unstable error. Reliable instruments are robust and they work well at different times under different conditions. This has to do with the ability of a research finding to replicate itself if a parallel study is conducted. Thus, in order to ensure the finding of this research the Cronbach Alpha was used to test the reliability of questions asked for this research. The alpha value ranges between 0 and 1 with reliability increasing with the increase in value. Coefficient of 0.7 is a commonly accepted rule of thumb that indicates acceptable reliability (Sekeran, 2003).

3.9 Data Analysis and Presentation

After collecting all the data, the process of analysis begins. To summarize and rearrange the data several interrelated procedures were performed during the data analysis stage (Zikmund, 2012). This process is important as it makes data sensible. Data analysis tool that was used is dependent on the type of data to be analyzed depending on whether the data is qualitative or quantitative. The quantitative data in this research was analyzed by descriptive statistics with the help of Statistical Package for the Social Sciences (SPSS). Descriptive statistics includes mean, frequency, standard deviation and percentages to profile sample characteristics and major patterns emerging from the data. In addition to measures of central tendencies, measures of dispersion and graphical representations were used to tabulate the information. To facilitate this Likert Scale was used to enable easier presentation and interpretation of data. Data was presented in tables, charts and graphs. Content analysis was used in processing of qualitative data and results presented in prose form.

To bring out the quantitative meaning of the data, relationships and predictions among variables were determined using correlations and regression techniques (Swift & Piff, 2010). Pearson's

Moment Correlation coefficients amongst all variables were computed to find how they are related to one another in the sample. In addition, a multiple linear regression (MLR) model was run to quantify the combined effect of the contribution of corporate governance compliance programs to performance of state corporations. The multiple regression model was chosen because it is useful in establishing the relative importance of independent variables to the dependent variable (Bryman & Cramer, 2012). Such importance is deduced from standardized regression coefficients (beta-weights), whose magnitudes show how much relative impact the independent variables have on the dependent variable, while the negative and positive signs associated with the coefficients show negative and positive impacts respectively (Park, 2008). Also, it is ideal for the dependent variable to be recorded at a continuous level of measurement. The regression model was as follows:

$$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \varepsilon$$

Where:

Y = Performance of state corporations

β_0 = Constant Term

β_1, β_2 and β_3, = Beta coefficients

X_1= Risk management processes

X_2= Internal Audit and Controls Processes

X_3= Employees Education/Training and Communication

X_4 = Leadership and Oversight

ε = Error term

A One-Way ANOVA was used to test the fitness of the model. The basic principle of ANOVA is to test for differences among the means of the populations by examining the amount of variation within each of these samples, relative to the amount of variation between the samples (Kothari, 2012). Specifically, one-way (or single factor) ANOVA is a way to test the equality of three or more means at one time by using variances (Panneerselvam, 2012). That is the term one-way, also called one-factor, indicates that there is a single explanatory variable ("treatment") with two or more levels, and only one level of treatment is applied at any time for a given subject.

3.10 Ethical Considerations

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 had 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 researcher.

While conducting the study, the researcher ensured that research ethics were observed. Participation in the study was voluntary. Privacy and confidentiality was also observed. The objectives of the study were explained to the respondents with an assurance that the data provided was used for academic purpose only.

CHAPTER FOUR: DATA ANALYSIS, PRESENTATION AND INTERPRETATION OF FINDINGS

4.1 Introduction

In this chapter, the study results arrived at from the data collected using questionnaires is presented. The subsections presented were demographic information as well as the opinions of the respondents on the corporate governance compliance programs and performance of National Social Security Fund. Tables were used to present the summarized collective respondents opinions.

4.1.1 Response Rate

The administered questionnaires by the researcher were 104 out of which only 79 were returned. This gave a return rate of 76% which as per Andre (2012) is within the prescribed significant response rate for statistical analysis that is established to be at least 50%.

Table 4. 1: Response Rate

	Frequency	Response Rate
Response	79	76%
Non-response	25	24%
Total	**104**	**100**

4.1.2 Reliability Analysis

The researcher conducted a reliability analysis using the Cronbach's Alpha that measures the internal consistency by establishing if certain items within a scale measure the same construct (Eriksson, 2007). Table 4.2 shows the results.

Table 4. 2: Reliability Analysis

	Alpha value	Comments
Risk management processes	0.768	Reliable
Internal Audit and Controls Processes	0.886	Reliable
Employees Education/Training and Communication	0.702	Reliable
Leadership and Oversight	0.773	Reliable

As per the results in Table 4.2, the Cronbach Alpha established for every objective showed that all the four variables were reliable as their reliability values exceeded the prescribed threshold of 0.7 that is risk management processes (0.768), Internal Audit and Controls Processes (0.886), Employees Education/Training and Communication (0.702) and Leadership and Oversight (0.773). This, consequently, shows that the research instrument was reliable and therefore no amendments were required.

4.1.3 Validity Analysis

The study used exploratory factor analysis to establish the construct validity of the questionnaire. The factors that explain the highest proportion of variance the variables share is expected to represent the underlying constructs. With factor analysis, the construct validity of a questionnaire can be tested (Lewis, 2015). It is always ideal to conduct a factor analysis on the scale data to see if the scale really is one-dimensional. Responses to the individual scale items are the variables in such a factor analysis. These variables are generally well correlated with one another. In this case, the aim is to reduce the (large) number of variables to a smaller number of factors that capture most of the variance in the observed variables. If variables correlate too highly ($r > 0.8$ or $r < -.8$), it becomes impossible to determine the unique contribution to a factor of the variables that are highly correlated. If a variable correlate lowly with many other variables ($-0.3 < r < 0.3$), the variable probably does not measure the same underlying construct as the other variables. Both the highly and lowly correlating items should be eliminated. If a questionnaire is a construct valid, all items together represent the underlying construct well. Exploratory factor analysis detects the constructs - i.e. factors – that underlie a dataset based on the correlations between variables (in this case, questionnaire items) (Meyers, Gamst & Guarino, 2016). The factors that explain the highest proportion of variance the variables share are expected to represent the underlying constructs. The validity test results are as presented in Table 4.3.

