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Effect of Corporate Governance on Health Service Delivery in Kenya

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Abstract: ***This paper investigates the effect of corporate governance on health service delivery in Kenya. Specifically, the study focussed on four corporate governance practices: Board Size, CEO duality, Allocation of resources and Accountability structures. The study targeted six counties in Kenya with 347 officials selected based on their knowledge of service delivery. The study findings revealed that corporate governance and CEO duality have a positive and significant relationship with service delivery. In addition, the study results show that Board size has a positive and significant relationship with service delivery, and that there was a linear positive relationship between Board size and Service Delivery which means that an increase in Board size would leave to a linear increase in service delivery. The study recommends that all counties in Kenya adopt County Health Management Committees to improve health service delivery in Kenya.***

Keywords: Corporate governance, Board size, CEO duality, Service delivery, County Health Management Teams

1. Introduction

The effects of corporate governance on service delivery has received enormous attention in the social and economic literature in recent years. Corporate governance has become more complex and attracted considerable interests from both academic researchers and the general public. Indeed, the failures of Enron, WorldCom, and Global Crossing among others have raised the question as to the ability of the board to effectively monitor management (Rashid, 2010 and Mizruchi, 2004). Accordingly, some critics and scholars used these events to mount a strong challenge to the prevailing wisdom about corporate governance in the market place (Blair, 2003, Bratton, 2002). Consequently, the recent developments remind us that corporate governance is not a static system but has evolved continuously over the past decades.

Mwabu et al (2001) explains the efficient delivery of public services in Kenya and other developing countries has for long been hindered by highly centralised governments. Owino and Korir (2000) contend that the poor state of customer service in some public hospitals in Kenya has resulted in high turnover and weak morale among staff, making it difficult to guarantee 24-hour coverage resulting in, problems with patients care, increased cost of operations due to inefficiencies. Indeed, the frequent strikes by health workers in different counties as well as resignations of some health workers; and, inequitable distribution of available health workforce due to health workers leaving certain counties in favour of others that have better working conditions.

Kenya has adopted corporate governance as a system that meets all of these desirable attributes in order to improve the health of the population and efficiency of health service delivery. The scope of the effort to implement corporate governance is daunting for governments the world over. Researchers have generally shown that improved corporate governance may lead to better health service outcome (Siddiqi et al. 2009). In most countries central government still dictate what regional structures should do or not do. This paper will examine corporate governance practices and its impact of health service delivery in Kenya.

2. Problem Statement

Corporate governance is currently a widely recognized phenomenon in service delivery. Many countries in the world, including Kenya has adopted corporate governance as a system that meets all of these desirable attributes in order to improve the health of the population and efficiency of health service delivery. The scope of the effort to implement corporate governance is daunting for governments in all countries. Researchers have generally shown that improved corporate governance may lead to better health service outcome (Siddiqi et al. 2009). Central government still dictate what regional structures should do or not do.

Corporate governance comprises institutions, interests, policies and the balance of power (Huther and Shah 1998). However, despite these theoretical underpinnings advocating for corporate governance, finding on the impact of corporate governance on service delivery is inconclusive and mixed.One stand of the literature revealed that every government's priority is to provide equal access to service, increased productivity and lowering cost (Sisulu, 2012). However no much is explained by the author and the role of corporate governance.

The promulgation of the Constitution of Kenya in 2010 devolved health service delivery to 47 counties. The Constitution mandates all Counties to form County Health Management Teams (CHMT) to manage health service delivery in accordance with Part 2 Section 2 of the Fourth Schedule of the Constitution (COK, 2010). Since devolution of health services in 2010 there has been an outcry by people about poor governance and ineffective service delivery at county levels (COG, 2014). Further, Sebudubudu (2010) contends that government institutions lack of good governance practices, transparency and accountability. This paper seeks to analyze the effect of corporate governance on health service delivery in Kenya.

3. Objectives of the Study

General Objective

The general objective of the study is to establish the effect of corporate governance on health service delivery in Kenya.

Specific Objectives

The specific objective of this study is to:-

Establish the effect of corporate governance on health service delivery in Kenya

1) To establish whetherboard size influences health service delivery in Kenya
2) To determineifCEOdualityaffects health service delivery in Kenya
3) To evaluate whether accountability structures practices affect health service delivery in Kenya
4) To examineifallocation of resources affects health service delivery in Kenya
5) To determine whether moderating effect affect policy framework on the relationship between corporate governance and health service delivery.

