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The Strategic JOURNAL of Business & Change MANAGEMENT
ISSN: 2312-9492 www.strategicjournals.com

Vol. 6, Iss. 3, pp 255- 271, July 30, 2019. www.strategicjournals.com, ©Strategic Journals

INFLUENCE OF CORPORATE GOVERNANCE ON FINANCIAL PERFORMANCE OF LISTED CORPORATIONS IN KENYA

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Accepted: July 29, 2019

ABSTRACT

The purpose of the study was to investigate the influence of corporate governance on financial performance of state corporations in Kenya. The target population of the study was 130 senior managers drawn from 12 state corporations in Kenya where the government had shareholding. The study sample of 98 respondents was drawn using stratified random sampling. Primary data was collected using structured questionnaires while secondary data collection sheet was used to collect secondary data. The study focused on listed state corporations in Kenya with shareholding from the government. In multivariate analysis, multiple regression analysis model was used to determine the type of the relationship that exists between the independent and dependent variables. Hypothesis was tested by regressing independent variables against dependent variable, financial performance. Statistical Package for Social Science (SPSS) Version 25 was used for data analysis. The study established that financial disclosure leads to reduced conflicts between shareholders and managers. The corporations voluntarily provided forward looking information and the state corporations were mandated by regulations to disclose all financial statements which were accessible to all stakeholders at any time. The study concluded that state corporations targeted engaged members who had financial knowledge and experience in the committees. The management of sampled state corporations enjoyed cordial relationships with audit committee and internal auditors and observed professional ethics & standards. The study recommended that management of state corporations should adhere to laid down regulations on financial disclosure so as to avoid agency conflicts with shareholders and creditors. The information disclosed by the corporation should be adequate to enable stakeholders to make informed decisions and should be forward looking. The study recommended that the management and regulators of state corporations should only recruit and select those members who possess financial knowledge and experience to be part of internal audit committees.

Key words: *Financial Disclosure, Internal Audit Standards, Internal Controls, Ownership Structure, Financial Performance*

CITATION: Gitonga, D., & Baimwera, B., & Kithinji, M. (2019). Influence of corporate governance on financial performance of listed corporations in Kenya. *The Strategic Journal of Business & Change Management,* 6 (3), 255 – 271.

INTRODUCTION

Globally, financial scandals have been witnessed triggering reaction for tighter regulation and enhanced standards for accounting and corporate governance (Sarbanes & Oxley, 2002). In America, scandals such as World.com and Enron in year 2002 where investors lost over $180 billion led to enactment of Corporate and Auditing Accountability and Responsibility Act (Sarbanes & Oxley, 2002). These major financial scandals were caused by weak corporate governance which the Sarbanes Oxley Act of 2002, tried to address. Corporate Governance is the system by which organizations are directed and controlled. It's a set of relationships between company directors, shareholders and other stakeholder's as it addresses the powers of directors and of controlling shareholders over minority interest, the rights of employees, rights of creditors and other stakeholders (Muriithi, 2009). Corporate governance has evolved over the years with the evolution of the corporate legal personality. Corporate governance essentially arose from the agency problems that were created by the separation of ownership and control which promotes a dominant management team and powerless shareholders (Wells, 2012).

In Africa, the corporate governance concept is gradually warming itself to the top of policy agenda like in Ghana and South Africa. Indeed, it is believed that the Asian crisis and the seemingly poor performance of the corporate sector in Africa have made the concept of corporate governance a catch phrase in the development debate (Berglof and Von Thadden, 2014). Godfrey (2002) posits that in addition to the South African King Report, there has been a rapid growth in the development of African thinking on corporate governance. New thinking is to attack on the supply side of corruption (company bribes) by complementary anti-corruption measures by the state. The recent initiative of the African Union (AU) to develop an AU Convention on Combating Corruption addresses the importance of declaring public officials' assets, and also breaks ground by targeting unfair and unethical practices in the private sector. Corporate governance is now established as an important component of the international financial architecture, but barely half a decade ago it was little known beyond specialists in a few countries such as the US, the UK, Australia, Canada and South Africa.

