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Corporate Governance Attributes and Performance of
State-Owned Enterprises. A Review of the Literature



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**Corporate Governance Attributes and Performance of State-Owned Enterprises. A
Review of the Literature**

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Abstract

Purpose: This study examined the relationship between corporate governance attributes and performance of state-owned enterprises through review of literature. The study specifically sought to establish the relationship between corporate governance attributes of accountability, transparency, transformational leadership and stakeholder engagement; and performance of state-owned enterprises with government policy objective as the mediating variable. The study was anchored on Agency, Signalling, Transformational Leadership and Stakeholder Theories to narrow the literature gap.

Methodology: The study adopted desk research design through reviewing of relevant literature relating to corporate governance attributes and performance of state-owned enterprises. The study also summarized major contributions of significant studies on the relationship between corporate governance and performance. In addition, the study discussed the theoretical and methodological gaps in the reviewed literature on corporate governance and performance for further research.

Findings: Reviewed primary and secondary literature sources showed that, more transparency allows for greater accountability and contributes to better performance by state-owned enterprises. Further, countries that have been able to improve their corporate governance standards and practices have also been able to improve the business environment for and performance of both private and state-owned companies. In addition, SOEs' performance is influenced by adoption and implementation of corporate governance practices. However, the difference in financial performance of SOEs may be due to several factors including set government policy objectives that constrain the performance of the SOEs. Moreover, countries with ineffective governance and low accountability continue to experience weak SOE performance, poor delivery of public services, stifled competitiveness and growth including through the crowding-out of private companies and increased opportunities for political patronage and corruption.

Unique contribution to theory, practice and policy: The study recommended that the principal objective of SOE reforms should be to improve SOEs' accountability and efficiency by establishing and enforcing adequate reporting of their performance while holding them

accountable for reaching or their targets. In addition, the state ownership policy should fully recognize SOE's responsibilities towards stakeholders and request that SOEs report on their relations with stakeholders. Further, it should make clear any expectations the state has in respect of responsible business conduct by SOE.

Key Words: *Accountability Attribute, Transparency Attribute, Transformational Leadership Attribute, Stakeholder Engagement Attribute, and Performance of State-Owned Enterprises*

Background of the Study

State-owned enterprises (SOEs) have a strong presence in the global economy and, in many advanced and developing economies, play a significant role in implementing public policy (International Monetary Fund [IMF], 2019). SOEs are seen as a way to address market failures, such as natural monopolies, exert better control of natural resources, or promote other policy goals. In practice, public ownership continues to be important in many sectors, especially transportation, utilities (water, gas and electricity), and exploration of natural resources (IMF, 2019). Thus, proper corporate governance is crucial to ensure the positive contribution of state-owned enterprises to the efficiency of the economy and its competitiveness (Miazek, 2021). Corporate governance refers to a set of structures and processes for the direction and control of companies (World Bank, 2021). It involves relationships between the company's shareholders, stakeholders, board, and executive bodies for creating sustainable and long-term value (World Bank, 2021). The concept of corporate governance involves market and regulatory mechanisms; roles and relationships between a company's management, its board, its shareholders and other stakeholders; and the goals for which the corporation is governed (Kinkhabwala & Gor, 2018; Marshall, 2017; OECD, 2015; Solomon, 2020). There is no definitive historical treatment of corporate governance (Cheffins, 2012). However, the history of corporate governance correspondingly extends back to the use of the corporate form that created the possibility of conflict between investors and managers (Wells, 2010; Cheffins, 2012). Thus, the use of Agency Theory as a description of and prescription for monitoring and control of management activity has been the primary theoretical lens for corporate governance (Wesley, 2010). Until the late 1980s, there used to be a clear distinction, and a division of labor, between corporate law and corporate finance (Licht, 2013, as cited in Caprio et al., 2013). Thus, in the 1980s, corporate governance emerged as an integrated concept and an interdisciplinary field of knowledge (Licht, 2013, as cited in Caprio et al., 2013).

Corporate governance is intended to lead to better decision making, resulting in efficiency gains and more outputs (World Bank, 2018). Good corporate governance practice ties together the strategy and performance dimensions of the company (OECD, 2015; World Bank, 2021). In addition, corporate governance is a valuable tool to mitigate the conflicts of interest between stakeholders and management (Ortega, 2021). Strong corporate governance also improves operational performance through better allocation of resources and more efficient management, reduces the risk of corporate crises and scandals, and can help reduce poverty and income inequality (World Bank, 2020). Conversely, a lack of corporate governance may lead to a decrease in profitability (Ortega, 2021). In Kenya, the code of governance for state-owned enterprises is referred to as "Mwongozo" (World Bank, 2021). This study discussed the

following attributes of corporate governance: Accountability, Transparency, Transformational leadership and Stakeholder engagement in relation to performance of state-owned enterprises (SOEs) with government policy objective as mediating variable. Accountability means answerability, that is, the ability of decision-makers to report, explain, and justify their actions (Zahraa, 2021). Moreover, accountability also refers to the way managers and directors manage normative, cultural, and professional expectations (Zahraa, 2021). The study examined the indicators of accountability such as disclosure, monitoring and evaluation measures, roles and responsibilities of the boards of directors, and feedback system put in place by the SOE.

Douglas and Meijer (2016) defined transparency as the availability of information about an organization or actor allowing external actors to monitor the internal workings or value of that organization. Under this variable, the study examined SOE reporting regime, internal controls and processes, accounting and auditing practices, and compliance procedures. Transformational leadership is a vision-centered and values-driven form of leadership that inspires and motivates followers to achieve outcomes beyond expectations and helps followers grow and develop by responding to their individual needs (Den Hartog, 2019, as cited in Poff & Michalos, 2020). Under this variable, leadership structure, leadership style, strategic planning and business environment have been studied. Stakeholder engagement is defined as the process used by an organization to engage relevant stakeholders for a purpose to achieve accepted outcomes (Schmitz, 2019). Key stakeholders are those with a legitimate interest in the institution (Schmitz, 2019). Under stakeholder engagement, the study has examined stakeholder participation, information transparency, communication, board stakeholder diversity and stakeholder satisfaction. The difference in performance of SOEs may be due to several factors including mediating effect of government policy objective (IMF, 2019). Governments mandate SOEs to pursue a diverse set of policy goals (IMF, 2020). For instance, governments may set policy objectives that constrain the profits of the SOE (IMF, 2019). Further, state-owned enterprises are often created to help address market failures and achieve economic and social policies at reasonable costs (IMF, 2019). In addition to commercial objectives, state owners also pursue social and political objectives (Aguilera et al., 2021). A state-owned enterprise (SOE) is any commercial entity in which the government has significant control through direct and indirect ownership (Ginting & Naqvi, 2020). SOEs are diverse, varying in size, sector of operation, complexity, sophistication, and extent of government ownership and control (IMF, 2020). Some are essentially an arm of the government, whereas others have a mix of public and private owners (mixed ownership) and a greater commercial focus (IMF, 2020; OECD, 2018).