4. Theoretical Review

The Principal-Agent Theory

The Principal-Agent theory is said to be the dominant theoretical framework on governance research (Davis, Schoorman and Donaldson, 1997; Cornforth, 2003). The theory was proposed by Jensen and Meckling (1976). They advocated that managerial interests may not be aligned with the 'principals' but rather concerned with the maximisation of their own monetary rewards. Indeed, the principal-agent relationship originates when a principal hires an agent to perform a service or to act on his behalf (Jensen & Meckling, 1976). Managers in a firm are agents of shareholders who assume that the principle guiding them are those geared towards maximization of shareholders wealth.

The theory helps to explain the interactions between the owners and managers. Berle and Means (1932) highlighted the concept of separation of ownership from the management of the firms in the form of agency problem that is primarily rooted from the partition of control between managers and shareholders. Generally, owners do not take active part in the operations of organizations and as a result they hire managers for managing the firm's resources on their behalf.

This issue creates problems when managers neglect the concerns of their principals (shareholders) and put their self-interests on priority line and collect private benefits by building empires, enjoying perquisites, get pecuniary benefits by manipulating accounting records. This divergence in agents' actions and principals' interests create agency problem (Shleifer & Vishny, 1997). So at this point question arises how manager's tasks can be aligned with the shareholders' interests? One answer to this question is that give right and sufficient incentives to the managers that must linked with their performance of doing best in the favor of their principals (Berle & Means, 1932). These comprise monitoring expenditures by the owners such as auditing, budgeting, control mechanism, incentives and compensation systems, bonding expenditures by the agent and residual loss due to interest difference between owner and agent (Jensen & Meckling, 1976). If firm is successful in mitigating the agency problem, the firm value increases (Hart, 1995).

According to Johanson and Ostergen (2010) agency theory provides a valuable insight into corporate governance. Various governance mechanisms have been discussed by agency theorists in relation to protecting the shareholder interests, minimizing agency costs and ensure alignment of the agent-principal relationship. Among the mechanisms that have received substantial attention, and are within the scope of this study, are the governance structures (Davis, Schoorman & Donaldson, 1997).

The agency model assumes that individuals have access to complete information and investors possess significant knowledge of whether or not governance activities conform to their preferences and the board has knowledge of investors' preferences (Smallman, 2004). Therefore, according to the view of the agency theorists, an efficient service delivery is considered a solution to mitigate the agency problem, which includes an efficient market for corporate control, management labour and corporate information (Clarke, 2008).

Stakeholder Theory

Freeman (1984) argued that a stakeholder in an organization is any group or individual who can affect or is affected by the achievement of the organization's objective. Indeed, this theory stipulates that a corporate entity invariably seeks to provide a balance between the interests of its diverse stakeholders in order to ensure that each interest constituency receives some degree of satisfaction (Abrams, 1951).

This theory centres on the issues concerning the stakeholders in an institution. It stipulates that a corporate entity invariably seeks to provideof its diverse stakeholders in order to ensure that each interest constituency receives some degree of satisfaction (Abrams, 1951). In addition, Jensen (2002) criticized stakeholder theory for assuming single-valued objective regardless of firm's constituencies. He stated that the firm's performance can never be measured at the base of a single factor that how much a stakeholder gains. Organizational structure, flow of information and working environment etc. are equally important factors. He proposed the enlightened stakeholder theory however; its relevance was limited by problems related to its empirical testing. Donaldson and Preston (1995) gave a model about stakeholder theory in which they considered that all parties have right to get benefit from the firm.

In more recent business models, the institution converts the inputs of investors, employees, and suppliers into forms that are saleable to customers, hence returns back to its shareholders. This model addresses the needs of investors, employers, suppliers and customers. Pertaining to the scenario above, stakeholder theory argues that the parties involved should include governmental bodies, political groups, trade associations, trade unions, communities, associated corporations, prospective employees and the general public. In some scenarios competitors and prospective clients can be regarded as stakeholders to help improve business efficiency in the market place. Stakeholder theory has become more prominent because many researchers have recognized that the activities of a corporate entity impact on the external environment requiring accountability of the organization to a wider audience than simply its shareholders. Indeed, McDonald and Puxty (1979) proposed that companies are no longer the instrument of shareholders alone but exist within society and, therefore, has responsibilities to that society.