In Kenya, the poor performance of state corporations in 1990's led to outflow from central government to parastatals equivalent to 1 percent of the GDP in 1991. Further, in 1990 – 1992, the direct subsidies to parastatals amounted to Ksh 7.2 billion and as additional indirect subsidies amounted to Ksh. 14.2 billion. By 1994, the subsidies paid to parastatals or organizations were taking 5.5 % of the GDP. The levels of inflation in the country then reflected deficits financed by the Central Bank. Some ways were devised to solve these problems, such as negotiations between state corporations and government in a bid to clarify the former's objectives and set targets, introduction of competition and better accountability to customers, provision of incentives in form of higher salaries and benefits to employees based on performance and increased training of employees. All these measures were not 100% successful. Failure of the above measures made many governments embark on privatization (Kamung'a, 2000).

State corporations are corporate entities that are established and governed by legislation in order to provide a good or service to the public (Odoyo, Omwonyo and Okinyi, 2014). In Kenya, for desire of sufficient indigenous private entrepreneurship after independence, the government had to use parastatals to fill the existing entrepreneurship gap. Thus, public enterprises served as a means to promote the establishment of private African enterprises (Wamalwa, 2003). The state corporations have tremendous governance problems. Some of the

state corporations have folded up partly as a result of governance problems as observed in South Africa by (Kyereboah and Biekpe, 2006).

Sessional Paper No.4 (GoK, 1991) on development and employment in Kenya decried the continued deterioration of the performance of SCs. The paper observes that while the creation of SCs through which government participation in economic activities was promoted was perhaps appropriate soon after independence, the objectives for and the circumstances under which most of the state enterprises were created have since changed. The paper underlines the need to implement privatization and divestiture of SCs urgently in view of the managerial problems afflicting the parastatals leading to poor return on government investments, the existence of a larger pool of qualified manpower, availability of more indigenous entrepreneurship to permit private sector – led economy and the need for non-tax revenue for the government. The government has made progress in parastatals' reform.

Statement of the Problem

Despite tight regulatory framework, Corporate Governance continues to weaken in Kenya (Mang'unyi, 2016). According to Muriithi, (2015), many companies have been characterized by scandals. Directors have acted illegally or in bad faith towards their shareholders e.g. Kenya Railways Corporation, Numerical Machining Complex (NMC), Kenya Farmers' Association, Kenya Planters Co-operative Union, Milling Corporation Industries Ltd., revamped New Kenya Co-operative Creameries Ltd., National Social Security Fund (NSSF), Uchumi Supermarkets and all the State owned Sugar factories that continue to post dismal performance due to poor management.

Local empirical studies done on corporate governance have narrowed down on other sectors other than state corporations with majority government shareholding. For instance, Jebet (2016) conducted a study of Corporate Governance practices among the listed firms in Kenya, Muriithi (2015) did a study on the relationship between Corporate Governance mechanisms and performance of firms quoted on the NSE, Manyuru (2015) researched on Corporate Governance and organizational performance the case of companies quoted at the NSE while Matengo (2014) did a study on the relationship between Corporate Governance practices and commercial banks' performance in Kenya. From the reviewed studies very few had focused on financial aspects of corporate governance and their influence on financial performance of state corporations. Hence the current study sought to fill the knowledge gap by holistically investigating the influence of corporate governance on financial performance of listed state corporations in Kenya.

Research Objectives

The general objective of the study was to investigate the influence of corporate governance on financial performance of state corporations in Kenya. The specific objectives were:-

- To establish the influence of financial disclosure on financial performance of state corporations in Kenya
- To determine the influence of internal audit standards on financial performance of state corporations in Kenya
- To examine the influence of internal controls on financial performance of state corporations in Kenya
- To investigate the influence of ownership structure on financial performance of state corporations in Kenya

Research Hypothesis

- **H_{01}:** There is no significant influence of financial disclosure on financial performance of state corporations in Kenya

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- **H_{02}:** There is no significant influence of internal audit standards on financial performance of state corporations in Kenya
- **H_{03}:** There is no significant influence of internal controls on financial performance of state corporations in Kenya
- **H_{04}**: There is no significant influence of ownership structure on financial performance of state corporations in Kenya

LITERATURE REVIEW

Theoretical Framework

Control Theory

Control theory is considered as an interdisciplinary source of illustrating and science that game plans with the lead of dynamical system with data sources. The outside duty of a framework is known as the reference. At the point when no less than one yield components of a structure need to take after a specific reference over the long haul, a controller controls the commitments to a system to gained needed effect on the yield of the system (Davidson *et al.*, 2005). The goal of a control hypothesis is to ascertain answers for the best possible collective activity from the controller that outcome in system steadiness that is, the system will hold the set point and not waver around it. Frameworks have inputs and yields to bring an item in the wake of preparing thus inputs and yields of a control framework are by and large related by differential conditions.