Statement of the Problem

Concerns with poor governance of state-owned enterprises have fueled doubts about whether SOEs can achieve the desired goals (IMF, 2019). This is likely exacerbated in an environment of weak local or national governance and when there is undue political influence (IMF, 2019). Many governments have undertaken SOE reforms using a variety of corporate governance related policy instruments, including mechanisms for performance monitoring and evaluation (World Bank, 2018). The underperformance of state-owned enterprises has led to significant challenges in overall national growth and competitiveness and pose a fiscal risk to the government (World Bank, 2018). SOEs often face important financial and service delivery

performance challenges (World Bank, 2018). Over the past forty years, governments and international organizations have tried various ways to improve financial, operational and fiscal performance of SOEs (World Bank, 2021). Yet, sometimes they fell short of expectations (World Bank, 2021). In Gambia for instance, the Gambia Integrated State-Owned Enterprises Framework (iSOEF) report showed that SOEs are facing a wide range of issues, from insolvency, weak accounting systems, and the overstatement of assets to conflicting commercial and socio-economic objectives, and corporate governance issues (World Bank, 2022). In Kenya, around one third of the 46 commercial state corporations made losses in the last three consecutive years from the financial years 2018-2020 (World Bank, 2021). The aggregate operational performance of commercial state corporations turned negative in the financial year 2019-2020 for the first time in recent years (World Bank, 2021). For example, Kenya Power & Lighting Company turned unprofitable only in FY2019/20 (recording Ksh 2,983M in losses) being a culmination of a steady decline in net profits in previous years, from Ksh 3,269M in FY2017/18 to Ksh.262M in FY2018/19 (a 92 percent decline) (World Bank, 2021). Thus, the weakening aggregate performance of commercial state corporations is visible in declining profitability ratios, such as the return on equity (ROE), return on assets (ROA) and net profit margin (World Bank, 2021). In the transport industry for instance, Kenya Railway Corporation's poor performance was largely driven by rising expenses (71 percent) between FY2018/19 and FY2019/20, outpacing revenues which increased by 38 percent (World Bank, 2021). The total liabilities of SCs – including commercial, non-commercial and funds– increased from 21.9 percent of GDP in FY2015/16 (Ksh 1,535,031M) to 23.4 percent of GDP in FY2019/20 (Ksh 2,459,500M), which is above the Sub Saharan Africa average of around 20 percent (World Bank, 2021). Globally, several scholars have studied on corporate governance and performance. Eforis (2018) did an empirical study on corporate governance, state ownership and firm performance of state-owned enterprises in Indonesia and found that both good corporate governance and state ownership had a positive influence on the company's financial performance as measured by ROA. This finding is also supported by findings of other scholars (Abang'a et al., 2021; Hermanto et al., 2021; Koech 2018; Mumba & Kazonga, 2021; Omware et al., 2020; Wezel & Calvalho, 2022). However, a studies by Gakpo (2020) and Chege (2021) revealed that corporate governance did not improve firm performance. This study therefore sought to fill this gap in knowledge by examining the relationship between corporate governance attributes and performance of state-owned enterprises.

Research Objectives

- i. To examine the influence of accountability attribute on performance of state-owned enterprises in Kenya.
- ii. To establish the influence of transparency attribute on performance of state-owned enterprises in Kenya.
- iii. To analyze the influence of transformational leadership attribute on performance of state-owned enterprises in Kenya.
- iv. To assess the influence of stakeholder engagement attribute on performance of state-owned enterprises in Kenya.

Theoretical Review

Agency Theory

In order to realize both the specific and general objectives, the study is guided by Agency Theory advanced by Jensen and Meckling (1976). According to Keay (2017), Agency Theory in relation to corporate governance issues, is a theory devised to explain and conceptualize the role and behaviour of agents, including managers and directors of companies. It seeks to address the issue of agency problem, which exist as a consequence of the appointment of boards and managers in companies and the separation of ownership and control (Fama, 1980; Fama & Jensen, 1983; Jensen & Meckling, 1976; Keay, 2017). Therefore, according to agency theory holding directors accountable for what they do is one of the major issues of corporate governance (Filatotchev et al., 2007; Keay 2017). Agency Theory holds that the central problem is ascertaining how the principals (the shareholders in corporate governance) can ensure that the agents (the directors) act in the best interests of the principals rather than in their own interests given that, according to agency theory agents will seek to maximize their own personal interests when acting in such a role (Keay, 2017). Thus, the agency theory provides rationale for ensuring that the board of directors is accountable for what it does (Keay, 2014; Moore 2013).

Jensen and Meckling (1976), defined the managers of the company as the agents and the shareholder as the principal. According to McCuddy and Pirie (2007) agents are given authority by those for whom they act - a contractual relationship on behalf of shareholders. According to Solomon and Solomon (2004), the problem that arises as a result of the system of corporate ownership is that the agents do not necessarily make decisions in the best interests of the principal. Firm performance by way of cost minimization and greater efficiencies is the desired outcome of the Agency Theory perspective (Corbetta & Salvato, 2004; Fama, 1980). The theory assumes that contracting can eliminate the agency problem, but practically it faces many hindrances like information asymmetry, rationality, fraud and transaction cost (Panda & Leepsa, 2017). Shareholders' interest in the firm is only to maximize their return, but their role is limited in the firm (Panda & Leepsa, 2017). According to Panda and Leepsa (2017), Agency Theory helps in implementing the various governance mechanisms to control the agents' action in the jointly held corporations. The use of Agency Theory as a description of and prescription for monitoring and control of management activity has been the primary theoretical lens for corporate governance (Wesley, 2010). In this study, Agency Theory provides a valuable lens for understanding the relationship between corporate governance attribute of accountability and performance of state-owned enterprises.