Indeed, it has been realized that economic value is created by people who voluntarily come together and cooperate to improve everyone's position (Freeman et. al., 2004). Jensen (2001) critiques the Stakeholder theory for assuming a single-valued objective (gains that accrue to a firm's constituency). The argument of Jensen (2001) suggests that the performance of a firm is not and should not be measured only by gains to its stakeholders. Other key issues such as flow of information from senior management to lower ranks, interpersonal relations, working environment, etc. are all critical issues that should be considered. Some of these other issues provided a platform for other arguments. An extension of the theory called an enlightened stakeholder theory was proposed. However, problems relating to empirical testing of the extension have limited its relevance (Sanda et. al., 2005).

Rajan and Zingales (1998) and Zingales (1998) argue that the company has to safeguard the interests of all who contribute to the general value creation, that is, make specific investments to a given corporation. These firms-specific investments can be diverse and include physical, human and social capital. These specific investments ex ante, nor evaluated independency from the firm's functioning.

The stakeholder's theory is relevant to the study as it informs policy framework, international conventions, intergovernmental mechanism and political insurgence. The rationale is to ensure that each interest constituency receives some degree of satisfaction.

Stewardship Theory

This theory suggests that the firm's purpose is to contribute to humanity by "serving customers, employees and the community" (Karns, 2011). At the center of the theory's foundation is the concept that the business is here to serve rather than produce a profit. However, to be able to serve, the firm must be able to sustain itself economically and this theory promotes efficient use of resources through working with stakeholders.

Van Slyke, (2006) contends that stewardship theory places greater value on goal convergence among the parties involved in corporate governance than on the agent's self-interest. The Stewardship theory argues that the managers are also guided by the pressure to perform and be successful in their job. (Donaldson & Davis, 1991) They are compelled to act as good stewards of the firm's resources in order to be successful in achieving their goals.The theory rooted in sociology and psychology, attempts to define human relationships around a more robust behavioral model. Rather than assuming a divergence of principal and agent interests, stewardship theory postulates instances in which a convergence of interests can occur, resulting in a more collaborative approach to governance.

The stewardship theory argue that the managers are stewards of the owners. The theory was proposed by Davis, Schoorman, & Donaldson (1997). They defined that a steward protects and maximises shareholders wealth through firm performance, because by so doing, the steward's utility functions are maximized (Davis, Schoorman, & Donaldson, 1997). In this perspective, stewards are company executives and managers working for the shareholders, protects and make profits for the shareholders. Therefore, the board should not be too controlling. The board should play a supportive role by empowering executives and, in turn, increase the potential for higher performance (Hendry, 2004; Shen, 2003). This theory advocates for relationships between board and executives that involve training, mentoring, and shared decision making (Shen, 2003; Sundaramurthy & Lewis, 2003). The stewardship perspective suggests that stewards are satisfied and motivated when organizational success is attained.

Donaldson and Davis (1991) contends that the stewardship theory recognizes the importance of structures that empower the steward and offers maximum autonomy built on trust. It stresses on the position of employees or executives to act more autonomously so that the shareholders' returns are maximized. Indeed, this can minimize the costs aimed at monitoring and controlling behaviours (Davis, Schoorman & Donaldson, 1997). Further, it observed that human motivation results in stewardship theory's (Davis et al., 1997) management model contrasting sharply with the management model assumed in agency theory.

Moreover, stewardship theory suggests unifying the role of the CEO and the chairman so as to reduce agency costs and to have greater role as stewards in the organization. It was evident that there would be better safeguarding of the interest of the shareholders. It was empirically found that the returns have improved by having both these theories combined rather than separated (Donaldson and Davis, 1991).

The stewardship theory holds that the CEO principally wants to do a good job, to be a good steward of the corporate assets, that they have an inherent motivation, working diligently to achieve good corporate performance, with interests similar to those of the stakeholders (Brennan, 2010;Donaldson & Davis, 1991 ; Aras & Crowther, 2007). Thus, stewardship theory holds that performance variations arise from whether the structural situation in which the executive is located facilitates their effective action (Donaldson & Davis, 1991).

