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Corporate Governance and Financial Performance of Public Schools in Kenya

Timothy K. Ndikwe, KCA University, Kenya
Edward O. Owino, PhD., KCA University, Kenya

Abstract
The advent of increased need for financial accountability in the public sector in Kenya has placed public school management and boards on the spotlight of scrutiny. Corporate governance has been embraced by the schools as a key antecedent to financial performance. In the eve of this metamorphosis, this study sought to establish the predictive power of four corporate governance principles; board composition, available board skills, application of corporate governance principles and separation of duties on a schools financial performance. A stratified sampling technique was employed in drawing 153 respondents on the basis of being; a head teacher, board of governor, parents-teachers association member, district education officer or a parent with a child going to a public secondary school. A descriptive review of 49 public schools in Kenya was performed and the resulting data subjected to a multivariate regression analysis. It was established that the four predictors had a significant effect on a schools financial performance. The skills of the board members had the largest impact factor and to enhance accountability, large board sizes are recommended in public schools.

Keywords*: Public schools, corporate governance, public governance, financial performance*

1. Introduction

The Kenyan business environment is a buzz with the concept of corporate governance. Its adoption amongst commercial corporates is touted as an ultimate strategy for sustainable competatitive advantage. While the public sector remains ambivalent on the application of corporate governance, it is the driving force to success for leading corporates globally. Through corporate governance the interest of stakeholders are realized. Amongst the many stakeholders, investors and managers drive the corporate governance agenda. Investors inject funds in an organization, with an interest of realizing returns. The growth in the investments can take the form of growth in turnover, asset base, profitability and dividends. Managers on the other hand are entrusted with implementation and management of the funds from investor groups. Irshad, Jinnah, Hasmi, Kauser, and Nazir (2015) posit that management enhances investor confidence, generates more capital and increase organizational performance by employing good corporate governance. While managers can use good corporate governance practices to maximize shareholders investments as fronted by Chetambe and Sakwa (2013), it has been argued that managers' commitment toward maximizing investor returns can be questioned. Based on the

agency theory, managers are salaried employees and who may be less worried about the outcome of a project or business so long as they are getting their salaries. This conflict of interest is well encapsulated in the agency theory. Based on the theory, the interests of managers and investors are postulated as divergent. To resolve the agency problem, Ogbulu and Emini (2012) proposed that an effective corporate governance approach should be adopted to decentralize powers and create room for checks and balances which ensures that managers invest work toward positive results in a transparent and fair way.

1.2 Public Schools in Kenya

Investors in community projects and the public sector including; national government, the county governments and donor agencies seek to positively affect the lives of the target community. Over the last decade, the Kenyan government has made strides to provide funds for free primary and secondary education countrywide. According to Maronga, Weda and Kengere (2013), each year there is always an increase in the amount of funds being allocated to the education sector for free education. Official Ministry of Education Financial Records show that donor organizations and the government deposited US $ 28.3 million in the School Instruction Material Bank Account (SIMBA) and US $ 19.2 million in the School General Purpose Account between 2003 and 2008 for both secondary and primary schools' educational programs. It details that in 2008, the government paid US $ 10.2 per pupil in the public primary school under the Free Primary Funding Program (GOK, 2008). Like all other entities in business there is the divergent interest between the managers of the schools and policy makers in the form of Boards of Governors. The increase in fund allocation has not been accompanied by commensurate increase governance structures to safeguard the funds in the form of corporate governance principles.