Table 4. 3: Component Matrix[a]

	Component					
	1	2	3	4	5	6
Risk identification procedures	**.687**	.099	.534	.111	.020	.198
Risk assessment and prioritization	**.847**	.272	.129	.114	.182	.030
Risk mitigation	**.927**	.132	.014	.114	.144	.059
Availability of a risk management framework	**.887**	.303	.069	.113	.043	.147
Constitution of risk Committees	**.925**	.142	.075	.100	.054	.016
Availability of risk registers	**.884**	.218	.174	.028	.008	.105
Audit manual	.211	.141	.488	.130	**.538**	.089
Audit charter	.534	**.560**	.157	.116	.042	.192
Comprehensive audit plan management	.074	.001	.242	.513	.239	**.753**
Manage and track tasks and staff time	**.905**	.198	.152	.137	.011	.064
Meetings management	**.929**	.015	.094	.133	.036	.064
Reporting of audit activities, statuses, and results	**.847**	.141	.037	.258	.221	.085
Internal audit activities monitoring	.411	.412	**.567**	.065	.225	.216
Training on compliance program operation	**.905**	.129	.022	.149	.070	.083
Training on specific laws and regulation which impact the organization	.032	**.860**	.225	.229	.094	.019
Training on consequences of noncompliance to both the organization and the individual	.328	.064	.242	.209	**.674**	.108

Distribution of new and revised policies and compliance assessments to all relevant personnel	.057	.253	**.706**	.355	.369	.063
Monitoring regulatory compliance status	**.830**	.070	.023	.212	.227	.020
Alerts and reminders to support the appropriate level of awareness	**.935**	.098	.045	.127	.050	.099
Rapid analysis of root cause issues	.117	.297	**.488**	.187	.234	.080
Access to the latest updates from the regulating agencies	**.847**	.221	.140	.010	.042	.102
Management support	.018	.097	.122	**.761**	.103	.447
Manager's example and behavior	**.887**	.201	.045	.250	.009	.026
Mainstreaming (adoption of ethical culture and structure)	**.814**	.257	.038	.097	.120	.070

Extraction Method: Principal Component Analysis.
a. 6 components extracted.

From the validity test results, the parameters that fall under each of the 6 major extracted factors were identified. The 24 parameters were looked at and placed to one of the 6 factors depending on the variability percentage explaining the total variability of each factor. From the factor analysis, all the variables parameters had high construct validity since all exceeded the prescribed threshold of 0.40 (Somekh & Cathy, 2010).

4.2 Demographic Information

The researcher sought to establish the respondents' suitability to respond to the questionnaires. This was done by asking the respondents to indicate their highest academic qualification as well as the years that they have served in NSSF.

4.2.1 Highest Academic Qualification

The respondents were asked to indicate their highest academic qualification. Their replies were as expressed in Table 4.4.

Table 4. 4: Highest Academic Qualification

	Frequency	Percent
Diploma	23	29.1
Bachelor's degree	38	48.1
Post graduate	18	22.8
Total	**79**	**100.0**

From the study findings, the respondents indicated that they have bachelor's degree as shown by 48.1%, diploma as indicated by 29.1% and post graduate as expressed by 22.8%. This shows that all the respondents had the required academic qualification to understand the items in the questionnaires and respond to them correctly. This therefore enabled the researcher to obtain reliable information.

4.2.2 Years of Service at NSSF

The researcher also was interested in knowing the number of years the respondents had worked in the NSSF. Therefore, the respondents were asked to indicate the period they have worked in NSSF and their replies were as presented in Table 4.5.

Table 4. 5: Years Served in NSSF

	Frequency	Percent
Less than 1 year	3	3.8
1-5 years	20	25.3
6-10 years	5	6.3
11-15 years	36	45.6
More than 15 years	15	19.0
Total	**79**	**100.0**

As pert the obtained findings on years of service at NSSF, majority of the respondents had served at NSSF for 11 to 15 years. Further, 25.3% of the respondents had served for 1 to 5 years, 19% had served for more than 15 years while 3.8% had served for less than 1 year. This shows that majority of the respondents were at NSSF for long enough to be able to respond to questions on corporate governance compliance programs as well as their effects on performance of state corporations in Kenya.

4.3 Risk Management Processes

The researcher sought to establish the influence of risk management processes on performance of state corporations in Kenya.

4.3.1 Extent of Risk Management Processes Effect on Performance

The researcher asked the respondents to indicate the extent to which risk management processes affects the performance of state corporations in Kenya. Table 4.6 shows the findings.

Table 4. 6: Extent of Risk Management Processes Effect on Performance

	Frequency	Percent
Little extent	8	10.1
Moderate extent	11	13.9
Great extent	41	51.9
Very great extent	19	24.1
Total	**79**	**100.0**

From the study outcomes, the respondents indicated that risk management processes have a great effect on performance of state corporations in Kenya as shown by 51.9%, very great extent effect as shown by 24.1%, moderate extent effect as expressed by 13.9% and a little extent effect as illustrated by 10.1%. This reveals that as per the findings, risk management processes greatly affects the performance of state corporations in Kenya. This conforms to Kimeu (2012) who

argues that companies face numerous regulative constraints, which, additionally to different sources of uncertainty, represent the chance that has to be taken under consideration. Risk management processes is employed by firms strategically so as to reduce the price of the prevalence of uncertainty. Competition law is seen as a significant supply of risk by firms, particularly if company executives area unit chargeable for breach of competition law provisions.

4.3.2 Effect of Risk Management Processes on Performance of state corporations in Kenya

The respondents were further asked to indicate the extent of effect of various aspects of risk management processes on Performance of state corporations in Kenya. Their replies were presented in Table 4.7.

Table 4. 7: Extent of Risk Management Processes Aspects Effect on Performance

	Mean	Std. Dev.
Risk identification procedures	4.0253	.5768
Risk assessment and prioritization	3.5823	.6526
Risk mitigation	2.1139	1.0620
Availability of a risk management framework	2.0000	.8165
Constitution of risk Committees	4.0506	.6775
Availability of risk registers	3.6835	.7079

From the findings, the respondents indicated that constitution of risk Committees as indicated by an average of 4.0506, risk identification procedures as shown by mean score of 4.0253, availability of risk registers as indicated by a mean of 3.6835 and risk assessment and prioritization as illustrated by a mean of 3.5823 greatly affect Performance of state corporations in Kenya. Moreover, the respondents indicated that risk mitigation as indicated by an average of 2.1139 as well as availability of a risk management framework as shown by mean score of 2.0000 lightly affect Performance of state corporations in Kenya. These findings concur with Chua and Rahman (2011) who notes that organizations should use affordable efforts to avoid empowerment substantial authority to people with a history of participating in prohibited activities or different behavior inconsistent with a good compliance and ethics program. Several organizations these days are more dependent on third parties to handle a range of outsourced operational functions.

4.4 Internal Audit and Controls Processes

The researcher also sought to determine how internal audit and controls processes affect performance of state corporations in Kenya.

4.4.1 Extent of Internal Audit and Controls Processes Effect on Performance

Moreover, the researcher asked the respondents to indicate the extent of effect of internal audit and controls processes Effect on Performance of state corporations in Kenya. Their answers were as recorded in Table 4.8.