Stakeholder Theory

Stakeholders' theory has been popularized since, scholars have realized that the tasks of a corporate entity effects on the external environment that requires accountability of the institution to a wider audience than just its shareholders. For example, McDonald and Puxty (1979) suggested that companies are no longer the instrument of shareholders alone but they exist within the society and hence it has responsibilities to the society too. In fact Freeman *et al* (2004) pointed out that economic value is created by people who voluntarily come together and cooperate to improve everybody's position. Jenson (2011) critiqued stakeholder's theory as assuming single valued objective and hence suggests that the performance of a firm is not measured only by gains to its stakeholders but also other key issues such as flow of information from senior management to lower levels, interpersonal relations, working environment among others.

Agency Theory

Agency theory is a management approach where one individual (the agent) acts on behalf of another (the principal) and is supposed to advance the principal's goals (Judge *et al.*, 2010). The agent therefore advances both the principals' interests and his own interests in the organization. The theory was propounded by Jensen and Meckling (1976) and views the firm as an artificial construct which serve as a nexus of contracts between individuals. The theory argues that one of the most important contracts a firm engages in is the residual claim (equity) of the shareholders on the firm's assets and cash flows.

Auditing Theory

Mautz and Sharaf (1961) explain how a pie chart may be used to illustrate the scheme of auditing knowledge. At the center, it holds the hard core of the most fundamental types of knowledge, mathematics and logic. The philosophical ground involves the verification of the core and drawing strength from the foundation level of auditing knowledge. It shows this level of knowledge to be an important part of the field of auditing as well as the nature of its knowledge and methodology. It further illustrates that the basics for concluding concepts must relate harmoniously and recognize the strength and weakness of their development, and the evaluation of risk-based audit approaches and methodology.

Resource Dependence Theory

Resource dependence theory (RDT) by Barney (1986), proposition is based on the premises that a firm's board, and in particular the constitution of the non-executive element of a board, can provide the firm with a vital set of resources. Although agency theory is the predominant theory used in the research on boards of directors (Dalton *et al*., 2007; Ellstrand & Daily, 1996; Zahra & Pearce, 1992), this is the area of RDT's greatest research influence. Pfeffer *et al.* (1978) asserts that boards enable firms to minimize dependence or gain resources. RDT is less commonly used to study boards than agency theory but empirical evidence to date suggests that it is a more successful lens for understanding boards (Zahra & Pearce, 1992).

Empirical Review

Financial Disclosure and Financial Performance

Annual reports for companies contain both mandatory and voluntary information. Laws, regulations and accounting standards prescribe mandatory information contained in annual returns whereas voluntary information is dependent on management's judgment on information that need to be included in the annual report (Mohammad & Mehedi , 2014). Financial disclosure aims at introducing and explaining companies' potentials to investors, driving the fluidity of capital market, guaranteeing more effective allocation of capitals, decreasing capital costs, and helps to achieve a more positive communication with investors as perfecting the information disclosed. In other words voluntary financial disclosure is the provision of information by a company's management beyond requirements such as generally accepted accounting principles and Securities and Exchange Commission rules, where the information is believed to be relevant to the decision-making of users of the company's annual reports.

Internal Audit Standards and Financial Performance

Internal audit function, although it is not compulsory, subsists in majority of private venture or firms substances, and in public sector are not excluded, state, and nation and city governments. The errand, quality and solid purpose of an inward review capacity might be distinctive broadly inside the approach of top officials and conventions of organizations and associations. By measuring and assessing the viability of firm controls, internal auditing, itself, is an essential administrative control gadget, which is specifically connected to the authoritative structure and the general principles of the business (Cai, 2011).