Donaldson (2008) posits that stewardship theory holds that there is no inherent problem of executive control, meaning that organizational managers tend to be benign in their actions. Indeed, the essential assumption underlying the prescriptions of Stewardship Theory is that the behaviors of the manager are aligned with the interests of the principals. This theory provided the researcher with insights of how conflict of interest, board independence and audit meetings can affect health service delivery in Kenya.

5. Empirical Review

Board Size and corporate governance

Review of previous research work indicates that is some evidence to support the existence of the relationship between corporate governance and service delivery. Indeed, Khan et al.(2014) empirically investigated board size using a sample of 1154 firm-year observations over the seven-year period 2000-2006. The researchers documented a negative relation between board size and performance followed by a positive relation. Likewise, a study in United States by Bart & McQueen (2013) studied why women make better directors. Using the Defined Issues Test (DIT) instrument , 624 board directors (75% male; 25% female) were surveyed to determine their reliance on three reasoning methods (personal interest, normative and complex moral reasoning) to make decisions .The study reported positive correlation between the presence of female directors on boards and corporate performance suggesting that women appear to make better directors than men.

Chiang (2005) also found that director shareholding was statistically significant but negatively related to corporate performance. Further, Coles et al. (2008) found that the impact of board size on firm value is positive for large firms, and hence large board size may be an optimal value maximizing outcome for such firms.

CEO Duality and corporate governance

In the context of Saudi Arabian Stock market, Fallatah (2015) carried a study to determine if board size, board independence and CEO duality affects the determination of CEO compensation and if CEO compensation is related to firm performance. The study was based on data for the period, 2008-2012 relating to all the listed companies on Saudi Arabian stock market. The research conclusions showed that higher CEO compensation results in improved firm performance and the CEO compensation is negatively associated with board independence. In another study by Iranian Banking Sector over a four-year period from years 2008 to 2011, Abbasi et al (2012) concluded that relationship between between Board's size and CEO duality, is not meaningful.

Further, a study done in Malaysia by Abdul Hamid & Azizah Abdullah (2008) on the association between fees, board and audit committee characteristics of 191 government-linked companies and non-government-linked companies. The researchers proposed a theoretical framework to investigate governance tools and fees, which empirically tested on a dataset of 191 GLCs and NGLCs listed on the Bursa Malaysia for three years from 2006 to 2008. The finding revealed that fees are positively and significantly related to board size, while not significant related to other governance variables for GLCs..

Accountability Structures and corporate governance

A study done by Asiimwe (2015) clarity in the separation of powers, the city council being in total control over city governance and city administrators respecting their subordinate role enhanced city performance. The study was used random sample of 492 city management employees and 28 purposively selected key informants from Kampala and Kigali. The researcher employed a comparative –survey-research design.

In New Zealand, Wynn-Williams (2005) conducted a study on the provision of health services found that increased performance will enhance the quality of financial reporting. The study compared the public sector and the private sector in assessing performance. Another study by (Kewo, 2017) concluded that financial accountability is affected by the internal control and managerial performance of local government in Indonesia. The population was 226 all local government units and a sample of 115 unit tool with respondents of 345 civil servants. The study concluded that managerial performance influence on financial accountability in local government in Indonesia.

Similarly, in India, a study done on the impact of information on the ability of communities to engage in accountability mechanisms and subsequent impacts on quality of services. Wagstaff and Claeson et al. (2010) show that providing information – about the education programme as well as the level of child achievement in literacy and numeracy – had little impact on engagement with the school system or demanding accountability. Rather, when community volunteers were trained to carry out remedial classes outside the classroom, it had a greater impact on children's literacy and numeracy skills. The paper concludes that communities face serious constraints in engaging to improve the public school system even when they have information and a desire to improve education.

In the context of Uganda, a study done by Bjrkman and Svensson (2009) found out that Community monitoring can often improve the quality of services. In an experiment,it was found that when local NGOs encouraged communities to engage with local health services, they were more likely to monitor providers. As a result, provider absenteeism declined and responsiveness increased in terms of shorter waiting times and greater efforts to respond to community needs.

Allocation of Resources and corporate governance

A study was done in Malawi by the Civil Society Coalition for Quality in Basic Education (CSCQBE). The information from the study was used to successfully resist the closure of teacher training colleges, get teacher salaries paid on time and make budget allocations for students with special needs. In 2004, the government started conducting its own tracking survey following CSCQBE's success. Early indications of PETS in Tanzania for health and education spending carried out over two periods (1999 and 2001) suggest that corruption has reduced considerably (Gauthier, 2006).

