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# BOARD SIZE PRACTICES AND PERFORMANCE OF COUNTIES, A CASE OF COUNTY GOVERNMENT OF BUNGOMA; KENYA

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## ABSTRACT

*Corporate governance has dominated performance policy agenda in developed market economies for more than a decade and African continent has gradually adopted it on their policy agenda in both private and public sector organizations. Performance as a measure of an outcome of an enterprise raises the comparative understanding of how corporate governance practices work along with performance of a given organization. Most of public organizations are services oriented and hence measuring the performance of such organizations is a bit complex, however, use of corporate governance practices is of help to the management. Hence, the objective of the study was; to evaluate the effect of Board Size Practices on Performance of the County Government of Bungoma; Kenya. This study applied descriptive survey research design. The study used a structured questionnaire on collection of primary data from the County Government of Bungoma; Kenya. Pilot study was done on the County Government of Kakamega; Kenya, hence this enabled for testing of the reliability and validity of the research instrument. The study descriptive and inferential statistics was analyzed by use of SPSS software version 24, further; a regression equation model was developed to test the relationships between the variables. The results of the findings indicated Board Size Practice influenced Performance of the County Government of Bungoma; Kenya. The study recommended for County Governments to embrace the use of Board Size Practice inclusive within corporate governance functions, since it improves the Performance. The study recommended for further studies on the same considering same variables but different methodologies.*

***Key words:*** *Board Size, Corporate Governance, Performance*

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## INTRODUCTION

In the study by Boyd (2015) on Corporate Governance, under current political pluralism, corporate governance has been of critical importance; hence, it is an essential and crucial factor that is mainly used in maintenance of an active balance between equality in society and the need for order. Clarkson (2015) asserts, other elements that come handy with corporate governance include; having and maintaining a corporate framework that is well organized that allows citizens to make a contribution and come up with creative means for solving existing challenges, use of power that is accountable and maintaining and protecting human freedom and rights according to the law. According to Tauringana and Chamisa (2014), good governance has eight elements or characteristics include; transparency, participation, rule of law, accountability, being responsive, effective and efficient, consensus oriented and inclusiveness. This means that corporate governance should have a regulatory body guided by the rule of law where it has fair legal frameworks that protect stakeholders fully.

In the study by Ashraf (2020) on corporate governance, transparency is a very relevant item, where information is supposed to be provided in easily understandable media forms. The information pertaining to the institution should be directly and freely accessible to those impacted by governance practices and policies. More so, responsiveness is another item under corporate governance that is vital, where governance requires that the organizational design and processes be designed for the best interests of all stakeholders within a manageable timeframe. Consensus orientation is the fourth element. Song *et al*., (2020) contemplates to reach a broad consensus, consultation is required from all the stakeholders; hence this consensus ensures prudent and sustainability of planned processes within an organization. Liu et al., (2020) asserts the fifth element is inclusiveness. Institutions that ensure fairness and guide their stakeholders in decision-making have a high chance of maintaining and enhancing effective corporate governance.

Khatib *et al*., (2020) embrace governance being the act of establishing policies, through continuous monitoring of proper implementation, by the executive in power of the governing body of an organization. According to Abete *at al*., (2020), corporate governance, is operationalized as the means of human development that is achieved from managing of social and economic resources by empowering others. The impact of corporate governance on Institutions' performance has received enormous attention in economic and finance literature in recent years; hence this attention has been motivated by financial scandals that rocked the U.S. economy in early and late 2000 and the Asian financial crisis of late 90s. Sharma *et al*.,(2020) asserts, despite a number of studies having been undertaken on the subject matter, there is still much debate on the relationship between corporate governance and institutions' performance and more so, on the relationship between corporate governance and performance of Institutions.

Corporate governance has been regarded as a preserve of the listed and large firms. However, it is important to MSEs as it provides a framework for scrutinizing the actions and performance of the agent. Corporate governance protects both the future of the business and the interests of the owners and investors (Mirkovic, 2015). Studies done by (Klapper & Love, 2002; Moenga, 2015; Afande, 2015) have shown that adoption of proper governance mechanisms has affirmatively impacted the performance of institutions. This is attributed to the fact that there is less risk and higher guarantee of expected future cash-flows; hence, one cannot only look at the financial performance of an entity without referring to the processes of corporate governance.