Internal Control on Financial Performance

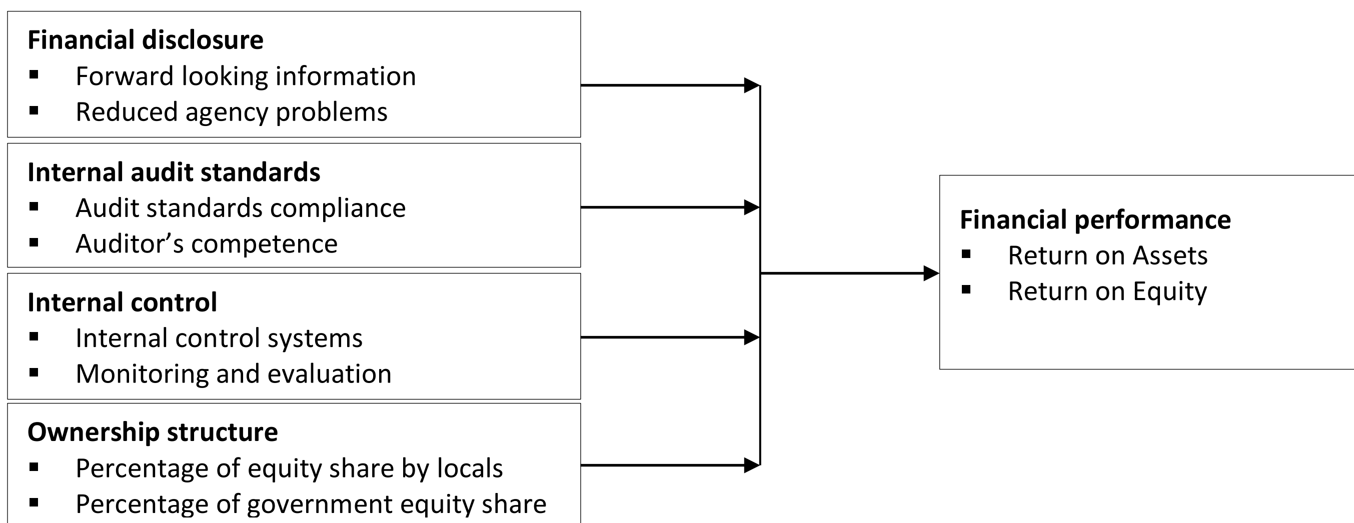
An entity should put in place its own system of controls in order to achieve its objectives (Mwindi, 2008). A system of effective internal controls is a critical component of company management and a foundation for the safe and sound operation of organizations. However, ineffective internal controls result in ineffective programs and eventually leading to losses (Olumbe, 2012). Recent incidence of corporate failures and accounting frauds are mostly preceded by failure in companies' internal control structures (Anyanzwa, 2013). Internal controls are intended primarily to enhance the reliability of financial performance, either directly or indirectly by increasing accountability among information providers in an organization (Jensen, 2003). Internal controls provide an independent appraisal of the quality of managerial performance in carrying out assigned responsibilities for performance (Beeler *et al.*, 1999).

Ownership Structure and Financial Performance

Jiang (2015) argue that a typical feature of ownership structure in modern corporate governance is the separation of company ownership and management. In order to better the development of firms, business owners take the companies operating rights to professional managers to manage and only retain the

power of the residual value of the company to obtain rights. The disagreement between shareholders and management will lead to manager's selfish behavior of short term profit harming the interest of owners and destroying the contractual relationship. Therefore in addition to incentive pay the shareholdings of managers are also good incentive mechanism as it can help the management and the shareholders to become united to promote the interest of both so that the managers will pay attention to the development of long term interests of the company besides considering themselves, thus contributing to achievement of the contract objectives (Matengo, 2008). Therefore shareholding of managers will make them pay more attention and emphasis on long term development of the firm.

Conceptual Framework



Independent variables **Dependent variable**

Figure 1: Conceptual framework

Source: Authors (2019)

METHODOLOGY

This study adopted a descriptive survey design which was aimed at describing, explaining, and validating findings. The population of interest in this study was 130 senior managers drawn from twelve (12) state corporations where the government of Kenya had shareholding. Stratified random sampling method was used to select relevant respondents from the target population.

The study used primary data which was obtained by use of a questionnaire and secondary financial data from annual reports. Structured questionnaires were used to gather data. Quantitative methods of data analysis was used to analyze the data. Quantitative information was analyzed through statistical procedures. Pearson's correlation analysis was used to explore the relationships among the variables. To test the hypotheses, multiple regression analysis was used. The statistical package for social sciences, SPSS (version 25.0) was used for data analysis.