Table 4. 8: Extent of Internal Audit and Controls Processes Effect on Performance

	Frequency	Percent
Little extent	7	8.9
Moderate extent	30	38.0
Great extent	31	39.2
Very great extent	11	13.9
Total	**79**	**100.0**

As per the findings, the respondents indicated that internal audit and controls processes affects performance of state corporations in Kenya in a great extent as shown by 39.2%, in a moderate extent as shown by 38%, in a very great extent as shown by 13.9% and in a little extent as shown by 8.9%. This shows that internal audit and controls processes greatly affects performance of state corporations in Kenya. This is in line with Tipuric (2011) who indicates that the external auditing is important as an indication of organization compliance for authorities and regulative bodies. However, external auditing doesn't facilitate the organization have a self-assessment and unendingly repeatable analysis of its compliance standing.

4.4.2 Extent of Internal Audit and Controls Processes Aspects Effect on Performance

The respondents were further requested to indicate the extent to which various aspects of internal audit and controls processes affects Performance of state corporations in Kenya. The replies were as shown in Table 4.9.

Table 4. 9: Extent of Internal Audit and Controls Processes Aspects Effect on Performance

	Mean	Std. Dev.
Audit manual	3.8734	.8824
Audit charter	2.7722	.4221
Comprehensive audit plan management	3.9873	.8396
Manage and track tasks and staff time	4.1899	.6420
Meetings management	4.0253	.8002
Reporting of audit activities, statuses, and results	2.2911	.4572
Internal audit activities monitoring	3.6582	.6580

As per the findings, the respondents made it clear that manage and track tasks and staff time as expressed by a mean score of 4.1899, meetings management as indicated by a mean of 4.0253 and comprehensive audit plan management as shown by a mean of 3.9873 affects the

Performance of state corporations in Kenya greatly. Moreover, the respondents also indicated that audit manual as illustrated by an average of 3.8734 as well as internal audit activities monitoring as shown by a mean of 3.6582 greatly affects the Performance of state corporations in Kenya. However, the respondents indicated that audit charter as expressed by a mean score of 2.7722 affects the performance of state corporations in Kenya moderately while reporting of audit activities, statuses, and results as expressed by a mean score of 2.2911 lightly affect performance of state corporations in Kenya. This is in agreement with Siddiqui (2010) who argue that a corporation should audit its compliance program to form certain its parts are literally being enforced and sporadically measure the program's effectiveness. for instance, auditors could raise staff what they understand because the "unwritten rules" at intervals the corporate to work out whether or not the compliance program's goals match its actual operation. Separately, a corporation should offer staff with effective mechanisms through that to anonymously or confidentially report potential misconduct or look for steering on compliance problems, shield such people against return, and adequately follow au fait their reports.

4.5 Employees' Education or Training and Communication

The researcher sought to evaluate the extent to which employees' education on compliance and communication affect performance of state corporations in Kenya.

4.5.1 Extent of Employees' Education or Training and Communication Effect the Performance

The respondents were required to give their opinion on the extent of effect of employees' education or training and communication effect the performance of state corporations in Kenya. The findings were as shown in Table 4.10.

Table 4. 10: Extent of Employees' Education or Training and Communication Effect the Performance

	Frequency	Percent
Little extent	11	13.9
Moderate extent	9	11.4
Great extent	46	58.2
Very great extent	13	16.5
Total	**79**	**100.0**

As per the findings, the respondents indicated that employees' education or training and communication affects Performance of state corporations in Kenya in a great extent as shown by 58.2%, in a very great extent as shown by 16.5%, in a little extent as indicated by 13.9% and in a moderate extent as shown by 11.4%. This shows that employees' education or training and communication greatly affects Performance of state corporations in Kenya. These findings are

similar to Brown (2008) findings that organizations should involve multiple layers of management within the compliance and ethics method with the goal of making certain the effectiveness of the programs. selected people in every management level should be befittingly knowledgeable of the program. the rules impose specific duties on numerous levels of management as well as the board of administrators, senior management and people with primary responsibility for the compliance and ethics programs.

4.5.2 Effect of Aspects of Employees' Education or Training and Communication on Performance

The respondents were further asked to give their opinions on the extent of effect of employees' education or training and communication on performance of state corporations in Kenya. Their collective summarized opinions were as shown in Table 4.11.

Table 4. 11: Extent of Aspects of Employees' Education or Training and Communication Effect on Performance

	Mean	Std. Dev.
Training on compliance program operation	4.0380	.6293
Training on specific laws and regulation which impact the organization	2.1013	.3036
Training on consequences of noncompliance to both the organization and the individual	3.9494	.7663
Distribution of new and revised policies and compliance assessments to all relevant personnel	3.0886	.9085

From the study results, the respondents noted that training on compliance program operation as expressed by a mean of 4.0380 and training on consequences of noncompliance to both the organization and the individual expressed by a mean score of 3.9494 have a great effect on the Performance of state corporations in Kenya. However, the respondents noted that distribution of new and revised policies and compliance assessments to all relevant personnel as shown by a mean of 3.0886 moderately affects the performances NSSF while training on specific laws and regulation which impact the organization as illustrated by an average of 2.1013 lightly affect the Performance of state corporations in Kenya. These findings are in line with Bauwhede (2009) who noted that organizations should establish standards, procedures and controls to forestall and observe unethical conduct. in step with) where these standards of conduct and internal controls ought to be fairly capable of reducing the chance of misconduct.

4.6 Leadership and Oversight

The researcher sought to assess the effect of leadership and oversight on performance of state corporations in Kenya.

4.6.1 Extent of Leadership and Oversight Effect on Performance

The respondents were asked to indicate the extent to which the leadership and oversight affects the performance. The responses were as illustrated in Table 4.12.

Table 4. 12: Extent of Leadership and Oversight Effect on Performance

	Frequency	Percent
Little extent	12	15.2
Moderate extent	13	16.5
Great extent	37	46.8
Very great extent	17	21.5
Total	**79**	**100.0**

The respondents indicated that in great extent (46.8%), in a very great extent (21.5%), in a moderate extent (16.5%) and in a little extent (15.2%%) leadership and oversight affect the

performance. This reveals that leadership and oversight affects the performance of state corporations in Kenya greatly. These findings are in line with Jermakowicz (2010) wo suggest that a company should provide a specific senior govt or committee of executives' overall responsibility for the compliance program. However, a company's "governing authority" generally its board of administrators should administer its implementation. Additionally, all management, not simply those with direct oversight of the program, should perceive the company's policies relevant to their business unit and make sure that staff underneath their management perceive and follow those procedures.

4.6.2 Effect of Leadership and Oversight on Performance of state corporations in Kenya

Further the respondents were required to indicate the extent to which various aspects of leadership and oversight affect Performance of state corporations in Kenya. Their answers are as shown in Table 4.13.