The agency problem is prevalent in public institutions in Kenya. Public schools are learning institutions where learning activities are supported by public funds. They are maintained at public expense for the education of the children of a community. The government meets costs associated with teacher remunerations, supervision, inspection and management in public schools (Onsomu et al., 2004). The corporate governance structures in the public schools specify the distribution of rights and responsibilities among different participants, such as the board, managers, and other stakeholders. It also spells out the rules and procedures for making decisions on the schools affairs which may have been ignored or overlooked by the various stakeholders at one time or other. In Kenyan public institutions, corporate governance has gained importance over the last decades with very little empirical work being evidenced in educational institutions (PSCGT, 2000). In learning institutions, effective corporate governance supports educational standards resulting in effectiveness in service delivery, enhanced learning performance and improved infrastructure development. In addition, improved corporate governance has been known to reduce mismanagement, demonizing corruption and eventually influencing the general efficiency of educational service delivery. Competitively getting and retaining qualified school board remains a challenge in public secondary schools (Harry, 2007). Although school boards and committees exist, public schools continue to experience governance issues like; fees determination problems, payment schedules not respected, student and staff unrest, staff welfare problems, legal action against governing boards, which could be attributed to corporate governance and institutional turbulence (Maronga et al., 2013). With continued unchecked corporate governance and institutional turbulence, the public schools' financial performance has been crippled resulting to financial crisis in these institutions. Despite the glaring evidence of

poor application of corporate governance in public schools, most of the attention on the concept has been focused on business corporations. This study sought to investigate the effectiveness of corporate governance on financial performance of public secondary schools in Kenya. The study was undertaken with the specific objective of: establishing the extent to which board composition affects the financial performance of secondary schools, determining the extent to which board skills affects the financial performance of public secondary schools, assessing the extent to which the application of corporate governance principles impacts the financial performance of public secondary schools and assessing the extent to which separation of duties between the boards and management affects the financial performance of public secondary schools in Mathira Constituency in Kenya.

2. Literature Review

The study examines corporate governance on the premise of agency theory. Baklouti, Gautier, and Affes, (2016) observed that the agency theory is an analytical expression of the contractual relationship existing between two parties. The theory explicates what happens when entrepreneurs who have accumulated capital entrust managers with the use and management of that capital. Since the owners of capital (principals) have neither the requisite expertise nor time to effectively run their enterprises, they hand over to agents (managers) for control and day-to-day operations, hence, the separation of ownership from control. This then creates the attendant agency problems. Gedajlovic et al., (2004) extend an agency perspective on governance to suggest that particular blend of incentives, authority relations and norms of legitimacy in founder firms interacts with the external environment to affect the nature and pace of learning and capability development.

Corporate governance relates to how organizations are owned, managed and controlled. Knell (2006) views corporate governance as systems, structured processes, defined policies and institutions that influence the way an institution is directed, administered or controlled. Hence corporate governance defines a set of relationships between an organizations management, its board, its shareholders and other stakeholders OECD (2004). Australian Standard (2003) presents corporate governance as a process by which organizations are directed, coordinated and held answerable in their day to day endeavors. Vinten (2002) describes corporate governance as the course involved with the foundation of necessary environment (legal, economic and institutional) that would necessitate and enhance growth of organizations, thriving and survival of institutions for optimizing shareholder value while safeguarding the best interests of all other stakeholders and the society at large by emphasizing the core aspects of accountability and control in the governance of organizations as pointed by Audit Commission (2009).

2.2 Board Composition

When the board has adopted a clear view of its responsibilities in governing the company, the directors can then move to discuss and agree on the most effective way of structuring the board. The balance of the executive and non-executive directors and whether independent directors are necessary is another structural issue to consider. Board size is the total number of directors on a board (Panasian et al., 2003) and is regarded as an important determinant of effective corporate governance. The size of the board has material impact on the quality of corporate governance and several scholars observe that large boards can be dysfunctional. Hermalin and Weisbach (2003) believe that board size proxies for the board's activity, explaining why smaller board sizes are better than larger ones that may be plagued with joy rider and creating monitoring problems. Sanda, Mukaila and Garba (2003) found that firm

performance is positively related with small, as opposed to large boards. The optimal board size according to Goshi (2002) includes both the executive directors and non-executive directors. Ferguson, Lennox and Taylor (2005) reported the existence of a significant positive relationship between the number of non-executive directors and corporate financial performance. In a study of firms in Singapore and Malaysia, Mak and Kusnadi (2005) found that firm valuation is highest when a board has five directors, a number considered relatively small in those markets. There is no consensus over whether a large or small board does better. In Nigeria, Sanda, Mukaila and Garba (2003) found that firm performance is positively related with small, as opposed to large boards. Wen et al. (2002) and Abor (2007) both reported evidence in support of a positive relationship between board size and leverage. They argued that large boards with superior monitoring ability pursue higher leverage to raise the value of the firm. A study of Banks in the European Union by Baklouti et al. (2016) observed that the size of the board of directors and the likelihood of financial difficulties are not negatively associated.