Signalling Theory

Signalling Theory can be traced to Spence's (1973) seminal work on labour economics, where he introduced information asymmetries into economic models of decision-making (Bergh et al., 2014). Signaling theory is useful for describing behavior when two parties (individuals or organizations) have access to different information (Connelly et al., 2011). Typically, one party, the sender, must choose whether and how to communicate (or signal) that information, and the other party, the receiver, must choose how to interpret the signal (Connelly et al., 2011). Accordingly, signaling theory holds a prominent position in a variety of management literatures,

including strategic management, entrepreneurship, and human resource management (Connelly et al., 2011). Transparency broadly refers to information disclosure as a key to better governance (Valentinov et al., 2019). Thus, Signalling Theory also provides a theoretical lens for understanding the role of transparency in corporate governance. Therefore, the phenomenon of transparency can be subsumed in an image of informational metabolism, that is, the informational exchange between an organization and its stakeholders (Valentinov et al., 2019). Signalling Theory therefore, seeks to explain how actors within organizations must make choices armed with incomplete and asymmetrically distributed information (Bergh et al., 2014). Dealing with information asymmetry is essential for developing a strong signaling environment with signals flowing efficiently and effectively between the firm and its stakeholders (Taj, 2016).

Signalling theory is widely used to address problems of information asymmetry in the market (Morris, 1987; Certo, 2003; Subramaniam et al., 2009). Thus, when applied to organizational disclosure practices, Signalling Theory proposes that it would be generally beneficial for organizations to disclose good or improved corporate governance initiatives and practices so as to create a favourable image in the market (Subramaniam et al., 2009). The assumptions that underpin Signalling Theory are that signals are noticed and/or attended to by almost everyone and that individuals respond in ways that correspond to the valence of a given signal implying high rationality (Drover et al., 2018; Kim & Jensen, 2014; Park & Patel, 2015; Pollock & Gulati, 2007). However, Signalling Theory has some limitations. For instance, research on organizational signalling offers little insight into how and why signals are attended to and how multiple (often competing) signals are interpreted (Drover et al., 2018). Because cognitively processing multiple, often conflicting, signals is both complex and challenging (Drover et al., 2018). Signalling Theory instigates the relationship between transparency and performance of state-owned enterprises.

Transformational Leadership Theory

According to Givens (2008), Transformational Leadership Theory was developed by Burns (1978) and later enhanced by Bass (1985, 1998) and others (Bass & Avolio, 1994; Bennis & Nanus, 1985; Tichy & Devanna, 1986). Bass (1985) expanded Burns's (1978) factors of leadership, and identified the behavioral components of transformational leaders as: idealized influence, inspirational motivation, intellectual stimulation, and individualized consideration (Northouse, 2016). According to Bass (1985) transformational leadership theory involves the leader's effect on followers, and the behavior used to achieve this effect. Burns (1978) postulated that transformational leaders inspire followers to accomplish more by concentrating on the follower's values and helping the follower align these values with the values of the organization. Thus, Transformational Leadership Theory is based on the assumption that followers feel trust, admiration, loyalty, and respect toward the leader, and they are motivated to do more than they originally expected to do (Yukl, 1999). The underlying influence process is described in terms of motivating followers by making them more aware of the importance of task outcomes and inducing them to transcend their own self-interest for the sake of the organization (Yukl, 1999). Transformational leadership is a leadership model based on visions and empowerment that has demonstrated a positive effect on both organizational outcomes, such

as performance, and employee attitudes and health (Tafvelin, 2013). This is because Transformational leadership will act to reduce feelings of burnout and symptoms of stress (Miner, 2005). It does this by helping followers transcend their self-interest, increase their awareness, and shift their goals away from personal safety to achievement and self-actualization (Miner, 2005). Charisma acts to satisfy frustrated identity needs and any lack of social support (Miner, 2005). Individualized consideration helps convert crises to developmental challenges (Miner, 2005). Intellectual stimulation promotes thoughtful and creative solutions to stressful problems (Miner, 2005). Transformational leadership theory attempts to explain the influence of transformational leadership on corporate governance (Leveric, 2014). Further, transformational leadership is relevant in promoting organizational performance because irrespective of the organization type, the style chosen is based on the leader's ability, preference and experience (Hilton et al., 2021). This theory instigates the relationship between transformational leadership and performance of state-owned enterprises.

Stakeholder Theory

The basic premises of Stakeholder Theory as posited by Freeman (1984), are that the organization enters into relationships with many groups that influence or are influenced by the company (Dooms, 2018, as cited in Bergqvist & Monios, 2019; Jones & Wicks, 1999; Savage et al., 2004). Moreover, the theory focuses on the nature of these relationships in terms of processes and results for the company and for stakeholders (Jones & Wicks, 1999; Savage et al., 2004). A stakeholder-based perspective of value is important from a managerial perspective because managers tend to focus attention on things that lead to higher performance based on what actually gets measured (Harrison & Wicks, 2013; Kaplan & Norton, 1992; Sachs & Riihli, 2011). Thus, rather than focusing primarily on economic measures of performance, a stakeholder-based performance measure, challenges managers to examine more broadly the value their firms are creating from the perspective of the stakeholders who are involved in creating it (Harrison & Wicks, 2013). Therefore, it gives managers the information they need to engage stakeholders where they are and enhance managerial ability to use such insights to create more value (Harrison & Wicks, 2013). At its core, this perspective is about creating a higher level of well-being for the stakeholders involved in a system of value creation led by the firm (Harrison & Wicks, 2013). Thus, Stakeholder theory provides an appropriate lens for considering a perspective of the value that stakeholders seek (Harrison & Wicks, 2013). Stakeholder theory emphasize on the building and maintenance of sustainable stakeholder relationships as the key to firm performance (Freeman et al., 2021). This theory instigates the relationship between stakeholder management and performance of state-owned enterprises.