Table 4. 13: Extent of Leadership and Oversight Aspects Effect on Performance

	Mean	Std. Dev.
Monitoring regulatory compliance status	3.6962	.8375
Alerts and reminders to support the appropriate level of awareness	3.9873	.7070
Rapid analysis of root cause issues	2.1646	.8977
Access to the latest updates from the regulating agencies	4.4177	.8103
Management support	3.3418	.9042
Manager's example and behavior	4.2658	.5479
Mainstreaming (adoption of ethical culture and structure)	4.0633	.7042

From the findings, the respondents indicated that access to the latest updates from the regulating agencies as illustrated by a mean of 4.4177, manager's example and behavior as indicated by an average of 4.2658 as well as mainstreaming (adoption of ethical culture and structure) as shown by mean score of 4.0633 greatly affects the Performance of state corporations in Kenya. Further the respondents indicated that alerts and reminders to support the appropriate level of awareness as indicated by a mean of 3.9873 and monitoring regulatory compliance status as indicated by an average of 3.6962 affects the performance of state corporations in Kenya greatly. Moreover, the respondents indicated that management support as indicated by a mean of 3.3418 moderately affects the Performance of state corporations in Kenya while rapid analysis of root cause issues as illustrated by a mean of 2.1646 affects the Performance of state corporations in Kenya lightly. This is in line with Barako and Brown (2008) who argue that organizations should involve multiple layers of management within the compliance and ethics method with the goal of making certain the effectiveness of the programs. selected people in every management level should be befittingly knowledgeable of the program. the rules impose specific duties on numerous levels of

management as well as the board of administrators, senior management and people with primary responsibility for the compliance and ethics programs.

4.7 Performance of State Corporations in Kenya for the Last Five Years

The respondents were finally asked to give their opinion on trend of various aspects of Performance of state corporations in Kenya for the Last Five Years. Their opinions were analyzed, summarized and presented in Table 4.14.

Table 4. 14: Trend of various Aspects of Performance of state corporations in Kenya for the Last Five Years

	Mean	Std. Dev.
Development index	4.3165	.6707
Performance contracting ratings	3.6203	.7562
Customer retention and operating cost	2.5570	.6933
Customer satisfaction index	3.1899	.8782

From the study findings, the respondents indicated that development index as shown by a mean of 4.3165 and performance contracting ratings as indicated by an average of 3.6203 had been improving for the last five years. The respondents also indicated that customer satisfaction index as illustrated by mean of 3.1899 and customer retention and operating cost as shown by a mean of 2.5570 had been constant for the last five years. This corresponds to Chelimo (2012) who indicates that the NSSF operations area unit currently conducted in an environment of transparency, responsibility and with a revived commitment to economical delivery of Social Security services in Kenya. Today, NSSF continues to figure on enhancing its structure performance and rising the standard of services it provides to its members.

4.8 Inferential Statistics

To bring out the quantitative meaning of the data, relationships and predictions among variables was determined using correlations and regression techniques.

4.8.1 Pearson’s Product Moment Correlation

The researcher conducted Pearson's Moment Correlation coefficients amongst all variables, It was computed to find how they are related to one another in the sample. The findings are presented in Table 4.15.

Table 4. 15: Correlation Matrix

		Performance of state corporations.	Risk management processes	Internal Audit and Controls Processes	Employees Education/Training and	Leadership and Oversight
Performance of state corporations.	Pearson Correlation	1				
	Sig. (2-tailed)	.				
Risk management processes	Pearson Correlation	.701	1			
	Sig. (2-tailed)	.019	.			
Internal Audit and Controls Processes	Pearson Correlation	.765	.522	1		
	Sig. (2-tailed)	.001	.017	.		
Employees Education/Training and Communication	Pearson Correlation	.711	.742	.587	1	
	Sig. (2-tailed)	.018	.013	.018	.	
Leadership and Oversight	Pearson Correlation	.799	.543	.723	.521	1
	Sig. (2-tailed)	.016	.008	.003	.016	.

The findings shown in Table 4.15, there is a strong, positive and significant correlation between risk management processes and performance of state corporations. (r = 0.701, p value=0. 019). In addition, the study reveals that the correlation between internal audit and controls processes and performance of state corporations is positive and significant (r=0.765, p value=0.001. Further, the study reveals that the correlation between employees education/training and communication and performance of state corporations is positive and significant (r=0. 711, p value=0.018). Finally, the study establishes that there was a very strong, positive and significant correlation between Leadership and Oversight and Performance of state corporations. (r=0.799, p value=0.016). This implies that all the variables had a positive and significant correlation with performance of state corporations. These findings are similar to Brown (2008) findings that organizations should involve multiple layers of management within the compliance and ethics method with the goal of making certain the effectiveness of the programs. Selected people in every management level should be befittingly knowledgeable of the program. The rules impose specific duties on numerous levels of management as well as the board of administrators, senior management and people with primary responsibility for the compliance and ethics programs.

4.8.2 Regression Analysis

The researcher conducted a multiple linear regression (MLR) model was run to quantify the combined effect of the contribution of corporate governance compliance programs to performance of state corporations.

Table 4. 16: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	0.862	0.744	0.730	0.739

It was revealed that as shown by adjusted R square of 0.730, the independent variables selected for the study (risk management processes, internal audit and controls processes, employees education/training and communication and leadership and oversight) accounted for 73% of the variations in performance of state corporations. According to the test model, 27% percent of the variation in performance of state corporations could not be explained by the model. Therefore, further studies should be done to establish the other corporate governance compliance programs that affect Performance of state corporations. These findings are in line with Jermakowicz (2010) who suggests that a company should provide a specific senior government or committee of executives overall responsibility for the compliance program. However, a company's "governing authority" generally its board of administrators should administer its implementation. Additionally, all management, not simply those with direct oversight of the program, should perceive the company's policies relevant to their business unit and make sure that staff underneath their management perceive and follow those procedures.

Table 4. 17: ANOVA

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	121.946	4	30.487	53.690	3.77E-21
	Residual	42.019	74	0.568		
	Total	**163.965**	**78**			

From the findings, the probability value of the Test model was 0.000 and F-calculated was 53.690. This indicates that the overall test model was significant in predicting the effects of corporate governance compliance programs and performance of state corporations in Kenya since the p-value was less than 0.05 and F-calculated was greater than F-critical which was 2.49. This corresponds to Chelimo (2012) who indicates that the NSSF operations area unit currently conducted in an environment of transparency, responsibility and with a revived commitment to economical delivery of Social Security services in Kenya.