The regression model used was as follows:

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

Where:

Y is weight for financial performance (ROA or ROE)

α is regression constant

β_1 - β_4 is regression coefficients

X_1 is weight for financial disclosure

X_2 is weight for internal audit standards

X_3 is weight for internal control

X_4 is weight for ownership structure

ε is stochastic term

The Strategic Journal of Business & Change Management. ISSN 2312-9492 (Online) 2414-8970 (Print). www.strategicjournals.com

FINDINGS

Financial Disclosure and Financial Performance

The study sought to find out the influence of financial disclosure on financial performance. A Likert scale data was collected rating the extent of agreement in a scale of 1 to 5 where 1 was the strongly disagree and 5 was the strongly agree indicator. The mean score for each item was calculated and the findings were shown in table 1.

Table 1: Financial disclosure

	Mean	Std. Deviation
There is reduction of agency problems as a result of financial disclosure	4.89	1.158
The institution voluntarily provides forward looking information	4.93	1.150
There is voluntary financial disclosure in the state corporation	4.14	.882
The financial and non-financial information is accessible to all stakeholders at any time	4.07	1.101

From the findings, respondents agreed that there was reduction of agency problems as a result of financial disclosure having mean score of 4.89 and a standard deviation of 1.158, implication that financial disclosure leads to reduced conflicts between shareholders and managers. Respondents had agreed that the institution voluntarily provided forward looking information with a mean of 4.93 and standard deviation of 1.150. Majority of the respondents had agreed that there was voluntary financial disclosure in the state corporation with a mean score of 4.14 and standard deviation of 0.882. Majority of the respondents agreed that the financial and non-financial information was accessible to all stakeholders at any time having mean score of 4.93 and standard deviation of 1.158. This result confirmed Mutiva (2015) who carried out a study on the impact of voluntary disclosures on financial performance with focus on banking, telecommunications and manufacturing companies quoted at the NSE and established that there existed a strong positive association between voluntary disclosure and return on investment. The study findings, however, disagreed with Merkley (2011) who examined the relationship between reported financial performance and voluntary disclosure for the period of 12 years from 1996 – 2007 and revealed that current reported performance is negatively related to voluntary disclosures.

Internal Audit Standards and Financial Performance

The study sought to find out the extent to which internal audit standards influence financial performance. The following were the findings.

Table 2: Internal audit standards

	Mean	Std. Deviation
Audit committee members possess certain level of financial competency	4.23	.923
The audit committee has effective working relationships with senior management	4.51	.608
Internal auditors observe professional ethics & standards	4.81	1.330
There is full disclosures about compliance risk and risk management	4.78	1.055
The corporation uses International Auditing standards to guide the internal audits ethics	4.21	.897
There is compliance with accepted audit standards	4.22	.980

From table 2, respondents agreed that audit committee members possessed certain level of financial competency with mean of 4.23 and standard deviation of 0.923 implying that the state corporations engaged member who had financial knowledge and experience. Majority of the

respondents agreed that the audit committee had effective working relationships with senior management by a mean score of 4.51 and standard deviation of 0.608. Most of the respondents agreed that internal auditors observed professional ethics & standards having mean score of 4.81 and standard deviation of 1.330. Respondents further agreed that there was full disclosures about compliance risk and risk management having mean score 4.78 and standard deviation of 1.055. Most of the respondents agreed that the corporation used International Auditing standards to guide the internal audits ethics having mean score of 4.21 and standard deviation of 0.897. Most of the respondents agreed that there was compliance with accepted audit standards with support of 4.22 mean and standard deviation of 0.980 signifying that the state corporations complies with existing audit standards. The findings confirmed results by Kibet (2012) who concluded that the internal audit function played a role in corporate governance.

Internal Controls and Financial Performance

With regard to the influence of internal controls on financial performance of state corporations, data that was collected through the Likert scale measuring the level of agreement of the respondents with respect to the given aspects of internal controls. The results were as presented in table 3.