Empirical Review

Influence of Accountability Attribute on Performance of State-owned Enterprises in Kenya

Mwayungu (2021) studied on the relationship between accountability, transparency and company performance in the United States. The study was based on U.S. publicly traded companies listed on the New York Stock Exchange for financial and bank services, technology, healthcare, energy, oil and gas, and real estate industries. The independent variables of the study

consisted of accountability and transparency while the company performance was the dependent variable. Accountability as the independent variable comprised of corporate social responsibility (CSR) and corporate social responsibility disclosure (CSR D) (Mwayungu, 2021). CSR and CSR D reports were used to measure the CSR and CSR D scores. The study measured company performance through net income, return on equity, return on assets and earnings per share profitability ratios. Secondary data were collected from the sample of 91 U.S. publicly traded companies listed on the New York Stock Exchange for financial and bank services, technology, healthcare, energy, oil and gas, and real estate industries for the period 2017, 2018, and 2019 retrieved from the SEC EDGAR database (Mwayungu, 2021).

In Nigeria, Agwor and Akani (2017) did a study on financial accountability and performance of local governments in Rivers State. The independent variables consisted of accountability, transparency and integrity. The dependent variable consisted of performance of local governments. The study targeted 450,904 respondents from Port Harcourt City and Obio Akpor local governments out of which 400 were sampled for the study. The study further employed stratified random sampling to select members of the sample frame. Data was collected using questionnaires and analyzed through ordinary least squares (OLS) regression analysis. The study findings showed that there was a significantly positive relationship between transparency in local governments and performance. In addition, the study established a significantly positive relationship between financial accountability and intercity and healthcare services in local governments in Rivers State, Nigeria. Moreover, the study established that transparency and integrity enhance the effective provision of primary healthcare services of local governments in Rivers State. The study recommended that strong internal control measures should be institutionalized in all local government councils, strict penalties put in place to punish non-transparent local government council officials (Agwor & Akani, 2017).

Mbalwa et al. (2014) studied on the effect of corporate governance on performance of sugar manufacturing firms in Western Kenya. The independent variables comprising corporate governance were board characteristics, top management characteristics and stakeholder communication characteristics while performance comprised the independent variable. The indicators of performance were market share, sales growth, profit and output in units. The study measured performance through return on capital employed, return on assets and return on equity. The study employed correlation survey design. The population of the study constituted of 11 sugar manufacturing firms in Western Kenya. A convenience sample of 11 sugar manufacturing firms in Western Kenya was used for the study. Primary data was collected using structured questionnaires. Descriptive statistics was used to summarize the data. Pearson's correlation coefficient was used to determine the relationship between corporate governance and organizational performance of sugar manufacturing firms. In addition, multiple regression analysis was used to determine the effect of corporate governance on organizational performance (Mbalwa et al., 2014). The study findings revealed that the corporate governance practices were positively related to the performance of sugar manufacturing firms in western Kenya (Mbalwa et al., 2014). Further, the study established that corporate governance practices which involve board characteristics, board size, top management characteristics and

shareholders' communication policy and continuous disclosure had an impact on the performance of Sugar firms in Western Kenya.

Influence of Transparency Attribute on Performance of State-owned Enterprises in Kenya.

Park (2020), did a study on enhancing the transparency and accountability of state-owned enterprises by examining relevant legislation, policies, and practices in Asia. The study reviewed 9 Asian countries namely, India, Indonesia, Kazakhstan, the Republic of Korea, Malaysia, Pakistan, the Philippines, Thailand, and Viet Nam. The study was based on desktop research complemented by key findings from OECD publications published in the context of OECD-Asia Network on Corporate Governance of State-owned Enterprises, which provides a forum for corporate practitioners, experts, and policy makers from the Asian region to identify policy challenges regarding the ownership and governance of SOEs, share good practices, and come up with recommendations for policy reform (Park, 2020). The study findings revealed that 5 of the surveyed countries lag behind when it comes to aggregate reporting on a whole-of-government basis (Park, 2020). Further, the study revealed that governments have established information reporting systems and performance evaluation systems through which they acquire financial and non-financial information from their SOEs. The study further established that autonomy of corporate boards and executive managers was a common weak point. However, one of the reviewed countries lacked comprehensive systems for detecting fiscal risk linked to SOEs. SOEs from 3 countries lacked an internal audit function for SOEs and/or their financial statements are not systematically subject to independent external audits. At the level of the state, a majority of the countries did not publish aggregate ownership reports, which potentially limited accountability and restricted the public from overseeing SOE performance.

In Zimbabwe, Mashavave (2017) did a study on corporate governance practices in Zimbabwe's state-owned enterprises in relation to performance with a case study of Air Zimbabwe. Corporate governance practices of responsibility, accountability, fairness and transparency were studied as the independent variables while the dependent variable consisted of board performance (Mashavave, 2017). The study sample consisted of 48 Air Zimbabwe management staff, employees and board members. Data was collected through interviews and questionnaires. The study research methodology for the collection of data involved the quantitative and qualitative techniques. Results of the study indicated that there was poor corporate governance compliance at Air Zimbabwe which led to corruption and lack of transparency and accountability. Further, study results pointed to non-availability of a written corporate written corporate governance policy and lack of performance monitoring mechanism for the board members some of whom were appointed on political grounds without the necessary airline industry knowledge. In regard to performance, the study results revealed that the board at Air Zimbabwe did not have a mechanism to evaluate its own performance. The study concluded that corporate governance is important in any organization as it enhances accountability and transparency. Further, good corporate governance is expected to enhance shareholders, prospective shareholders (investors) confidence.

Abang'a et al. (2021) did a study on corporate governance and financial performance of state-owned enterprises in Kenya. The independent variables consisted of board meetings, board skills, gender diversity, board sub-committees, board size, independent non-executive directors, aggregate corporate governance disclosure index. The dependent variable was financial performance measured through capital budget realization ratio (CBRR). The target population of the study consisted of 169 registered SOEs in Kenya. The study purposively sampled 45 SOEs across the five sectors, namely, public universities, training and research, service corporations, regulatory bodies and manufacturing. The study used balanced panel data regression analysis on a sample of 45 SOEs in Kenya for a four-year period (2015–2018). The panel data analysis results showed that board meetings, board skills and gender diversity were significantly and positively associated with capital budget realization ratio (CBRR). However, the study found that aggregate corporate governance disclosure index, board sub-committees, board size and independent non-executive directors were positively but insignificantly related to CBRR. The study results further established that corporate governance influenced the performance of SOEs in Kenya. The study recommended that 'Mwongozo' Code of Corporate Governance provisions should be changed to increase the number of women representations on the board (Abang'a et al., 2021).