Or (2001) studies the determinants of variations in mortality rates across 21 OECD countries between 1970 and 1995 and finds evidence of a weak statistically significant relationship between per capita health spending and health outcomes. Furthermore, some other studies have failed to identify strong and consistent relationship between health care expenditure and health outcomes (after controlling for other factors), whilst in contrast, socio-economic factors are often found to be important determinants of health outcomes (Nolte and Mckec, 2004).

Another study by World Bank using a panel of data for the Indian states during 1980-99 (World Bank, 2004) found that there was no effect of health expenditure on mortality rates. However, using data for 50 developing and transition countries observed in 1994, Gupta, Verhoeven and Tiongson (1999) found that health expenditure reduces childhood mortality rates.

According to Mankins and Steele (2005), resources deployment has to be discussed as early as possible in the whole implementation planning process, and these resources – financial, personal and time – have to be included in the company's budget from the beginning. According to a survey of Public Expenditure Tracking Surveys (PETS) in Africa, Gauthier (2006) notes that, in almost all cases, they have highlighted the leakage of resources reaching facility levels.

Wagstaff and Claeson (2004) carried out a study across the globe and targeting health expenditure. The study found that there were disparities on resource allocation especially to the disadvantage of the rural and/or poor regions. For example, in Mozambique, Zambezi received seven times less government spending on health per capita than Maputo City. Likewise, in Lesotho, the poorest district received only 20 percent of the amount the capital city received in per capita allocations of public expenditures on health. Subsequently, in Peru, per capita allocations through the regional budget (which excludes teaching hospital allocations) were 66 percent higher in the Lima region than in the very poor regions. Bangladesh too, had more developed districts receiving more per capita than less developed districts.

Corporate governance practices

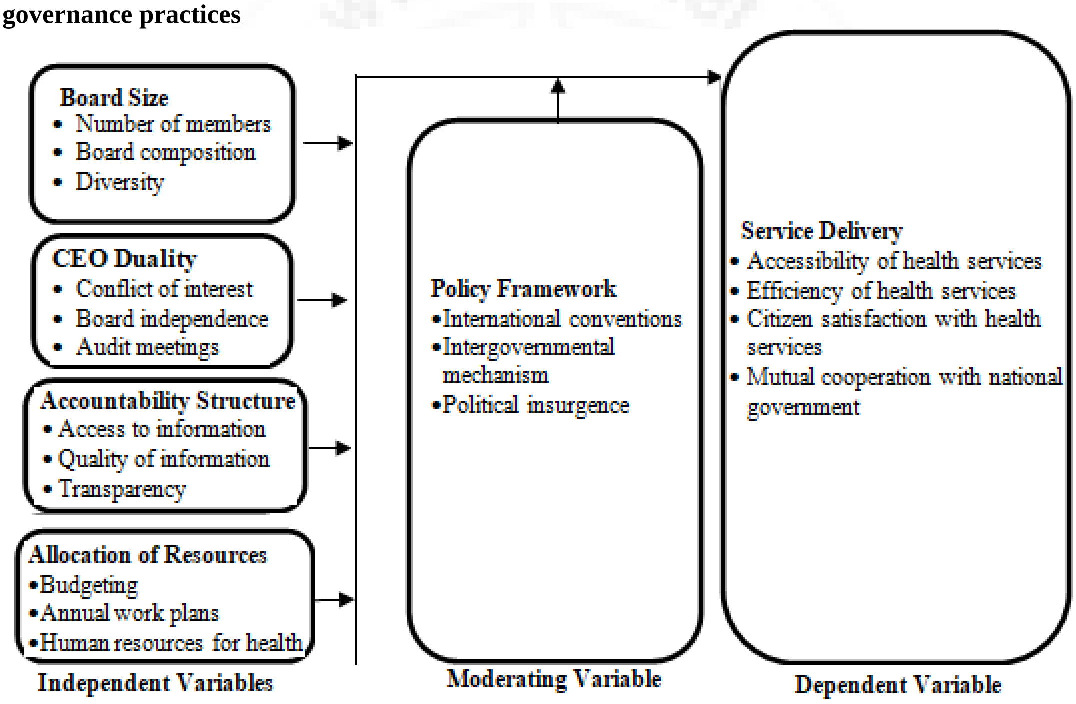

Figure 1: Conceptual Framework Model

Research Methodology

The study adopted descriptive and inferential statistics study design. Descriptive and inferential statistics design was selected because it is appropriate to describe and portray characteristics of an event, situation, and a group of people, community or a population. The study target population was 3577 health workers in six counties. Further, the study used stratified random sampling technique to select the sample. From each stratum the study used simple random sampling to select respondents. A sample of 347 was then selected from the strata using purposive sampling technique. A pilot study was undertaken in one county with data collected from that county used to test the reliability and validity of the questionnaire.