Table 3: Internal Controls

	Mean	Std. Deviation
Appropriate measures are taken to correct misfeasance in operation of our Accounting & Finance Management System	4.24	0.860
The corporation performs methodical examination of business processes and connected controls regularly	4.31	1.067
The corporation has an accounting and financial management system	4.25	0.919
Management closely monitors implementation of Internal control systems in the corporation	4.05	0.808
There is provision of independent verification of a sufficient sample of transactions to ensure integrity of the decision making process	4.18	0.917

Results in table 3 indicated that majority of the respondents agreed that appropriate measures were taken to correct misfeasance in operation of our Accounting & Finance Management System having mean score of 4.24 and standard deviation of 0.860. Majority of the respondents agreed that the corporation performed methodical examination of business processed and connected controls regularly having mean score of 4.31 and standard deviation 1.067. The corporation had an accounting and financial management system as indicated by a mean of 4.25 and standard deviation 0.919. The results showed that the management closely monitored implementation of Internal control systems in the corporation (mean= 4.05) and there was provision of independent verification of a sufficient sample of transactions to ensure integrity of the decision making process having mean of 4.18 and standard deviation of 0.917. The findings agreed with Mwakimasinde, Odhiambo and Byaruhanga (2014) who investigated the effect of internal control systems on the financial performance of sugarcane outgrower companies in Kenya and found a positive significant effect of internal control system on the financial performance.

Ownership Structure and Financial Performance

The study sought to determine the effect of procurement transparency. The results are presented in table 4.

Table 4: Ownership structure

	Mean	Std. Deviation
Government shareholding influences the stability of the company share prices	4.13	0.940
Local shareholding enables the corporation to get funding from local financial institutions which reduces working capital problems	4.07	0.950
Local shareholding influences the share prices of the corporation	4.41	0.845
Government shareholding gives a positive public image and confidence to investors	4.21	0.869
Government facilitates the corporation to get government tenders	4.27	0.920

As shown in table 4, majority of the respondents moderately agreed that government shareholding influenced the stability of the company share prices with mean score of 4.13 and standard deviation of 0.940. The results disagreed with Kiruri (2013) who concluded that state ownership had negative and significant effects on the banks profitability. The results implied that the state corporations enjoyed government good will to stabilize their share prices. Majority of the respondents agreed that local shareholding enabled the corporation to get funding from local financial institutions which reduced working capital problems with mean of 4.07 and standard deviation of 0.950. Local shareholding influenced the share prices of the corporation as indicated by a mean of 4.21 and standard deviation of 0.869. The results indicated that government shareholding gave a positive public image and confidence to investors as indicated by a mean of 4.10 and standard deviation of 0.854. Government facilitated the corporation to get government tenders with mean of 4.27 and standard deviation of 0.920. The findings confirmed results by Kiruri (2013) who researched on the effects of ownership structure on banks profitability in Kenya and found local ownership and foreign ownership had positive and significant effects on the banks profitability.

Table 5: Bivariate Pearson correlation

		Financial Disclosure	Internal Audit Standards	Internal Controls	Ownership Structure	Financial Performance
Financial disclosure	Pearson Correlation	1				
	Sig. (2-tailed)					
	N	86				
IAS	Pearson Correlation	.499**	1			
	Sig. (2-tailed)	.002				
	N	86	86			
Internal controls	Pearson Correlation	.562**	.610**	1		
	Sig. (2-tailed)	.037	.000			
	N	86	86	86		
Ownership structure	Pearson Correlation	.584**	.318**	.415**	1	
	Sig. (2-tailed)	.000	.000	.000		
	N	86	86	86		
Financial Performance	Pearson Correlation	.490**	.513**	.326**	.274	1
	Sig. (2-tailed)	.000	.000	.000	.000	

**. Correlation is significant at the 0.01 level (2-tailed).

Correlation results in table 5 showed that there was a moderate positive correlation between financial disclosure and financial performance (r=0.490, P=0.000). Correlation results also indicated a moderate correlation (r=0.513, P=0.000) between internal audit standards and financial performance. Further there was a weak positive correlation (r=0.326, P=0.000) between internal controls and financial performance. Finally, the correlation results showed that there was a weak correlation (r=0.274, P=0.000) between ownership structure and financial performance.

Regression Analysis

Table 6: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.753[a]	.567	.539	1.20063

a. Predictors: (Constant), Financial disclosure, Internal audit standards, Internal controls, Ownership structure

According to regression results in table 6, the regression equation between corporate governance and financial performance had a moderate regression. In the model summary, the R^2 was 0.567. This implied that the four variables studied explained 56.7% of variance in the financial performance of state corporations. This means that, the other factors not considered in the study contributed 43.3% of variance in the dependent variable.