Influence of Transformational Leadership Attribute on Performance of State-owned Enterprises in Kenya.

Orabi (2016), did a study on the impact of transformational leadership on organizational performance in the banking sector in Jordan. The study focused on the components of transformational leadership: idealized influence, inspirational motivation, intellectual stimulation and individual consideration and their influence on organizational performance in banking sector in Jordan. The study independent variables consisted of the components of transformational leadership: idealized influence, inspirational motivation, intellectual stimulation and individual consideration. The dependent variable consisted of organizational performance measured through effectiveness and efficiency. The study sample consisted of 249 employees working in the Jordanian banks. The study adopted survey research design. The hypothesis was tested through multiple regression analysis. The study results indicated that inspirational motivation, intellectual stimulation, and individual consideration had a statistically significant and positive influence on organizational performance. However, the results also indicated that idealized influence did not have a significant influence on organizational performance. The study concluded that transformational leadership positively influence organizational performance.

In Zimbabwe, Chinguruve (2019) examined on the impact of leadership style on organizational performance of state-owned enterprises in Zimbabwe. The independent variables of the study consisted of transformational, autocratic, democratic, laissez faire, bureaucratic, transactional leadership styles. The dependent variable consisted of organizational performance. Organizational performance was measured through net profit and plant capacity utilization. The target population was 9,800 non-managerial and managerial employees Air Zimbabwe and the National Railways of Zimbabwe. The study sample consisted of 300 employees. Purposive, random and convenience sampling techniques were adopted in selecting respondents for the

study. Both qualitative and quantitative approaches to data collection were employed. Thus, data was gathered with the aid of a structured questionnaire and semi-structured interviews. Descriptive and explanatory research method was adopted. The relationship between the independent and the dependent variables was analyzed and tested through Pearson Chi Square Tests (Chinguruve, 2019). The study employed case study research design on Air Zimbabwe and the National Railways of Zimbabwe to study the impact of leadership style on organizational performance of state-owned enterprises in Zimbabwe. The study findings revealed that transactional, transformational and democratic leadership styles enhanced organizational efficiency. The study concluded that there was a positive relationship between leadership styles and organizational performance.

In Kenya, Getange (2020), did a study on the effect of transformational leadership, organizational culture and regulatory framework on performance of state corporations in Kenya. The independent variables of the study consisted of dimensions of transformational leadership: Inspirational motivation, individualized consideration, intellectual stimulation and idealized influence. The intervening variable was organizational culture while the moderating variable consisted of regulatory framework. The dependent variable was performance measured through financial performance, internal business processes, learning and growth; and shareholders/customers value performance. The study targeted 138 state corporations in Kenya which were subjected to the first performance appraisal exercise conducted in 2008. The study sample consisted of 276 respondents selected from the 138 State Corporations in Kenya. Two (2) respondents from each State Corporation were selected. The study adopted cross-sectional survey design. Primary data was collected through questionnaires. Hypothesis testing of each variable on the relationship between transformational leadership and performance of state corporations in Kenya was done through simple regression analysis. Multiple regression analysis was carried out to assess the combined effect of transformational leadership, organizational culture, and regulatory framework on performance of state corporations in Kenya (Getange, 2020). The study findings indicated that transformational leadership significantly influenced performance of state corporations in Kenya (Getange, 2020). Further, regulatory framework had a significant moderating role whereas the mediation role of organizational culture was insignificant. The effect of organizational culture on the combined influence of transformational leadership and regulatory framework on performance was found to be insignificant (Getange, 2020).

Influence of Stakeholder Engagement Attribute on Performance of State-owned Enterprises in Kenya.

In Norway, Ghassim and Bogers (2019) did a study on linking stakeholder engagement to profitability through sustainability oriented innovation in the minerals industry. The independent variable consisted of stakeholder engagement while the mediator variable between stakeholder engagement and financial performance consisted of sustainability oriented innovation. The dependent variable of the study was financial performance measured through return on sales (ROS). The study included six different groups of external stakeholders in the questionnaire: customers, suppliers, non-governmental organizations (interest organizations), public authorities, competitors (peer companies) and universities. The study targeted 193

companies identified through the Norwegian registry of business enterprises. The study sampled 101 mineral companies in Norway. Primary data was collected from chief executive managers through online questionnaires that asked firms to specify their innovation outcomes, relationships with external stakeholders and internal routines for knowledge sharing in the period 2013-2015. Secondary data was collected from database of accounting data in Norway, called Proff®. The study employed ordinal logit regression analysis to test the hypothesis. The study results based on data collected from showed that both the transactional and relational interactions matter for improving sustainability oriented innovation measured by profitability. Further, financial benefits accrue once a firm is able to transform the acquired knowledge from external stakeholders to innovative outputs. The study concluded that firms' capability to develop sustainability-oriented innovation can be enhanced by stakeholder engagement to acquire a wide range of external knowledge in support of those innovations (Ghassim & Bogers, 2019).

In South Africa, Dzomonda (2020) studied on the relationship between stakeholder engagement and financial performance of firms listed on the Johannesburg Stock Exchange (JSE). The independent variable of the study was stakeholder engagement. Stakeholder engagement was measured using elements such as green supply chain management (GSCM), stakeholder communication, internal stakeholder collaboration and collaborations with the community on environmental initiatives (Dzomonda, 2020). The dependent variable of the study was financial performance. The study adopted market-based measure of financial performance specifically the Tobin's Q. Quantitative research approach and used a case study research design. The longitudinal design was adopted where panel data was collected from 2011-2018. The sample of the study was 32 firms listed on the Financial Times Stock Exchange (FTSE)/JSE Responsible Investment Index. This resulted in 256 observations for the period under consideration. The 32 firms considered belonged to different industries such as the mining industry, manufacturing, banking, health and pharmaceuticals, retail, telecommunications, energy and the services sector. The study utilized secondary data from annual financial statements of firms listed on the JSE. Financial performance data such as Tobin's Q, liquidity and firm size was collected from integrated annual financial statements on the firm's websites and the McGregor database. Quantitative content analysis was used to collect data related to stakeholder engagement. Data was analyzed using panel regression analysis model (Dzomonda, 2020). The study findings showed a positive but insignificant relationship between stakeholder engagement and financial performance (Dzomonda, 2020). Although the relationship was insignificant, the study inferred that stakeholder engagement initiatives such as stakeholder communication and collaborating with stakeholders in environmental sustainability projects may positively influence financial performance. The study concluded that firms may unlock non-financial value for their business by actively engaging in stakeholder management.