The main type of data used in the research was primary data which was collected by use of questionnaire. The questionnaire was self-administered to county executive, senior county administrators, clinical officers, nurses and doctors. Both descriptive and inferential statistics were used in the analysis of data through SPSS version 24. Before carrying out inferential statistics, diagnostic tests were carried out. ANOVA was used to test the relationship between corporate governance practices and service delivery.

Regression Analysis Between Board Size and Service Delivery

From the table below, the study indicated that 41.2% of Service Delivery was explained by Board size.The R^2 value of 0.412 implies that corporate governance explains 41.2% while 59% of the change in service delivery can be explained by other study variables excluded in the model.

Table 1: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.642[a]	.412	.408	.28651

Table 2: ANOVA

Model		Sum of Squares	df	Mean Square	F	Sig.
	Regression	8.122	1	8.122	98.945	.000[b]
	Residual	11.574	284	.082		
	Total	19.697	285			

From the coefficient t- test was also used to test the relationship between the predictor variable Board size and Service Delivery and there was significance relationship between the two variables with or without moderator with p-value= 0.000 < 0.05. Thus, this can be concluded that the model is appropriate in analyzing the relationship between board size and service delivery.

Table 3: Regression Coefficients

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Standard Error	Beta		
Constant	2.752	.197		13.965	.000
Board size	0.523	.053	.642	9.947	.000
CEO duality	0.592	.048	.723	12.427	.000
Accountability Structures	0.516	.042	.723	12.416	.000
Allocation of Resources	0.408				

From the table above, results show that that board sizehas a positive relationshipwith service delivery. Further, the result show that a unit change of board size leads to change of 0.523 on service delivery. These results are in line with those of Dalton and Dalton (2005) who concluded that larger boards are correlated with higher firm performance. Additionally, Adam and Mehran (2005) found a positive relationship between board size and performance in the U.S banking industry. Indeed, Boards are important boundary spanners. They can be used as a mechanism to form links with the external environment. Inter-organisational linkages, such as the appointment of outside directors and board interlocks can be used to manage environmental contingencies. Price (1963) opined that directors who are prestigious in their professions and communities can be a source of timely information for executives. They become involved in helping the organisation by influencing their other constituencies on behalf of the focal organisation Price (1963). Pfeffer and Salancik (1978) posited that when an organisation appoints an individual to a board, the individual will come to support the organization and will concern himself with its problems.

On whether CEO duality affect, the study concluded that a unit change of CEO duality leads to change of 0.592 on service delivery. These findings support those of Brickley, Coles & Jarrell (1997) that asserted that monitoring costs arise when the CEO and chairman are separated. Chen (2008) concluded that one person assuming the role of both CEO and chairman does not lead to improvement of performance. On accountability structures, the study findings indicated that there exists a positive relationship with service delivery. The study indicate that a unit change of accountability leads to a change of 0.516 of service delivery. These results concur with those in literature by of Van Kersbergen and Van Waarden (2004), Chhotray and Stoker (2009) who concluded that accountability structures is a key lever for successful performance improvement.

Concerning allocation of Resources the study findings revealed that a unit change in allocation of resources leads to a change 0.408 of service delivery. These results support those of Baez-Camargo (2011) who concluded that by ensuring that the resources necessary to perform are available the overall accountability in the system can be strengthened and improved. In addition, Bosset et al., (2003) concluded that resource allocation in Colombia and Chile can improve service delivery.

6. Conclusion and Recommendation

The study findings highlight the importance of corporate governance on service delivery in Kenya. The findings should that corporate governance affect health service delivery in Kenya. Hence, it can be concluded the corporate governance affects service delivery in Kenya. It is recommended that counties in Kenya should adopt corporate governance to improve health service delivery for the citizenry as envisaged in the Constitution of Kenya (COK) 2010.

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