Proponents of larger board sizes including Daily (1995) who argued that greater number of directors might increase available expertise and resource pool while Yoshikawa and Phan (2004) contend that expanding the size of the board provides an increased pool of expertise, information and advice quality not obtained from other corporate staff. In contrast, the difficulty inherent in coordinating the contributions of many members can be complex, hindering them to use their knowledge and skills effectively (Epstein et al., 2004). Yoshikawa and Phan (2004) found that when the board size is very large, disadvantages like; lack of cohesiveness, coordination difficulties and fractionalization are most severe and they became less prevalent as board size decreases. In contrast very small boards cannot enjoy the advantages of the pool of expertise, information and advice of a larger board and these benefits emerge when the board becomes larger. To date there are still wide views on an optimal board size. According to Leblanc (2003), an 8-11person's board may be considered optimal. Epstein et al., (2004) suggested that a board of 9-13 members is typically right for most companies but too small for large ones. Goshi (2002) considered an average of 16 directors (3 within and 13 outside directors) to be appropriate for larger companies, though respondents in this study believed that 12 is the most effective board size. The divergence in consensus therefore led to the following hypothesis;

H_{01}: Board composition has no significant relationship with financial performance of secondary schools.

2.3 Skills of Board Members

The presence and use of skills and knowledge is an important dimension of board effectiveness. Board members must have the right mix of skills and knowledge. They should possess both functional knowledge in traditional areas of business such as accounting, finance, legal or marketing as well as industry specific knowledge that will enable members to truly understand specific company issues and challenges. The basic skill among the school governors is the capacity to govern. While the provincial departments of education, through functional units at head offices and at district levels, have engaged in the training of School Governing Bodies (SGBs), the actual enactment of these roles is often less than ideal. Among training constraints, Mabasa and Themane (2002) report that SGBs are not trained before they start their work and this manifests in problems such as unfamiliarity with meeting procedures, problems with the specialist language used in meetings, difficulties in managing large volumes of paper, not knowing appropriate legislation, feeling intimidated by the presence of other members who seem

knowledgeable and perceiving their roles as simply endorsing what others have already decided upon. This can be attributed to irrelevant and inadequate training of SGB members, which does not really address the core functions of school governance.

Mestry (2004) points out lack of collaboration between the principal and other SGB members, with principals being unwilling to share responsibility for school governance for fear of losing power. Another challenge, articulated by Van-Wyk (2004) relates to educators in SGBs feeling that other SGB members (an obvious reference to parent-governors) lack confidence and are not sure of their duties. In this regard, illiteracy among SGB members, especially parent-governors, may contribute to their own inefficiency and argues that this is possible because illiteracy precludes parents from accessing relevant information. Van-Wyk (2004) points out that many SGBs, particularly in less advantaged areas; do not have the required skills and experience to exercise their powers. Following this review, the following hypothesis was formulated;

H_{02}: Board skills have no significant effect on financial performance of public secondary schools.

2.4 Corporate Governance Principles

Corporate governance involves making guidelines, rules and policies that generate information on roles and responsibilities, in the case of preschool inputs, outputs or outcomes and disseminate that information to local level stakeholders Iskander and Chamlou (2000). All companies have certain laws and regulations they are required to follow regardless of their size whether small, medium enterprise or well established organizations. The principles of corporate governance include rights and equitable treatment of shareholder: That organization should respect the rights of shareholders and help shareholders to exercise those rights; Interest of other stakeholders: organizations should recognize that they have legal, contractual, social and market driven obligations to non-shareholder stakeholders, including employees, investors etc. In disclosure and transparency, organization should clarify and make publicly known the roles and responsibilities of board and management to provide stakeholders with a level of accountability (Cadbury, 1992). Accounting standards and internal controls are an essential part of this fulfillment to aid in the integrity of financial data, reliability of day-to-day operations, and compliance with rules and standards. Given the complexity of the business environment, it is impossible for the board to be the sole decision making body in the company (Gavin and Geoffrey, 2004).