ANOVA and F-test Results

Table 7: Analysis of Variance

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	628.392	4	157.098	26.559	.000[b]
	Residual	479.130	81	5.915		
	Total	1107.522	85			

a. Dependent Variable: Financial performance

b. Predictors: (Constant), Financial disclosure, Internal audit standards, Internal controls, Ownership structure

The ANOVA table showed that the F-ratio (F=26.559, p=.000) was statistically significant. This meant that the model used was a good fit. This implied that the predictor variables (financial disclosure, internal audit standards, internal controls, ownership structure) explain the variation in the dependent variable which was financial performance.

Table 8: Regression Coefficients

Model	Unstandardized Coefficients		Standardized Coefficients		
	B	Std. Error	Beta	t	Sig.
1 (Constant)	4.241	1.307		3.245	.000
Financial disclosure	.130	.063	.223	2.064	.038
Internal audit standards	.266	.104	.093	2.558	.009
Internal controls	.186	.090	.138	2.067	.000
Ownership structure	.109	.048	.089	2.271	.041

a. Dependent Variable: Financial performance

The estimates of the regression coefficients, t-statistics and the p-values for the relationship between corporate governance and financial performance were presented in table 8.

$Y=4.241 + 0.130X_1 + 0.266X_2 + 0.186X_3 + 0.109X_4$ clearly showed a significant positive relationship between the predictor variables and financial performance. The estimated coefficients showed the contribution of each independent variable to the change in the dependent variable. According to the regression equation established, holding all independent factors a constant then financial performance of state corporations will be average (4.241). This constant was significant in the model as it had p=.007 which was less than the 5% level of significance taken for this study.

The coefficients table results further indicated that an increase in the financial disclosure by one unit would lead to increase in financial performance by 0.130 units. Results further indicated that an increase in the internal audit standards by one unit would lead to increase in financial performance by 0.266 units. The results also showed that an increase in internal controls by one unit would lead to increase in financial performance by 0.186. Finally, the results indicated that an increase in the ownership structure by one unit would lead to increase in financial performance by 0.109. All the four predictors had significant weights in the model and therefore the four predictor variables were retained in the model.

Discussion and Hypothesis Test

Regression analysis further formed a basis for testing the hypothesis adopted in this study. This was done by considering the p values corresponding to each variable of interest in the Table 8. The first objective of the study sought to investigate the influence of financial disclosure on financial performance of state corporations. This was established by determining Pearson correlations of refined data. The results showed that there was a moderate positive significant correlation between financial disclosure and financial performance ($r = 0.490$, $P<0.05$). Regression analysis conducted proved that there was a positively significant influence of financial disclosure on financial performance as indicated by the values $\beta_1 = 0.130$, $t = 2.064$, $p<0.05$. Hypothesis testing conducted at 95% confidence level on financial disclosure confirmed its significant influence on financial performance hence the null hypothesis was rejected. The study findings, however, disagreed with Merkley (2011) who examined the relationship between reported financial performance and voluntary disclosure for the period of 12 years from 1996 – 2007 and revealed that current reported performance is negatively related to voluntary disclosures.

The second objective was to establish the influence of internal audit standards on financial performance of state corporations in Kenya. Pearson correlation was conducted and the findings indicated that there was a moderate significant correlation between internal audit standards and financial performance ($r=0.513$, $P<0.05$). Regression analysis was also conducted and the results showed a positively significant influence of internal audit standards on financial performance as indicated by the values $\beta_2 = 0.266$, $t = 2.558$, $p<0.05$. Further hypothesis testing conducted at 95% confidence level confirmed that internal audit standards had a statistical significant influence on financial performance hence null hypothesis is rejected.

The study sought to establish the influence of internal controls on financial performance. Pearson correlation was conducted and the findings indicated that there was a moderate significant correlation ($r = 0.326$, $P<0.05$). Regression analysis was also conducted and the results proved that there was positively significant influence of internal controls on financial performance as indicated by the values $\beta_3 = 0.186$, $t = 2.067$, $p<0.05$. Hypothesis testing was also conducted on this variable at 95% confidence level and it was found out that internal controls had a statistical significant influence on financial performance hence null hypothesis is rejected.