There is a view that larger boards are better for corporate performance because they have a range of expertise to help make better decisions and are harder for a powerful Chief Executive Officer to

dominate. However, recent thinking has leaned towards smaller boards. Studies such as Davila and Watkins (2009) in Mexico found that if the size of the Board is very small, the monitoring of the management team is smaller too, therefore, a larger size of Board assumes a better supervision of the management team and a higher quality of corporate decisions. Wasike (2012) investigated the corporate governance practices and performance at Elimu SACCO in Kenya. The finding revealed that the size of the board had an impact on the quality of corporate governance and a large board could be dysfunctional and that smaller board sizes are better than larger ones because large boards may be plagued with free rider and monitoring problems. Further, larger boards are found to be slow in decision making because of the monitoring expenses and communication issues.

Bathula (2014), studied Board size and found it to be positively associated with firm performance, indicating value of a larger board for the firm. Board size was also found to be positively associated with the firm variables of age and size. Board size was used as a moderating variable to examine the effect of other board variables on firm performance, while controlling for firm variables of age and size. In several instances, board size was found to be positively moderating the relationship between board characteristics and firm performance. Victor (2014) studied the relationship of corporate governance and financial performance of manufacturing firms listed in the Nairobi Securities Exchange. The key results were that the board size is inversely related to firm performance variable of Return on Assets and Return on Equity for listed manufacturing firms in Kenya. A larger proportion of outside directors' lead to a higher shareholders' value but does not explain why listed manufacturing firms exhibit a high market price to Net Assets Value.

**Statement of the problem**

In the study by Markova (2015) on institutions' performance, corporate governance has been regarded as a preserve of the listed and large firms. However, both the public and private sector have taken a stake in the corporate governance sentiments; hence, literature of corporate governance from various scholars among them; Afande (2015), stipulate Board Size as a functional element of corporate governance protects both the future of the business and the interests of the owners and investors. Studies done by (Klapper and Love, 2002; Moenga, 2015) have shown that adoption of proper governance mechanisms has affirmatively impacted on the performance of institutions through having proper board sizes. According to yahaya *et al.*, (2020) right Board Size reflects the fact that there is less risk and higher guarantee of expected future cash-flows. More so, one cannot only look at the financial performance of an entity without referring to the processes of corporate governance. In today's ever-changing business environment, the two have come to be seen as two peas in a pod. In Kenya being a developing economy, devolved governments for example County Government of Bungoma face many challenges; such counties lack the proper mechanism that is enjoyed by their colleagues in developed economies who have structured bodies and proper systems in place, the counties of developing economies also face the difficulty of obtaining finance due to poor governance structures as they lack collateral and are also deemed to be politically oriented institutions without proper internal controls. Counties in Kenya have the potential to contribute more positively to the economy than is currently the case. According to Guney *et al.*, (2020), better-governed companies have less management problems, act on and recover from shocks more quickly, achieve faster and more reliable growth; hence, due to poor performance of both public and private companies, board size being a functional element of corporate governance has gained prominence in Kenya and it is a concern of National Government for devolved government to emulate the same.

Several studies locally have sought to investigate the relationship between Board Size mechanisms

and business performance. Among the scholars; (Kimsop, 2014; Mbaabu, 2010) focused on corporate governance and performance in insurance sector, Kimei (2011) focused on Board Size and performance of small scale tea processing companies in Kenya, Oketch (2013) did a study on corporate governance structures and management in HIV/AIDS NGOs. However, there has been little focus on Board Size especially on the public sector inclusive in the devolved counties which are a service oriented industry for the Kenyan citizens. Since little studies has been attempted to establish the relationship between Board Size practice and County Governments performance, it leaves a research gap that makes it necessary to have a study on Board Size and the performance of County Government of Bungoma.

**Objective of the Study**

The objective of the study was to evaluate the effect of Board Size Practices on the County Governments' Performance in Kenya. The study was guided by the following research hypothesis;

- **$H_{01}$:** Board Size Practices does not significantly affect County Governments' Performance in Kenya

## LITERATURE REVIEW

### Theoretical review

### Stakeholder's Theory

Stakeholder theory was applied to tie with the fourth objective, which is stakeholder participation. Edward Freeman put the stakeholder theory forward in 1983. The theory is biased towards corporate management and business ethics that address moral issues in the management of firms (Hillman & Daniel, 2012). The stakeholder theory identifies and creates groups referred to as the stakeholders of an organization describing and recommending ways in which administrators can recognize and be guided by the interests of concerned groups. It caters for the internal and external stakeholders of the organization. Internal includes the employees, managers and owners of the organization, whereas the external stakeholders include society at large, government, creditors, stakeholders, suppliers and customers, trade associations and competitors.