Table 4. 18: Unstandardized and Standardized Regression Coefficients

	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	1.236	0.255		4.847	.000
Risk management processes	0.722	0.293	0.701	2.464	.018
Internal Audit and Controls Processes	0.789	0.144	0.765	5.479	.000
Employees' Education or Training and Communication	0.733	0.239	0.711	3.067	.004
Leadership and Oversight	0.824	0.288	0.799	2.861	.007

From the study results, the resultant regression equation was: -

$\mathbf{Y}=1.236 + 0.722\mathbf{X_1} + 0.789\mathbf{X_2} + 0.733\mathbf{X_3} + 0.824\mathbf{X_4}$

As per the equation, it was revealed that if the all corporate governance compliance programs are held constant, then the performance of state corporations in Kenya was 1.236. Further, if the other corporate governance compliance programs are held constant, an increase in risk management processes would increase the performance of state corporations in Kenya by 0.722. This variable was found to be significant since its p-value (0.018) was less than 0.05. These findings concur with Chua and Rahman (2011) who notes that organizations should use affordable efforts to avoid empowerment substantial authority to people with a history of participating in prohibited activities or different behavior inconsistent with a good compliance and ethics program. Several organizations these days are more dependent on third parties to handle a range of outsourced operational functions.

Further holding other corporate governance compliance programs constant at zero, then a unit change in internal audit and controls processes leads to a 0.789-unit change in performance of state corporations in Kenya. This variable was found to be significant since its p-value (0.000) was less than 0.05. This is agreement with Siddiqui (2010) who argue that a corporation should audit its compliance program to form certain its parts are literally being enforced and sporadically measure the program's effectiveness. for instance, auditors could raise staff what they understand because the "unwritten rules" at intervals the corporate to work out whether or not the compliance program's goals match its actual operation.

Moreover, the researcher revealed that the performance of state corporations in Kenya increases by 0.733 if there is an increase in employees' education or training and communication holding

other. This variable is significant because its p-value (0.004) was less than 0.05. Bauwhede (2009) noted that organizations should establish standards, procedures and controls to forestall and observe unethical conduct. In step with where these standards of conduct and internal controls ought to be fairly capable of reducing the chance of misconduct.

Additionally, the researcher indicated that an increase in leadership and oversight would increase performance of state corporations in Kenya by 0.824 if other corporate governance compliance programs are constant at zero. This variable is significant because its p-value (0.007) was less than 0.05. This is in line with Bauwhede (2009) who argue that leadership is therefore necessary that in step with informal strategies just like the manager's example and behavior that counsel integrity area unit probably to possess a lot of impact on staff than even formal strategies like ethics coaching and programs.

Overall, the researcher revealed that leadership and oversight had the greatest on the performance of state corporations in Kenya followed by internal audit and controls processes then employees' education or training and communication while risk management processes had the least effect on the performance of state corporations in Kenya. All variables were significant.

4.9 Diagnostic Tests for Regression Assumptions

Under this section diagnostic tests for testing the regression assumptions will be presented. These tests include normality test, test for multicollinearity, heteroskedasticity test, autocorrelation test, chi square tests and test for sampling adequacy.

4.9.1 Normality Test

The testing for normality in this study was conducted using Kolmogorov Smirnov test and Shapiro Wilk test.

Table 4. 19: Checking for Normality of Performance of State Corporations

	Kolmogorov-Smirnova			**Shapiro-Wilk**		
	Statistic	**df**	**Sig.**	**Statistic**	**df**	**Sig**
Risk management processes	0.212	79	.00	0.831	79	.00
Internal Audit and Controls Processes	0.212	79	.00	0.831	79	.00
Employees Education/Training and Communication	0.212	79	.00	0.931	79	.00
Leadership and Oversight	0.212	79	.00	0.831	79	.00

Thus, Table 4.19 indicates that using both tests of normality, which is Kolmogorov Smirnov test and Shapiro-Wilk tests, the p-value for both tests, is less than 0.05, thus the study rejected H_0 and

a conclusion was made that data on both the dependent and the independent factors were not normally distributed and as a result it helps to predict dependent variables.

The normality of the dependent and the independent variables was determined by use of a Quantile - Quantile (Q-Q) plot. The plot is useful in the early stages of analysis when exploring data before actually calculating a correlation coefficient or fitting regression curve. It helped to determine whether a linear regression model is appropriate (Paul & Zhang, 2009). The results of the Q - Q Plot indicated that the dependent variable was normally distributed (Figure 12) so are the independent variables

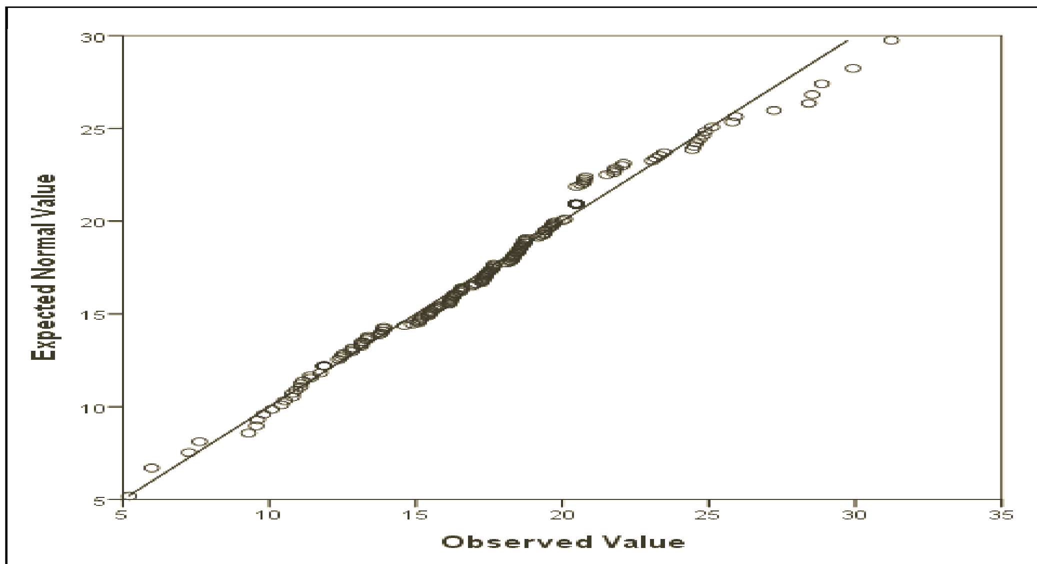


Figure 4. 1: Normal Q-Q Plot of Performance of State Corporations

From the findings, the normal Q-Q plot of performance of State Corporations had most of its cases lying on the 45^0 lines, thus the observed values of state corporations' performance with the hypothetical distribution and hence normally distributed. Further, the Q-Q plots affirmed the normality of the data.

4.9.2 Test for Multicollinearity

The study utilized Collinearity Statistics to find out whether the independent variables are adequately correlated to show a substantial causal correlation.