In Kenya, Kenyoru et al. (2015) did a study on stakeholder engagement and organizational performance at Kenya Power and Lighting Company Ltd, Eldoret branch, Uasin Gishu County. The independent variables of the study were employee investment, performance management systems, employee involvement in decision making, product customization, customer recognition and customer relationship management. The dependent variable of the study was

organizational performance. The target population of the study was 718 employees in Kenya Power and Lighting Company, North Rift Region. Stratified random sampling was used in selecting a sample size of 215 employees. The study employed descriptive research design. Data was collected using self-administered closed-ended questionnaires and analyzed using both descriptive and inferential statistics. Multiple regression analysis was used to test the hypothesis (Kenyonu et al., 2015). The study findings indicated that employee investment, performance management systems, employee involvement in decision making, product customization, customer recognition and customer relationship management had a significant and positive effect on organizational performance (Kenyonu et al., 2015). Further, the study findings showed that 76.2% of the changes in organizational performance was as a result of stakeholder involvement in the decision making process of the organization. The study concluded that both the customer and employee involvement strategies contributed significantly to the performance of Kenya Power and Lighting Company Ltd and also formed an integral part in decision making process of the company.

Conceptual Framework

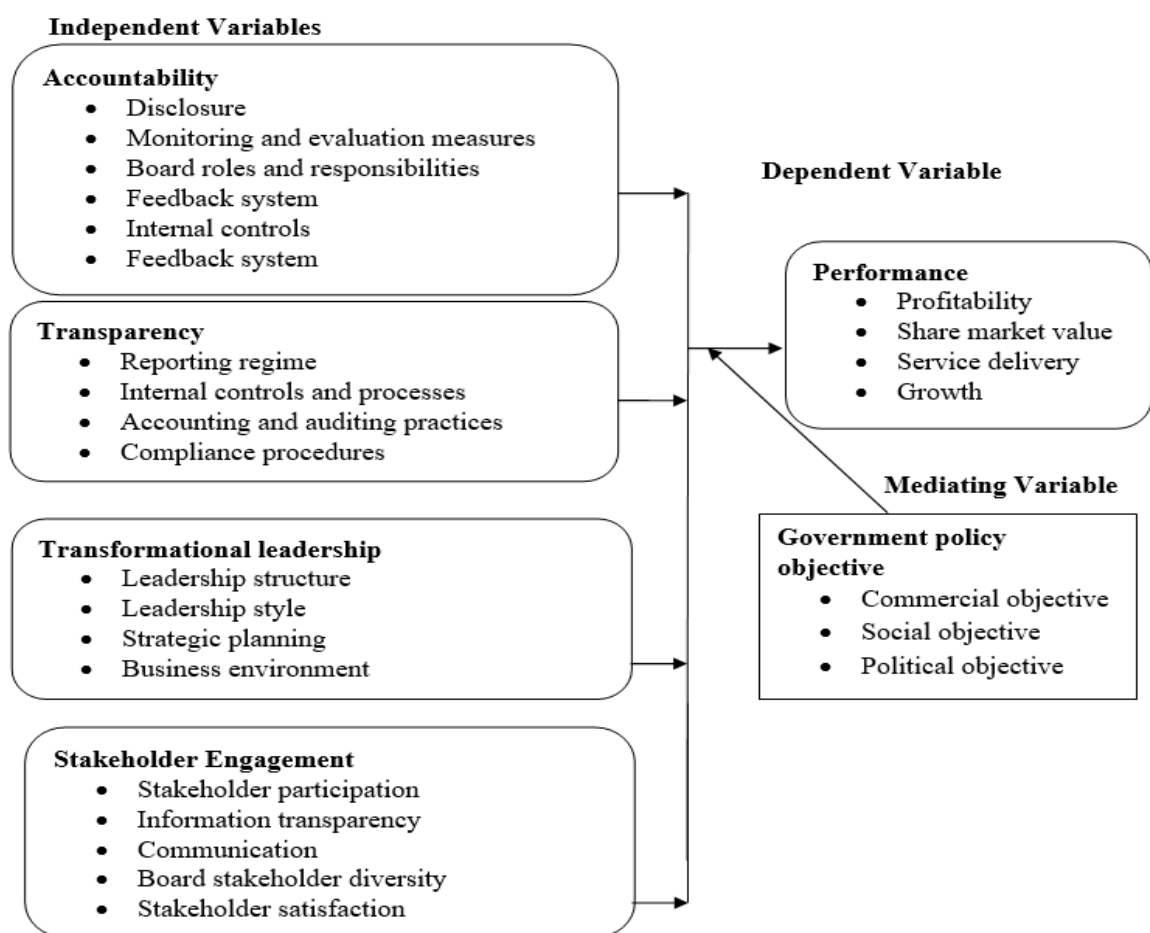


Figure 1: Conceptual Framework

Conceptual Review

This study discusses the following attributes of corporate governance: Accountability, Transparency, Transformational leadership and Stakeholder engagement in relation to performance of state-owned enterprises (SOEs). Good corporate governance is centered on core principles of accountability, transparency, fairness, and responsible management (Kyere & Ausloos, 2020). In addition, transformational leadership has a positive impact on corporate governance, which in turn has a positive effect on business performance (Sozibilir & Yesil, 2017). Therefore, corporate governance is a leading factor in organizational performance, financial reporting, and stakeholder satisfaction (Walker, 2018). Accountability of boards of directors is important to corporate governance (Keay, 2017). Thus, the central issue for corporate governance is how to strengthen the accountability of boards of directors to shareholders (Keay, 2017). There cannot be worthwhile and effective accountability unless boards acknowledge that accountability plays a critical part in corporate governance (Keay, 2017). This study examines the indicators of accountability such as disclosure, monitoring and evaluation measures, roles and responsibilities of the boards of directors, and feedback system put in place by the SOE. A study by Keay (2015) on board accountability has argued that accountability is a process and that there are four stages to it (Keay, 2015). The first stage is the board is required to provide accurate information concerning its decisions and actions, so that shareholders are informed as to what has been done (Keay 2015). This part involves disclosure and candid reporting (Keay, 2015). The second stage involves a board explaining and justifying its actions, omissions, risks, and dependencies for which it is responsible (Keay, 2017). The third stage is constituted by the questioning and evaluating of the reasons provided for what has been done by the board (Keay, 2017). The fourth stage involves feedback (Keay, 2017). Accountability is ultimately based on performance and passing judgement on those in office (Jennings, 2019).