The theory clearly defines the specific stakeholders examining the conditions under which managers treat the parties in today's dynamic organizational environment (Gregory, 2012). The major critique of this theory is the application of concepts borrowed from the political circumstances with regard to social contract and applying it to business ventures. Stakeholder theory is deemed to undermine the principles that establish and maintain market economy. It has succeeded in becoming famous beyond the business ethics fields (Jensen, 2013). The stakeholder theory currently is being pursued and uses strategic management to ensure that the strategies of the organization are achieved as per the planned strategies objectives (Klapper & Love, 2014). Stakeholder theory has succeeded in challenging the usual analysis frameworks such as management and human resource by ensuring that stakeholders' needs are at the heart of any move. The application of theory into public sector improves organizations performance on bureaucratic activities eliminating and replacing modern systems such as the ISO standard Quality Management systems, well monitored, documented and controlled audits for the continuous improvement in quality of services rendered achieving customer's satisfaction and performance in the organization (Ingley & Walt, 2012).

Freeman (1984) is also a supporter of the stakeholder theory; he recognized the perception of developing stakeholders as an essential aspect if the firm is to continue being profitable. He also makes recommendations on the importance of a supervisor-worker relationship and also illustrates on different groups of stakeholders. Hillman and Daniel (2012) indicated that for a firm to be more powerful, it needs to focus on all factors for example motivation, not only those that affect or influence the profitability of an organization. Therefore, the aspect of stakeholder means that it

is an even minded idea. This therefore indicates that a successful firm, apart from the aspect of motivation needs to focus on all relationships that are important to the firm (Gregory, 2012).

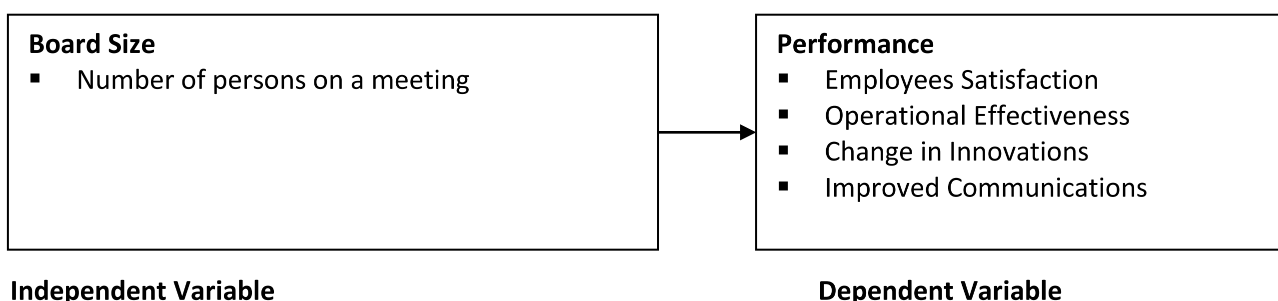
The performance of a firm and the role that stakeholders play in public institutions has been slightly examined. The factor of who is involved is viewed as performance of county has gotten little consideration but then, especially developing country's public sector most especially in Kenya. Thus, the forth-null hypothesis, which was tested, which was political environment has no moderating effect on Kenya's county governments and how corporate governance affects their performance.

The most important value of stakeholders is the focus on the connection between corporation and their efforts in enabling the creation of value (DeAngelo & DeAngelo, 2010). This principle covers the responsibility of stakeholders to show the involvement with, and conduct of stakeholders who consist of the workers, creditors, traders, shareholders and the surrounding. In some cases, companies can on their own account choose to be oriented by the stakeholder as this leads to increase in value as stated by Fama (2010). A company cannot increase its value if it does not take into account the desires of its shareholders. Therefore, stakeholder involvement that has to do with performance can be improved if the structure of shareholders' involvement gives an efficient administration for corporate shareholder involvement in the organization. The top administration has a role to make sure that shareholders get a fair return on their investments; it is also responsible for all stakeholders and it ought to ensure effective management and reduction of conflicts of interest and are sometimes present in the company and also among managers and the stakeholders (Kesner, 2013).

Stakeholder's participation links the three aspects and requires responsible leaders as well as the beneficiaries with a capability and competence of steering the firm to better heights. They have an ability of providing an enabling environment through which the citizens are able exercise their oversight functions and contribute innovative solutions to shared problems (Reenen, 2011). Accordingly, Boyd (2015) posits that the corporate governance structure ought to perceive the privileges of stakeholders set up by law or through common understanding and support dynamic collaboration amongst companies and stakeholders in making riches, occupations and the manageability of financially stable enterprises. According to Kapopoulos and Lazaretou (2011) stakeholders' participation is vital in ensuring performance of a public entity. Mechanisms and control of the daily operations are vital and this is done through stakeholder's participation. The enhancement of participation is by ensuring members of the public are provided with a platform to exercise their oversight functions, ensuring innovative solutions are shared in solving development challenges and by ensuring that both individuals and groups of people are given responsibilities to that will enhance the success of identified projects.