Table 4. 20: Collinearity Statistics

Model		Collinearity Statistics	
		Tolerance	VIF
1	Risk management processes	.127	8.875
	Internal Audit and Controls Processes	.166	9.008
	Employees Education/Training and Communication	.103	8.749
	Leadership and Oversight	.138	7.226

Based on the coefficients output, Risk management processes had a VIF value of 8.875, Internal Audit and Controls Processes had a VIF value of 9.008, Employees Education/Training and Communication had a VIF value of 8.749 and Leadership and Oversight had a VIF value of 7.226. The VIF values for all the variables were less than 10 implying that there were no multicollinearity symptoms.

4.9.3 Heteroskedasticity Test

Heteroscedasticity is the absence of homoscedasticity. A collection of random variables is heteroscedastic if there are sub-populations that have different variabilities from others. Heteroscedasticity in regression analysis can invalidate statistical tests of significance that assume that the modelling errors are uncorrelated and normally distributed and that their variances do not vary with the effects being modelled. In this study, this assumption was not violated. Heteroscedasticity is useful in examining whether there is difference in residual variance of the observation period to another period of observation (Godfrey, 2008).

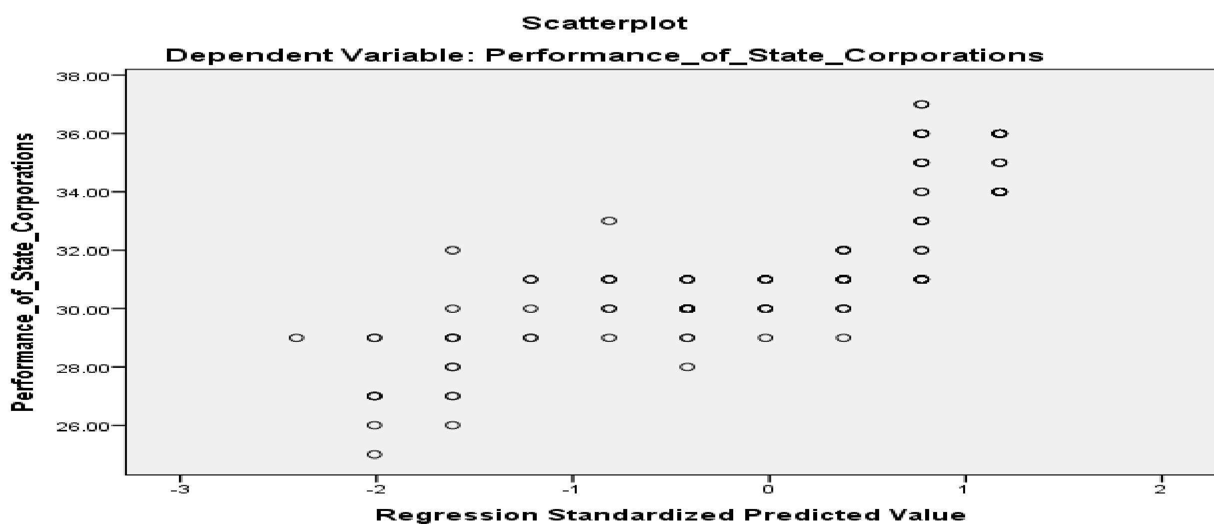


Figure 4. 2: Scatter Plot

From Figure 4.2, the data points are scattered with no clearly established pattern. This shows that

variables were not correlated. This further shows that the data set had no heteroscedasticity but had homoscedasticity, which is desirable for modelling of regression equation.

4.9.4 Autocorrelation Test

If the errors are correlated with one another, it would be stated that they are 'serially correlated'. A test of this assumption is therefore conducted. The first test was Durbin-Watson which is shown in the regression output of the model.

Table 4. 21: **Model Summary**[b]

Model	Durbin-Watson
1	1.138[a]

As per this test expressed in table 4.21, the value of Durbin--Watson for the model is 1.138 which is far from 2. Thus, the results depicted that there is a problem of autocorrelation.

4.9.5 Chi square Tests

One of the statistical tests that are used to test the association among variables is chi-square test. However, the test uses specifically grouped or categorical variables (ordinal or nominal). To apply this, the study categorized state corporations according to their performance index and compared it with the magnitude of risk management processes, internal audit and controls processes, employees education/training and communication and leadership and oversight. The study based the test on 5% (0.05) level of significance meaning that the conclusions made in this study were at 95% confidence level. In chi-square test, there are three coefficients (statistic) that are vital in the study namely; Pearson chi-square, Phi and Cramer's V. Pearson Chi-square is used to test the associations while Phi and Cramer's V are to test the strength of association.

Table 4. 22: Pearson chi-square, Phi and Cramer's V

	Pearson Chi-square	p-value	Strength (Phi/Cramers" V)	P-values
Risk management processes	319.508[a]	0.00	1.533	0.00
Internal Audit and Controls Processes	308.341[a]	0.00	1.506	0.00
Employees Education/Training and Communication	262.499[a]	0.00	1.389	0.00
Leadership and Oversight	296.274[a]	0.00	1.476	0.00

Since the p-values (.000) are smaller than level of significant of the study (0.05 or 5%) as shown in the Table 4.22, then the test of the study is in favor of the research objectives and conclude that all the determinants of Performance of State Corporations i.e. Risk management processes (319.508, p-value, 0.000), Internal Audit and Controls Processes (308.341, p-value, 0.000),

Employees Education/Training and Communication (262.499,p-value,0.000) and Leadership and Oversight (296.274, p-value, 0.000) were associated to the Performance of State Corporations. The study also found that risk management processes (1.533), internal audit and controls processes (1.506), employees education/training and communication (1.389) and leadership and oversight (1.476) had a great effect on the performance of state corporations. This therefore shows that risk management processes, internal audit and controls processes, employees education/training and communication and leadership and oversight are important determinants of performance of state corporations.

4.9.6 Sampling Adequacy

The validity of study's variables was tested by checking the sampling adequacy. This enabled the study in identification of the items which were appropriate for factorial analysis. The test findings show that the scales had values above the threshold of 0.7: risk management processes (0.802), internal audit and controls processes (0.759), employees education/training and communication (0.825), leadership and oversight (0.853).

Table 4. 23: Kaiser-Meyer-Olkin (KMO) and Bartlett's Test

Factors	KMO Test	Bartlett's Test of Sphericity			Determinant
		Approx. Chi-Square	df	Sig.	
Risk management processes	.802	510.767	10	.000	0.034
Internal Audit and Controls Processes	.759	382.052	6	.000	0.186
Employees Education/Training and Communication	.825	622.734	10	.000	0.006
Leadership and Oversight	.853	848.875	15	.000	0.242

The sampling adequacy was assessed using the Bartlett's Test of sphericity which analyses if the samples are from populations with equal variances produced p-values less than .05 ($p < .001$). Since the Bartlett's test significances were less than 0.05 further indicates an acceptable degree of sampling adequacy (sample is factorable).