Corporate governance mechanisms assure investors in corporations that they will receive adequate returns on their investments. While noting that the corporate governance principles vary by country, Zitouni (2016) observed that companies that with good corporate governance portfolio tend to have higher average monthly returns compared with companies with weak corporate governance portfolio. The commitment of management to increase the level of disclosure should lower the information asymmetry between managers and shareholders and lower the cost of capital (Monks & Minow, 2004). Krambia and Psaros (2006) investigated the implementation of corporate governance principles in an emerging economy of Cyprus and the findings indicated only a minimal impact unless it is supported by other initiatives. Solomon and Solomon (2002) argue that for developing countries to be internationally competitive and attract foreign capital they need to adopt commonly accepted standards of corporate governance implied in Anglo-Saxon model. Rwegasira (2000) points out that for the Anglo-Saxon model to be

effective, company shares need to be owned by widely dispersed owners. The corporate governance structure specifies the distribution of rights and responsibilities among different participants in the corporation, such as the board, managers, shareholders and other stakeholders and spells out the rules and procedures for making decisions on corporate affairs. The following hypothesis was therefore tested;

H_{03}: Application of corporate governance principles has no significant impact on the financial performance of public secondary schools.

2.5 Separation of Duties

In many corporations, the Chief Executive Officer (CEO) is not only a manager but is also a member of the board, resulting in duality of roles. Baklouti et al (2016) notes that CEO duality leads to an expansion in CEO dominion and thus promotes his entrenchment by reducing board monitoring expertise. This situation is worsened when the CEO is also the Chairman of the board or the majority shareholder in a firm, exacerbating the agency problem. Ownership is presented by Ongore and K'Obonyo (2011) as comprising two lines of thought: ownership concentration and ownership mix. The concentration is the proportion of shares held (largest shareholding) in the firm by few shareholders and the later defines the identity of the shareholders. Pettigrew (1992) identified six themes of academic research on the role of managerial elites such as chairpersons, presidents, Chief executive Officers (CEOs) and Directors. These include the study of interlocking directorates and the study of institutional and societal power, the study of boards and directors, the composition and correlation of top management teams, studies of strategic leadership, decision making and change, CEO compensation and CEO selection and succession. The first role of the board is controlling and monitoring management, a role made necessary by the separation of ownership from control as indicated by Berle and Means (2002). They added a separate strategizing role of the board. This role is normally subsumed under “advising” role. The strategizing role is included for three reasons; the increasing performance pressures being applied by institutional stakeholders, board perception of the importance of the strategizing role and recent legal precedent that places corporate goal setting and strategic direction squarely within the board's (Baxt, 2002).

Within the paradigm of the shareholder model, the ultimate goal of the firm is to maximize shareholder wealth and corporate governance has to be seen as a mechanism to realize this goal. As a consequence, supporters of this concept expect a positive relationship between corporate governance and firm performance. Firms that do not adopt cost-minimizing corporate governance mechanisms are less efficient and will be taken over or replaced in the long-run (Elloumi and Guelie, 2001). Most organizations that sell corporate governance ratings refer to this relationship. In addition, the market's reaction to appointments of independent outside directors is more positive when the director's selection process is viewed as relatively independent of CEO involvement. Klein (2002) shows that independent audit committees reduce the likelihood of earnings management, thus improving transparency. Resulting from the review, the following preposition was examined;

H_{04}: Separation of duties of the board and management has no significant relationship with financial performance of public secondary schools