The method in which achieving sustainable performance is ruled upon is just the market esteem or the shareholders' esteem of the firm. In this manner, the shareholders' interests are expected to be obliged by the enterprise as an expansion that is legitimate according to this outlook. The use of free markets, effectiveness in finances and implication of profits have been advocated in the past decade as a way shareholders use to deal with their properties and the company important operator relationship emerging from the partition of gainful possession and official basic leadership. This partition makes the company's conduct separate from the benefit boosting perfect. This happens in light of the fact that the premiums and goals of the important (the speculators) and the specialist (the chiefs) vary when there is a division of possession and control. Since the administrators are not the proprietors of the firm, they do not bear the full expenses or receive the full rewards of their activities (Mansur,

2016). According to Page (2015) stakeholders' participation may occur at any stage in the public sector operations as follows; in project design, in project planning, and through the mobilization of resources. In other words, there is chance for stakeholders to participate in public sector operations through planning, need analysis, implementation and monitoring, and evaluation. As a matter of fact, participation ought to involve all people in the public sector in the share of development benefits, the implementation and evaluation of firm performance. Melkers and Thomas (2014) observes that it is generally better if stakeholder participation is adopted in the early stages of project planning so as to analyze any successive increments in project cost or the various phases; hence, any small increment in project costs can be judged on its own merit. Just like a product follows its life cycle, a project should follow a life cycle with certain phases of development. Project managers should also consider dividing big projects into small manageable units, which could make it easier to manage it. Stakeholder involvement in the planning process helps reduce the mistrust in the project process or its outcome. It also increases the stakeholders' commitment to the project hence giving it more credibility.




**Independent Variable** **Dependent Variable**

**Figure 1: Conceptual framework**

**METHODOLOGY**

Descriptive research survey design was therefore used to determine an association between the conceptualized independent and dependent variables as shown in the study's conceptual model. This study targeted senior employees of the County Government of Bungoma from 8 departments in stratified format. In this study the frame consisted of departmental senior managers of the county government of Bungoma; Kenya. The study sample size was determined using Taro Yamane's proportional sampling technique formula. The importance of this expression is that it gives a researcher the required sampling interval for a given population and a known sample. Therefore a sample size has been calculated as per Taro Yamane's proportional sampling technique formula. The study employed stratified random sampling technique which guided how sampled managers of County Government of Bungoma, Kenya, were selected. The stratified sampling technique ensured that it has minimized sample selection bias and ensures that certain elements of the population are not over represented or under represented. Primary data was collected by means of self-administered questionnaires. The questionnaires had structured questions. These questionnaires were structured and designed in multiple choice formats. Section one introduced the researcher, topic of research and its purpose to the respondent.

Data collected from the field was coded, cleaned, tabulated and analyzed using both descriptive and inferential statistics with the aid of specialized Statistical Package for Social Sciences (SPSS).version 24 software. Descriptive statistics such as frequencies and percentages as well as measures of central tendency (means) and dispersion (standard deviation) was used. Data was also organized into graphs and tables for easy reference. Further, inferential statistics such as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regression and correlation analyses was used to determine both the nature and the strength of the relationship between the dependent and independent variables. Correlation analysis is usually used together with regression analysis to measure how well the regression line explains the variation of the dependent variable. The linear and multiple regression plus correlation analyses were based on the association between two (or more) variables. SPSS version 24 is the analysis computer software that was used to compute statistical data.

Study conceptualized Regression Model;

$Y = \beta_0 + \beta_1 X_1 + \varepsilon$

Y = Performance

$\beta_0$ = Constant

$X_1$= Board Size

$\{\beta_1\}$ = Beta coefficients

$\varepsilon$ = the error term

**FINDINGS AND DISCUSSIONS**

The study involved 92 questionnaires being dispatched for data collection, 86 questionnaires were returned completely filled, representing a response rate of 94% which was good on a general understanding of the research findings to a wider population.

**Descriptive Statistics**

**Descriptive statistics: Board Size Practices and County Performance**

These are summarized responses on whether Board Size Practices influences Performance of County Government of Bungoma; Kenya.

most respondents agreed (39.3%) that the Board Size is within required profession standard while (18.6%) disagreed to the statement, implying that there are those employees who have not well pleases with the Board Size Practices being within profession standard. More closely, only (31.4%) agreed, while (11.6%) of respondents were uncertain about Employees' happiness with County Board Size of recent; thus revealing existence of efficiency of some of employees since they are satisfied with Board Size.