CHAPTER FIVE: SUMMARY OF FINDINGS, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

In this chapter, the findings obtained as per the objectives of the study were summarised. Then, conclusions and recommendations were made there after based on the objectives of the research.

5.2 Summary of the Findings

The study sought to establish the influence of risk management processes on performance of state corporations in Kenya. The study found that risk management processes greatly affects the performance of state corporations in Kenya. The study revealed that constitution of risk Committees, risk identification procedures, availability of risk registers and risk assessment and prioritization greatly affect Performance of state corporations in Kenya. Moreover, the study found that risk mitigation as well as availability of a risk management framework lightly affect Performance of state corporations in Kenya.

Further the study sought to evaluate the extent to which employees' education on compliance and communication affect performance of state corporations in Kenya. It was clear that internal audit and controls processes greatly affect performance of state corporations in Kenya. The study made it clear that manage and track tasks and staff time, meetings management and comprehensive audit plan management affects the Performance of state corporations in Kenya greatly. In addition, the study found that audit manual as well as internal audit activities monitoring greatly affects the Performance of state corporations in Kenya. Though, the study found that respondents indicated that audit charter affects the performance of state corporations in Kenya moderately while reporting of audit activities, statuses, and results lightly affect performance of state corporations in Kenya.

The study sought to determine how internal audit and controls processes affect performance of state corporations in Kenya. It was noted that employees' education or training and communication greatly affects Performance of state corporations in Kenya. This made it clear that training on compliance program operation and training on consequences of noncompliance to both the organization and the individual have a great effect on the Performance of state corporations in Kenya. Nevertheless, distribution of new and revised policies and compliance assessments to all relevant personnel moderately affected the performances NSSF while training on specific laws and regulation which impact the organization lightly affected the Performance of state corporations in Kenya.

The study sought to assess the effect of leadership and oversight on performance of state corporations in Kenya. It was revealed that leadership and oversight affect the performance of state corporations in Kenya greatly. The study established that access to the latest updates from the regulating agencies, manager's example and behavior as well as mainstreaming (adoption of ethical culture and structure) greatly affects the Performance of state corporations in Kenya. Further the study found that alerts and reminders to support the appropriate level of awareness and monitoring regulatory compliance status affects the performance of state corporations in Kenya greatly. Moreover, the study revealed that management support moderately affects the Performance of state corporations in Kenya while rapid analysis of root cause issues affects the Performance of state corporations in Kenya lightly.

5.3 Conclusion

The study concluded that risk management processes positively, greatly and significantly affects the performance of state corporations in Kenya. This was as a result of great effect on performance of state corporations in Kenya by constitution of risk Committees, risk identification procedures, availability of risk registers and risk assessment and prioritization as well as the little effect of risk mitigation and availability of a risk management framework on performance of state corporations in Kenya.

The study further concluded that employees' education on compliance and communication positively and significantly affects performance of state corporations in Kenya. This was attributed to the great effect of manage and track tasks and staff time, meetings management and comprehensive audit plan management, audit manual as well as internal audit activities monitoring on Performance of state corporations in Kenya. It could also be attributed to moderate effect of audit charter and little effect of reporting of audit activities, statuses, and results on performance of state corporations in Kenya.

The study also concluded that internal audit and controls processes greatly and significantly affects performance of state corporations in Kenya. Performance of state corporations in Kenya was found to have been greatly affected by training on compliance program operation and training on consequences of noncompliance to both the organization and the individual and moderately by distribution of new and revised policies and compliance assessments to all relevant personnel.

The study in addition concluded that leadership and oversight affect performance of state corporations in Kenya positively, greatly and significantly. This was attributed to the great effect

of access to the latest updates from the regulating agencies, manager's example and behavior as well as mainstreaming (adoption of ethical culture and structure), alerts and reminders to support the appropriate level of awareness and monitoring regulatory compliance status on the performance of state corporations in Kenya. It could also be attributed to moderate effect of management support on Performance of state corporations in Kenya.

Finally, the study concluded that leadership and oversight had the greatest on the performance of state corporations in Kenya followed by internal audit and controls processes then employees' education or training and communication while risk management had the least effect on the performance of state corporations in Kenya.

5.4 Recommendations

In line with the findings and conclusions arrived at, the study recommends that: risk management strategies employed by state corporations should support strong corporate governance. This will ensure effective and responsible management of these entities as required by the public. State corporations should ensure effective strategic risk management since this is critical in achieving the goals and objectives of their organizations. The reason for this is that risks curtail achievement of an organization's goals and objectives.

The study also recommends that state corporations should adopt the strategic training and development approach with its key principles of long term, and organization wide view instead of the current tactical approach. Such strategic training and development should be done to enhance the employees' knowledge on compliance program operation, specific laws and regulation which impact the organization as well as consequences of noncompliance to both the organization and the individual. This will contribute to improved performance through high levels of competences, capacities knowledge and skill development for both long term and short-term horizons.

From the findings and conclusions that study recommends that risk based internal audit should be enhanced so as to improve performance in state corporations in Kenya. In order to achieve this, it is recommended that management of State Corporations in Kenya should emphasize on internal auditors understanding the risk based internal audit approach and in particular embrace risk assessment in the detection of errors, understand their work environment in risk assessment, involve management in the risk evaluation process and identification of changes in order to effectively control risks, improve the quality of personnel in internal audit, adhere to internal

auditing standards, undertake proper and efficient annual planning, having independent directors and an audit committee, responding to risk based internal audit reports in time thereby increasing transparency and accountability to achieve efficiency, accuracy, completeness, timeliness, convenience and clarity in financial reporting which in turn will increase profitability of State Corporations.

It is highly recommended for executives in state corporations in Kenya to engage in the following high performance strategic leadership practices: Need to focus on determining corporate strategic direction verified in this study. This aspect will ensure the strategic competitiveness and performance of their organizations. There is also a need to focus on effectively managing the corporate resource portfolio which is the most important task for strategic leaders as it is categorized into financial capital, human capital, social capital and organizational culture. This aspect will enhance the competitive advantage of their organizations over their rivals. Controls help strategic leaders build credibility, demonstrate the value of strategies to the firm's stakeholders and promote and support strategic change. Leaders are therefore responsible for the development and effective use of two types of internal controls, namely strategic controls and financial controls.