2.6 Government Policies

Public institutions in developing countries are typically constrained by the lack of autonomy from government interference, anachronistic legal frameworks, and lack of an appropriate regulatory framework as well as poor supervisory capacity of the entity responsible for supervising them. Steinwand (2000) argued that regulators apply various approaches to regulate and supervise the public institutions. In addition, Sebhatu (2011) revealed that weak organizational arrangement and governance problems, policy and regulatory environment, weak institutional capacity affected the growth and outreach of SACCOS in Ethiopia. In deed Faccio and Lasfer (2000) indicated that laws, regulations or formal policy play a significant role in determining how corporations are governed. Black (1994) observed that public sector firms are controlled by the government. Governments put in place procedures to make sure things stay on the right track. Although internal controls can uncover wrongdoing, they're usually set up with the assumption of honesty in the background. Each board needs to work on developing an appropriate method and level of delegation of authority. According to Micheni (2014) due to the changing roles of government in social development through provision of education, necessitated by rapid globalization and liberalization, it has become absolutely necessary that countries keep track of these changes lest the pace of social development becomes hopelessly inconsistent with the rest of the sectors.

In Kenya, the mandate of the Education Sector is to respond to the Constitution (2010) and Kenya Vision 2030 and in so doing to propose strategies to address wastage and inefficiency; improve financial management and accountability, and to make education in Kenya inclusive, relevant and competitive regionally and internationally (GoK, 2012). The provision of quality education and training to all Kenyans is fundamental to the success of the Government's overall development strategy. Kenya Vision 2030 articulates the development of a middle income country in which all citizens will have embraced entrepreneurship, be able to engage in lifelong learning, learn new things quickly, perform more non-routine tasks, be capable of more complex problem-solving, willing and able to take more decisions, understand more about what they are working on, require less supervision, assume more responsibility, and as vital tools towards these ends, have better reading, quantitative, reasoning and expository skills. The mission of the Government of Kenya is to create an education and training environment that equips learners with desired values, attitudes, knowledge, skills and competencies, particularly in technology, innovation and entrepreneurship, whilst also enabling all citizens to develop to their full capacity, live and work in dignity, enhance the quality of their lives, and make informed personal, social and political decisions as citizens of the Republic of Kenya (GoK, 2012). The recommendations of the 2003 National Conference on Education and Training informed the development of the Sessional Paper Number 1 of 2005. It outlined short, medium and long term sector targets which included the Attainment of Universal Primary Education (UPE) and Education for All (EFA) by 2015 (GoK, 2012). All these would be attained through improved managerial practices among the institution managers. Both government regulators and self-regulators must decide whether to adopt principles or rules.

2.7 Corporate Governance and Financial Performance

Performance is the achievement of organizational goals in pursuit of its strategies that lead to sustainable competitive advantage. According to Mak and Kusnadi (2005) to measure organizational performance more completely, one can adopt the use of the balanced scorecard,

which elevates non financial measures to a level consistent with a traditional focus on financial measures. The financial performance of institutions is usually measured using a combination of financial ratios analysis, benchmarking, measuring performance against budget or a mix of these methodologies. Financial performance means firm's overall financial health over a given period of time. Bala and Cook (2003) identified five types of financial performance measures: liquidity, solvency, profitability, financial efficiency and repayment capacity. Empirical studies identify several importance of financial performance in a firm. According to Lee (2009), the goal of financial performance analysis is to determine the efficiency and performance of organizations management, as reflected in the financial records and reports. Another key importance of financial performance is that it is used to reflect overall financial health of a firm over a given period of time and can also be used to compare similar organizations across the same industry or to compare industries or sectors in aggregation. The common assumption, which underpins much of the financial performance research and discussion, is that increasing financial performance will lead to improved functions and activities of the organizations (Mark, 2008). Firm's financial statements provide various financial information that investors and creditors use to evaluate a company's financial performance. Measuring firm financial performance using accounting ratios is common in the corporate governance literature (Wen, Rwegasira & Bilderbeek, 2002), in particular, return on capital employed, Return on Assets (ROA), and Return on Equity (ROE). According to Gavin and Geoffrey (2004), entities in the public sector have certain powers, rights and responsibilities, including a responsibility for policy development and implementation. The mandate to serve the public over the long term and the granted powers, rights and responsibilities demand public accountability for the actions, decisions and results of a public sector entity. This need for public accountability is the overriding characteristic of public sector entities.