Further, while (43.1%) of respondents agreed that expenses on the county board size has been average, (15.10%) disagreed revealing existence of may be more expenses than thought in whole practice. More so (45.3%) of respondents agreed that the county board has flexible schedule of coming up with meetings, while (38.4%) of respondents also agreed that Board Size has enough chances of going for training and workshops for the sake of the county to improve on performance. Lastly, most respondents agreed (44.2%) and strongly agreed (151%) that generally, the County Government follows rules of the central government in terms of determining the size of the board implying that the county complies with central government regulations.

Suman and Rosiq (2020) suggests, new focus on compliance and best practices for good corporate governance is placing stronger emphasis on the quality of board directors over the quantity of board directors; hence, new best practices are causing many people to question whether smaller groups of board directors are more effective than large boards. Ashraf (2020) stipulates trusting a new study and some new trends, today's boards are finding that there is still a place for larger boards of directors, but in the grand scheme of things, less is more useful.

**Inferential Statistics**

**Linear influence of Board Size Practices on Organization Performance**

This tested the direct influence of Board Size Practices on Performance of the County Government of Bungoma; Kenya. The results are shown table 1.



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**Table 1: Direct influence of Board Size Practices on Performance**

**Model Summary**

| Model | R | R Square | Adjusted R Square | Std. Error of the Estimate | Change Statistics | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | | | | | R Square Change | F Change | df1 | df2 | Sig. F Change |
| 1 | .825[a] | .784 | .676 | .69397 | .784 | 159.562 | 1 | 85 | .000 |

ANOVA[b]

| Model | | Sum of Squares | Df | Mean Square | F | **Sig.** |
|---|---|---|---|---|---|---|
| 1 | Regression | 76.844 | 1 | 76.844 | 159.562 | .000[a] |
| | Residual | 36.120 | 85 | .482 | | |
| | Total | 112.964 | 86 | | | |

Coefficients[a]

| Model | | Unstandardized Coefficients | | Standardized Coefficients | | |
|---|---|---|---|---|---|---|
| | | B | Std. Error | Beta | **T** | **Sig.** |
| 1 | (Constant) | .783 | .232 | | 2.945 | .004 |
| | Board Size Practice | .815 | .074 | .801 | 12.632 | .000 |

a. Dependent Variable: County Performance

From table 1, the model summary shows that $R^2$ = 0.784; implying that 78.40% variations in the Performance of the County Government of Bungoma; Kenya is explained by Board Size Practices while other factors not in the study model accounts for 21.6% of variation in Performance of the County Government of Bungoma; Kenya. Further, coefficient analysis shows that Board Size Practices has positive significant influence on Performance of the County Government of Bungoma; Kenya (β = 0.815 (0.074); *at p<.01*). This implies that a single improvement in effective Board Size will lead to 0.815 unit increase in the Performance of the County Government of Bungoma; Kenya. Therefore, the linear regression equation is;

(i) $Y = 0.783 + 0.815X_1$

Where;

Y = Performance, $X_1$ = Board Size Practices

**Study hypothesis ($H_{01}$)** First**, study hypothesis one ($H_{01}$)** stated that Board Size practice does not significantly influence Performance of the County Government of Bungoma ; Kenya. However, regression results indicate that Board Size significantly influence Performance of the Counties (β = 0.815 (0.074) at *p<0.01*). **Hypothesis one is therefore rejected**. The results indicate that that a single improvement in effective Board Size will lead to 0.815 unit increase in the Performance of the County ; Kenya.

**CONCLUSIONS AND RECOMMENDATIONS**

This tested the influence of Board Size Practices on Performance of the County Government of Bungoma; Kenya. The study found that Board Size Practices Board Size Practices influences Performance of the County Government of Bungoma; Kenya. The study results were consisted with earlier researchers that found that Board Size Practices plays a big role in the managerial aspect of the organizations both private and public institutions. The essence is that the organization has to manage the costs on the members of the

board as well the board should not be a crowd that instead of being of benefit it becomes disastrous to the organization, which may be costly and inflexible in making policies.

The study concluded that County Government of Bungoma; Kenya to effectively utilize Board Size Practices for the purpose of improving on the performance of the County. Board Size is relevant since the County Government of Bungoma should have the right professional size that is flexible in decision making and easy to control within the County's cost budget.

The study recommended that the County Government of Bungoma should embrace the use of Board Size Practices, since it has been approved by the findings that Board Size is essential on improving performance of the County Government of Bungoma; Kenya**.**

**Areas for further research**

Similar study can be done on all County Governments using other methods but retaining similar variables as well other methods to be applied.

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