Ensuring a high quality of transparency and accountability is the very basis of any sound corporate governance regime (OECD, 2016). Under the variable of transparency, the study examines SOE reporting regime, internal controls and processes, accounting and auditing practices, and compliance procedures. Reporting systems allow the ownership entity to regularly monitor, audit, and assess the performance of SOEs, and oversee and monitor their compliance with applicable corporate governance standards (Park, 2020). Thus, with regard to financial information disclosure, the SOE should maintain their accounts in accordance with internationally agreed accounting standards and submit their financial statements to an independent external audit based on relevant international auditing standards (Park, 2020). According to Brackett (2021), corporate governance and internal controls over the accounting and financial reporting processes are critical to timely and accurate financial data reporting. Internal controls establish accepted practices, manage risk choices in decision-making, and improve ongoing monitoring activities to ensure compliance with laws, regulations, and company policy (Brackett, 2021; Sheikh, 2019). In addition, effective internal audit procedures should be established, and overseen by an audit committee within the board of directors or its functional equivalent (Park, 2020). Therefore, information disclosure including both financial and non-financial data is essential for the government, so it can be an effective owner; the

Parliament to evaluate the performance of the state as an owner; the media to raise awareness on SOE efficiency; and taxpayers and the general public to have a comprehensive picture of SOE performance (OECD, 2016).

Leadership encompasses styles, characteristics, roles, and motivation of employees (Brackett, 2021). Wang and Zhou (2016) identified leadership as a critical component of corporate governance. In addition, leadership establishes good corporate governance through proper leadership roles, including an effective Board of Directors, and alignment of operational processes to employees and stakeholders (Brackett, 2021). A study by Steckler and Clark (2019) concluded that leadership plays a direct role in corporate governance and the accounting and financial reporting controls. Thus, transformational leadership principles are critical because it focuses on coaching and transforming others to achieve a higher level of performance (Bass, 1985). Bass (1985) argued that transformational leadership elevates the level of consciousness around goals, how to achieve them, and he forces leaders to transcend self-interest for the greater good of the team. Bass (1985) expanded Burns's (1978) factors of leadership, and identified the behavioral components of transformational leaders as: idealized influence, inspirational motivation, intellectual stimulation, and individualized consideration (Northouse, 2016). Therefore, the characteristic of idealized guidance focuses on the ideal state, which creates a vision of the future achieved by developing a strategy to guide the individual from the current state to a future state (Brackett, 2021). The goal of effective leadership over corporate governance from the Board of Directors is to create an effective control environment governing the accounting and financial reporting processes that leads to organizational success (Brackett, 2021). Thus, effective internal controls are interrelated with an organization's business process, information systems, and company culture, including job descriptions and work tasks, and are designed to achieve business objectives and strategy (Werner & Gehrke, 2019).

According to OECD Guidelines on Corporate Governance of State-Owned Enterprises (SOE Guidelines) the state ownership policy should fully recognize state-owned enterprises' (SOEs') responsibilities towards stakeholders and request that SOEs report on their reactions with stakeholders (OECD, 2015). Firms that continuously engage their stakeholders through newsletters, memos and through their websites are likely to gain trust and loyalty from stakeholders (Boakye, 2018; Dzomonda, 2020). This can attract investors in the company and suppliers which gives the firm an unmatched competitive advantage (Dzomonda, 2020). Constant stakeholder engagement makes investors to perceive the firm as transparent (Cheng et al., 2014). In addition, stakeholder communication, enhances their environmental sustainability initiatives through stakeholder feedback, support and buy in translating into superior financial performance and sustainable competitive advantage (Lannelongue et al., 2015).

Conclusion

This section discusses the reviewed theoretical and empirical findings in the existing literature on corporate governance attributes of accountability, transparency, transformational leadership and stakeholder engagement in relation to performance. This section also summarizes major contributions of significant studies on the relationship between corporate governance and performance. In addition, this section discusses the theoretical and methodological gaps in the

reviewed literature on corporate governance and performance. Further, this section provides overall conclusion about the relationship between corporate governance and performance of state-owned enterprises. According to reviewed literature, findings from a study by Mwayungu (2022) did not indicate a significant relationship between corporate social responsibility, corporate social responsibility disclosure and company performance in terms of profitability. However, Mwayungu (2022) argued that accountability and transparency could enhance financial performance in the long run and prevent the potential risk of poor managerial decisions. In addition, Abang'a et al. (2021) established that corporate governance influenced the performance of SOEs in Kenya. This was supported by study findings of Mbalwa et al. (2014) which revealed that the corporate governance practices were positively related to the performance of sugar manufacturing firms in western Kenya. Further, the study established that corporate governance practices which involve board characteristics, board size, top management characteristics and shareholders' communication policy and continuous disclosure had an impact on the performance of Sugar firms in Western Kenya.

In relation to transparency attribute, a study by Park (2020) revealed that governments have established information reporting systems and performance evaluation systems through which they acquire financial and non-financial information from their SOEs. Thus, Park (2020) argued that autonomy of corporate boards and executive managers was a common weak point. At the level of the state, a majority of the countries did not publish aggregate ownership reports, which potentially limited accountability and restricted the public from overseeing SOE performance. This was supported by Mashavave (2017), whose study findings revealed that there was poor corporate governance compliance at Air Zimbabwe which led to corruption and lack of transparency and accountability. Further, study results pointed to non-availability of a written corporate written corporate governance policy and lack of performance monitoring mechanism for the board members some of whom were appointed on political grounds without the necessary airline industry knowledge. In regard to performance, the study results revealed that the board at Air Zimbabwe did not have a mechanism to evaluate its own performance (Mashavave, 2017).