Governance is a vital ingredient in the need for order and equality in society, the efficient production and delivery of goods and services, accountability in the use of power, the protection of human rights and freedoms and the maintenance of an organized corporate framework. Within which each citizen can contribute fully towards finding innovative solutions to common problems (Magdi et al, 2000). Corporate governance is the set of processes, customs, policies, Laws and institutions affecting the- way a corporation is directed, administered or controlled (Klapper & Love, 2003; Knell, 2006). According to Brownbridge (2007) corporate governance helps in defining the relation between the company and its general environment, the social and political systems in which it operates. Brown and Caylor (2004) posit that better corporate framework benefit firms through greater access to financing, lower cost of capital, better performance and more favorable treatment of all stakeholders. Corporate governance should lead to better performance since managers are better supervised and agency costs are decreased. Brown and Caylor (2004) found that firms with weaker corporate governance perform poorly compared to those with stronger corporate governance in terms of stock returns, profitability, riskiness and dividend payments.

A well-functioning corporate governance system helps a firm attract investment, raise funds and strengthen the foundation for firm financial performance (Parker, 2007). Claessens et al. (2002) note that better corporate framework benefits firms through greater access to financing, lower cost of capital, better financial performance and more favorable treatment of all stakeholders. In relating corporate governance and financial performance, Nam (2002) found that corporate governance should lead to better performance since managers are better supervised and agency costs are decreased. Schilling (2003) in a study of 242 of Europe's largest listed corporations deduced that companies with stronger corporate governance performance are on average also highly valued.

3. Methodology

A descriptive research design was applied in examining the relationship between corporate governance and financial performance. The Ministry of Education (2014) identifies forty nine (49) public secondary schools in Mathira Constituency. The unit of analysis in this study was; head teachers, Board of Governors (BOG), Parents-Teachers Association (PTA) members, district education officers and parents with children schooling in public secondary schools. A stratified random sampling method was used to arrive at a final sample size of 153 respondents' which was considered representative of the heterogeneity of the population. The study employed a questionnaire in primary data collection. The instrument was subjected to a face validity test and was considered valid (Cooper and Schindler, 2003). The Cronbach alpha value of the instrument was 0.876, which meant the instrument was consistent (Owino et al., 2014). The quantitative data was grouped into frequency distribution to indicate variable values and number of occurrences in terms of frequency. Frequency distribution table was used to summarize the data from respondents. The organised data was interpreted on account of concurrence and standard deviation to objectives using assistance of computer packages.

Further, the research employed a multiple regression model in evaluating the effectiveness of corporate governance on the financial performance of public schools.

$$FP = \beta_0+\beta_1X_1 + \beta_2X_2 + \beta_3X_3 + \beta_4X_4 + \mathcal{E}_i \ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots (i)$$

Where:

FP= Financial Performance of public secondary schools in Mathira Constituency, β_0 was a constant term showing financial performance in the absence of corporate governance, X_1 was board composition, X_2 was the available board skills, X_3 was corporate governance principles, X_4 was separation of duties, $\beta_1, \beta_2, \beta_3, \beta_4$ are beta coefficients of board composition, available board skills, corporate governance principles and separation of duties respectively and $\mathcal{E}_i$ was the error term associated with the regression model.