Finally the study sought to examine the influence of ownership structure on financial performance of state corporations. The findings through Pearson correlation analysis concluded that there was a weak significant correlation between ownership structure and financial performance ($r = 0.274$, $P<0.05$). Regression analysis conducted confirmed that there existed a positively significant influence of ownership structure on financial performance as shown by the values $\beta_4 = 0.109$, $t = 2.271$, $p<0.05$. Conducting hypothesis testing on this variable at 95% confidence interval concluded that ownership structure had statistically significant influence on financial performance hence null hypothesis is rejected. The findings were supported by Kiruri (2013) who researched on the effects of ownership structure on banks profitability in Kenya and found local ownership and foreign ownership had positive and significant effects on the banks profitability.

Table 9: Hypothesis tests

Hypothesis Statement	Test Model	Results
Financial disclosure	$Y= \beta_1X_1+ \varepsilon$	P<0.05 Rejected
Internal audit standards	$Y= \beta_2X_2+ \varepsilon$	P<0.05 Rejected
Internal controls	$Y= \beta_3X_3+ \varepsilon$	P<0.05 Rejected
Ownership structure	$Y= \beta_4X_4+ \varepsilon$	P<0.05 Rejected

CONCLUSIONS

On financial disclosure, the study concluded that financial disclosure leads to reduced conflicts between shareholders and managers. The corporation voluntarily provides forward looking information and the state corporations are mandated by regulations to disclose all financial statements which are accessible to all stakeholders at any time.

On internal audit standards, the study concluded that state corporations targeted engage members who have financial knowledge and experience in the committees. The management of sampled state corporations enjoys cordial relationships with audit committee and internal auditors observe professional ethics & standards. The corporations practice full disclosures about compliance risk and risk management besides adopting International Auditing Standards to guide the internal audits ethics.

On internal controls, the study concluded that state corporations take appropriate measures to correct misfeasance in operation of Accounting & Finance Management System and further they regularly carry out methodical examination of business processes and connected controls. It is concluded that state corporations' management closely monitors implementation of Internal control systems and there is provision of independent verification of a sufficient sample of transactions to ensure integrity of the decision making process.

On ownership structure, the study concluded that the state corporations' share prices are stabilized by the government shareholding and local shareholding enables the corporation to get funding from local financial institutions which reduces liquidity problems. This implied that the state corporations prioritize local shareholding over foreign shareholding with a view to convey a broader image of 'home grown' perception to the public. Further, government shareholding gives a positive public image and confidence to investors since government will ensure corporation survival irrespective of the prevailing economic challenges hence protection to shareholders.

RECOMMENDATIONS

The financial disclosure on financial performance was shown to have significant relationship. The study recommended that management of state corporations should adhere to laid down regulations on financial disclosure so as to avoid agency conflicts with shareholders and creditors. The information

disclosed by the corporation should be adequate to enable stakeholders to make informed decisions and should be forward looking. The management should develop systems to ensure that all the necessary information concerning the financial performance of the corporation is accessible by all stakeholders at any time.

The study recommended that the management and regulators of state corporations should only recruit and select those members who possess financial knowledge and experience to be part of internal audit committees. The management should strive to maintain good relations with internal audit committee members. The internal auditors should adhere to professional ethics & standards when carrying out their duties in the corporations by adopting International Auditing Standards to guide the internal audits ethics.

The study recommended that the management of state corporations should take appropriate measures to correct misfeasance in operation of Accounting & Finance Management System as well as regularly carry out methodical examination of business processes and connected controls. The state corporations' management should closely monitor implementation of internal control systems.

The study recommended that state corporations should lobby the government to maintain its shares since it was established that government shareholding leads to share price stabilization and promotes the image of the corporation. The management should also float shares to the local public so as to attract local financial institutions' good will.

Areas for Further Research

This research provided empirical evidence on the influence of corporate governance on financial performance of state corporations in Kenya. The study however concentrated on only four corporate governance aspects namely; financial disclosure, internal audit standards, internal controls and ownership structure which accounted for 56.7% variation in financial performance. This implied that these determinants of corporate governance are not exhaustive hence further research should be undertaken to establish how other corporate governance determinants influence financial performance of state corporations.

Secondly, the current study relied solely on data from state corporations with the highest government shareholding and this calls for another study to be carried out on all state corporations irrespective of the ownership structure. This would provide reliable results for generalization.

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