From this study it is highly recommended that state corporations in Kenya should effectively apply balanced organizational controls to realize good performance. Strategic leadership practices need to be assessed and adapted in the state corporations in Kenya. This has proved the case in the assessment of strategic leadership in this study. There is now need for strategic leaders in state corporations in Kenya who can explore the opportunities in this turbulent environment.

5.5 Recommendations for Further Research

Since this study was only based on NSSF, then another study should be done based on other state corporations in Kenya to establish the effect of corporate governance compliance programs on their performance.

Further studies are recommended to establish the effect of corporate governance compliance programs on their performance of county governments in Kenya. These organizations are also key in ensuring economic development in Kenya. Since they came into existence less than five year ago from the date of this study, limited research has been performed.

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APPENDICES

Appendix I: Introduction Letter

Dear Respondent,

RE: DATA COLLECTION

I am a master of public policy and administration student at Kenyatta University and in my final year of study. As part of the requirement for graduation, I'm undertaking a research thesis to establish "effect of corporate governance compliance programs on performance of state corporations in Kenya with reference to the National Social Security Fund (NSSF)". In this regard, I'm kindly requesting for your support in terms of time, and by responding to the attached questionnaire. Your accuracy and candid response will be critical in ensuring objective research.

It will not be necessary to write your name on this questionnaire and for your comfort, all information received will be treated in strict confidence. In addition, the findings of the study will solely be used for academic research purposes and to enhance knowledge in the public policy and administration field of study. If need be the research report may be presented to your organization for information and record.

Thank you for your valuable time on this.

Yours faithfully,

YUSSUF NUNOW ABDI

Appendix II: Research Questionnaire

This questionnaire is to collect data for purely academic purposes. The study seeks to investigate effect of corporate governance compliance programs on performance of state corporations in Kenya with reference to the National Social Security Fund (NSSF). 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.

SECTION A: DEMOGRAPHIC INFORMATION

1) What is your highest academic qualification?

Certificate [ ] Diploma [ ]

Bachelor's degree [ ] Post graduate [ ]

2) How many years have you served the NSSF?

Less than 1 year [ ] 1-5 years [ ]

6-10 years [ ] 11-15 years [ ] More than 15 years [ ]

SECTION B: CORPORATE GOVERNANCE COMPLIANCE PROGRAMS AND PERFORMANCE OF STATE CORPORATIONS

RISK MANAGEMENT PROCESSES

3) To what extent does risk management processes affect the performance of your institution?

Very great extent [ ] Great extent [ ]

Moderate extent [ ] Little extent [ ] No extent [ ]

4) Please indicate the extent that the following aspects of risk management processes affect the performance of state corporations in Kenya?

Where: 5- Very Great Extent 4-Great Extent 3-Moderate Extent

2-Low Extent 1- No Extent

	1	2	3	4	5
Risk identification procedures					
Risk assessment and prioritization					
Risk mitigation					
Availability of a risk management framework					
Constitution of risk Committees					
Availability of risk registers					

5) In what ways has adherence to the risk management processes program affected the performance of your organization?

....

....

INTERNAL AUDIT AND CONTROLS PROCESSES

6) To what extent do internal audit and controls processes affect the performance of state corporations in Kenya?

Very great extent [ ] Great extent [ ]

Moderate extent [ ] Little extent [ ] No extent [ ]

7) Please indicate the extent that the following aspects of internal audit and controls affect the performance of state corporations in Kenya?

Where: 5- Very Great Extent 4-Great Extent 3-Moderate Extent 2-Low Extent 1- No Extent

	1	**2**	**3**	**4**	**5**
Audit manual					
Audit charter					
Comprehensive audit plan management					
Manage and track tasks and staff time					
Meetings management					
Reporting of audit activities, statuses, and results					
Internal audit activities monitoring					

8) In your opinion, how does compliance with the internal audit and controls affect the performance of state corporations in Kenya?

....

....

EMPLOYEES EDUCATION/TRAINING AND COMMUNICATION

9) To what extent does employees' education/training and communication affect the performance of your institution?

Very great extent [ ] Great extent [ ]

Moderate extent [ ] Little extent [ ] No extent [ ]

10) Please indicate the extent that the following aspects of employees' education/training and communication affect the performance of state corporations in Kenya?

Where: 5- Very Great Extent 4-Great Extent 3-Moderate Extent 2-Low Extent 1- No Extent

	1	2	3	4	5
Training on compliance program operation					
Training on specific laws and regulation which impact the organization					
Training on consequences of noncompliance to both the organization and the individual					
Distribution of new and revised policies and compliance assessments to all relevant personnel					

11) In what ways has employees' education/training and communication affected the performance of your organization?

....

....

LEADERSHIP AND OVERSIGHT

12) To what extent does leadership and oversight affect the performance of your institution?

Very great extent [ ]

Great extent [ ]

Moderate extent [ ]

Little extent [ ]

No extent [ ]

13) To what extent do the following aspects of leadership and oversight affect the performance of state corporations in Kenya?

Where: 5- Very Great Extent 4-Great Extent 3-Moderate Extent 2-Low Extent 1- No Extent

	1	2	3	4	5
Monitoring regulatory compliance status					

Alerts and reminders to support the appropriate level of awareness					
Rapid analysis of root cause issues					
Access to the latest updates from the regulating agencies					
Management support					
Manager's example and behavior					
Mainstreaming (adoption of ethical culture and structure)					

PERFORMANCE OF STATE CORPORATIONS

14) What has been the trend of the following aspects of Performance of state corporations in Kenya for the last five years?

Where: 5- Greatly improved 4- Improved 3-Constant/no change 2-Deteriorated 1- Greatly Deteriorated

	1	**2**	**3**	**4**	**5**
Development index					
Performance contracting ratings					
Customer retention and operating cost					
Customer satisfaction index					

THANK YOU

Appendix III: Work Plan

Activity/weeks	**1**	**2**	**2**	**3**	**4**	**5**	**6**	**7**	**8**	**9**
Project proposal writing	✓	✓								
Corrections			✓							
Data collection				✓	✓					
Data analysis					✓					
Data coding and entry						✓				
Report writing							✓			
Submission of report							✓	✓		
Finalization of report								✓	✓	✓

Appendix IV: Budget Schedule

Item	Quantity	Cost (Kshs.)	Total (Kshs.)
1. Personnel			
Research assistants	3days	@4000	12000.00
2. Materials			
Photocopy paper	3ream	@ 500	1500.00
Ball pens	1 ream	@ 15.00	45.00
Foolscap	3 ream	@ 300.00	300.00
Calling card (Telkom)			1,000.00
Scratch card			1,000.00
Internet			1000.00
3. Data analysis			
Statistical analysis			35,000.00
4. Report Preparation			
Typing			4000.00
Printing			5000.00
Binding			2000.00
Total			**62,845.00**