4. Results and Discussion

An examination of the board composition revealed that a majority (98%) of the schools had boards of governors comprising of 13 to 16 members, while 2% of the respondents indicated that the school boards were made up of more than 16 members. It was noted that this was consistent with the guidelines provided by the Ministry of Education in Kenya. It was observed that 61% of the respondents agreed to a great extent that the composition of the school boards affects the financial performance of public secondary schools. Four aspects of board composition including size of the board, the independence of the board, the appointment process and government involvement were examined to ascertain their influence on the financial performance of public schools. The outcome showed that 53% of the respondents believe that the size of the board has a great impact on the financial performance of public schools and 47% of the respondents believed that board independence had a great impact on the financial performance of public school. In terms of government involvement, 52% of the respondents agreed that government involvement influenced the financial performance of public secondary schools. The involvement of all stakeholders in the selection of board members gives a high degree of credibility in ensuring that all stakeholder interests are catered for. In the study, 64% of the respondents agree that all stakeholders' interest is taken into considerations when boards are being constituted. An induction course on what is expected of the board members is an important requirement. The response on exposure of board members to training indicates that 48% of the respondents did not think that such action was taken. It was noted that 63% of the respondents believed that due care was taken into consideration in determining the professional capacities of

the selected members. The influence of the political class in the selection of board members was confirmed to be high, with 53% of the respondents agreeing with this observation. In terms of board composition, 46% of the respondents articulated that education ministry has a great influence on the board composition.

The relationship between board skills and financial performance of public schools was analyzed and 61% of the respondents agree that the skills available to the board have a great impact on the financial performance of public secondary schools. It was argued that for boards to work effectively, board members must possess necessary knowledge and skills, given the unique nature of their tasks. The key board skills that had an effect on the financial performance of public schools were identified to include; the education level of the board members, functional skills, governance capacity as well as the ministry of Education involvement in board selection. It was apparent from the study that board members were not equipped with the relevant skills to be able to run their activities effectively. They had also not been given appropriate inductor training.

An evaluation of the extent to which corporate governance principles affect the financial performance of secondary schools was undertaken and 56% of the respondents stated that corporate governance principles affect the financial performance of secondary schools to a great extent. This result confirms that the specific governance policies and procedures create the internal control policy and aids management in achieving its objectives. Amongst the corporate governance principles it was observed that 62% of the respondents agreed that the financial management of schools would suffer if corporate governance principles are not used. The other principles which the respondents agreed would influence schools financial performance were identified as including; board members are aware of their role in ensuring there is a strategic plan for school (57%), school board members should be taken through a governance induction course (53%) and school boards have set work and meeting plans (40%). The fact that the boards do not have set out a clear succession plan was identified by 65% of the respondents as having a little extent on the financial performance of schools.

An examination of the effect of separation of duties on financial performance of secondary schools affirmed that 62% of the respondents agreed to a great extent with this observation. The respondents agreed that variables that informed separation of duties to a large extent included; There board is updated on a regular basis on the financial performance of the board (63%), board provides the prerequisite policy guidelines for the school management to implement (60%), management prepares the budget for board approval (59%) and there is a clear distinction between management role and policy issues (50%). Frequency analysis revealed that 49% of the respondent agreed to a great extent that corporate governance affect the financial performance of public secondary schools. The aspects of financial performance affected by corporate governance practices to a great extent included; managing projects to the expected budget (66%), review of expenditure against budget (62%), timely implementation of infrastructure projects (62%) and revenue collection performance (61%). Resulting from the study, a majority (72%) of the respondents disagreed that there are many government/ ministry policies in place that make it hard to use corporate governance in financial management of the schools.

4.1 Relationship between Corporate Governance and Financial Performance

Using multiple regression analysis and the effect of corporate governance on financial performance was examined. Assuming a linear relationship between **corporate governance and financial performance, the Ordinary Least Square** (OLS) method of

estimation was employed in determining the relationship between the independent and dependent variable and in deriving the line of best fit in modeling the relationship between **corporate governance and financial performance. Regression analysis was used to estimate the study coefficients, measure the magnitude of relationship between the predictors and the financial performance and explain the nature of relationship between the variables. The data was subjected to** the assumptions of regression analysis with no major violation reported. The assumptions were; existence of outliers, normality test of corporate governance using Kolmogorov-Smirnov test, a multicollinearity test which showed that no evidence of multicolinearity as none of the relationships between the independent variables was strong ($r<0.7$) and the data did not violate the assumption of homoscedasticity. An examination of the effect of corporate governance principals on financial performance was done by testing the following research hypothesis H_{01}, H_{02}, H_{03} and H_{04}. The model summary in Table 4.1 generated four models reflective of the four predictors. The coefficient of determination (R^2) of model 4 provided the highest fit ($R^2= 0.421$) meaning that model 4 explained 42% of the variations in school financial performance and was considered to provide a moderately good fit.