On transformational leadership attribute, Orabi (2016) established that inspirational motivation, intellectual stimulation, and individual consideration had a statistically significant and positive influence on organizational performance. In addition, transactional, transformational and democratic leadership styles enhanced organizational efficiency (Chinguruve, 2019). However, idealized influence did not have a significant influence on organizational performance (Orabi (2016). Orabi (2016) argued that transformational leadership positively influenced organizational performance. Chinguruve (2019) also established a positive relationship between leadership styles and organizational performance. Getange (2020) established that transformational leadership significantly influenced performance of state corporations in Kenya, Getange (2020) argued that regulatory framework had a significant moderating role whereas the mediation role of organizational culture was insignificant.

On the relationship between stakeholder engagement attribute and performance, Ghassim and Bogers (2019) found that financial benefits accrue once a firm is able to transform the acquired knowledge from external stakeholders to innovative outputs. Further, firms' capability to develop sustainability-oriented innovation can be enhanced by stakeholder engagement to

acquire a wide range of external knowledge in support of those innovations (Ghassim & Bogers, 2019). However, a study by Dzomonda (2020) established a positive but insignificant relationship between stakeholder engagement and financial performance. Dzomonda (2020) argued that although the relationship was insignificant, the study inferred that stakeholder engagement initiatives such as stakeholder communication and collaborating with stakeholders in environmental sustainability projects may positively influence financial performance. Kenyoru et al. (2015) established that employee investment, performance management systems, employee involvement in decision making, product customization, customer recognition and customer relationship management had a significant and positive effect on organizational performance. Further, both the customer and employee involvement strategies contributed significantly to the performance of Kenya Power and Lighting Company Ltd and also formed an integral part in decision making process of the company (Kenyoru et al., 2015).

This study involves the relationship between corporate governance and performance of state-owned enterprises. However, contextual gap was presented by Agwor and Akani (2017) who studied on the relationship between financial accountability and intercity and healthcare services in local governments in Rivers State, Nigeria. In addition, Mbalwa et al. (2014) studied on the effect of corporate governance on performance of sugar manufacturing firms in Western Kenya. Theoretical and methodological gaps in the reviewed literature on corporate governance and performance were also established. Mwayungu (2022) studied on the relationship between corporate social responsibility, corporate social responsibility disclosure and company performance in terms of profitability. Abang'a et al. (2021) used capital budget realization ratio (CBRR) as a measure of financial performance. Similarly, Ghassim and Bogers (2019) used sustainability oriented innovation measured by profitability as a measure of financial performance. Gaps were also noted on the research design employed. This study adopted desk research design. However, based on reviewed literature, most studies employed descriptive survey research design (Orabi, 2016; Chinguruve, 2019; Getange, 2020; Kenyoru et al., 2015 & Mbalwa, 2014). Dzomonda (2020) employed case study research design while Mwayungu (2022) employed ex-post facto research design.

On accountability attribute, most scholars anchored their studies on corporate governance and performance on Agency Theory (Abang'a, 2021; Mashavave, 2017). Similarly, this study adopted Agency Theory to instigate the relationship between corporate governance attribute of accountability and performance of state-owned enterprises. This study also adopted Signalling Theory to instigate the relationship between transparency and performance of state-owned enterprises. Most scholars adopted Agency Theory (Abang'a, 2021; Mashavave, 2017). Thus, further studies are necessary on a suitable theory that grounds the relationship between transparency and performance of state-owned enterprises. On Transformational Leadership, this study reviewed Transformational Leadership Theory, similarly other scholars anchored their studies on leadership on Transformational Leadership Theory (Orabi, 2016; Getange, 2020). However, in addition to Transformational Leadership Theory, Getange (2020) reviewed Personality-Job Fit Theory. Further, a study by Chinguruve (2019) reviewed Trait Theory; Situational-Leadership Theory; and Behavioural Theory. On stakeholder engagement, this study

adopted Stakeholder Theory similar to other scholars (Dzomonda, 2020; Ghassim & Bogers, 2019; Mwayungu, 2022).

Further, the study established that more transparency allows for greater accountability and contributes to better performance by state-owned enterprises (IMF, 2019). Countries that have been able to improve their corporate governance standards and practices have also been able to improve the business environment for and performance of both private and state-owned companies (World Bank, 2020). Reliable and timely financial information is vital for making decisions and for holding SOEs accountable for their performance (World Bank, 2020). However, countries with ineffective governance and low accountability continue to experience weak SOE performance, poor delivery of public services, stifled competitiveness and growth including through the crowding-out of private companies and increased opportunities for political patronage and corruption (World Bank, 2020). Firm performance can be expected to improve with enhanced corporate governance mechanisms because, with better oversight and processes, the principal-agent problem would be mitigated as managers are more likely to better understand the principal's expectations, invest in value-maximizing projects, and operate more efficiently (World Bank, 2018).

In conclusion, SOEs' performance is influenced by adoption and implementation of corporate governance practices (Abang'a et al., 2021; Agwor & Akani, 2017; Herdjiono & Sari, 2017; IMF, 2019; Machuki & Rasowo, 2018; Mashavave, 2017; Naimah & Hamidah, 2017; Park, 2020; Walker, 2018). Therefore, good corporate governance is the foundation for stable, financially healthy state corporations and the key to sustainably limiting the fiscal risks and costs emanating from state corporations (World Bank, 2021). However, due to policy burdens imposed by the state, SOEs are less efficient and have lower profitability compared to private corporations (Brigitta, 2017). The study recommended that the principal objective of SOE reforms should be to improve SOEs' accountability and efficiency by establishing and enforcing adequate reporting of their performance while holding them accountable for reaching or their targets (World Bank, 2020). The state ownership policy should fully recognize SOE's responsibilities towards stakeholders and request that SOEs report on their relations with stakeholders (OECD, 2017). Further, it should make clear any expectations the state has in respect of responsible business conduct by SOE (OECD, 2017).

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