Table 4.1: Model Summary of Corporate Governance and Financial Performance

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Sig. F Change
1	.049[a]	0.002	-0.006	0.67292	0.594
2	.548[b]	0.3	0.288	0.56602	0.000
3	.626[c]	0.392	0.377	0.52965	0.000
4	.649[d]	0.421	0.401	0.51908	0.017

d. Predictors: (Constant), Board Composition, Board Skills, Corporate Governance Principles, Separation of Duties

e. Dependent Variable: Financial Performance

An overall assessment of the significance of the regression model 4 using ANOVA analysis shows the model was significant (p-value of 0.000) in explaining the linear relationship between corporate governance and financial performance. The significance of the coefficients of the predictors under model 4 in Table 4.2 shows board composition had a p-value of 0.002, board skills had p-value of 0.000; corporate governance had p-value of 0.000 while separation of duties had a p-value of 0.017. All the four variables had a p-value <0.05, indicating that they were all significant. The study therefore failed to accept the null hypotheses H_{01}, H_{02}, H_{03} and H_{04} at 5% level, which meant corporate governance had a significant effect on financial performance. The result indicated that available board skills had the highest impact on the financial performance of public schools with a change in one unit leading to an improvement of 107.3% in financial performance. A unit change in of corporate governance principles would lead to an improvement of financial performance by up to 80.7%, while a one unit change in segregation of duties would result in a 25.9% improvement on the financial performance of schools and a unit change in board composition would result in a 53.1% decrease in financial performance of a school. Overall the most significant factor was the available board skills as this led to the highest change in the financial performance in public schools. Corporate Governance had the second highest impact, followed by board composition and separation of duties had the least impact of the four factors.

Table 4.2: Coefficients of Corporate Governance

Model		Unstandardized Coefficients		t	Sig.
		B	Std. Error		
	(Constant)	-2.125	0.845	-2.515	0.013
	Board Composition	-0.531	0.168	-3.156	0.002
	Board Skills	1.073	0.181	5.939	0.000
	Corporate Governance	0.807	0.177	4.56	0.000
4	Separation of Duties	0.259	0.107	2.42	0.017

5. Conclusions

Resulting from the analysis, the study concluded that corporate governance significantly influenced financial performance of public schools in Kenya. The skills of board skills of board members had the highest positive impact on the financial position of a public school. This meant that it is critical to ensure that board members; have the requisite education levels and that the board has a mixture of varying professional inclinations as well as the ability to govern. Second, it was concluded that corporate governance positively influenced financial performance of schools. This is informed by having adequate induction training for the board members, setting work plans and meeting schedules and adhering to the schools strategic direction as provided for by the schools strategic plan. Third, the study concluded that composition of the board had a negative impact on the financial performance of the schools. This observation was attributed to the procedure of appointing school board members which is heavily dependent on political appointees in Kenya and lack of induction training for board members which meant that the members did not have the requisite knowledge hence the negative impact of the composition. It was finally concluded that separation of duties positively affected financial performance of schools by ensuring that there are adequate checks and balances available to both the board and the management.

6. Recommendations

The results led the study to recommend as follows: For optimal financial performance, public secondary schools should have large board size as very small boards result in efficiency in governing public secondary schools. In terms of board skills, it is recommended that public secondary schools boards should diversify their membership base to include members engaged in activities that yield a regular income. Members with such skills will help schools in minimizing liquidity problems by sensitizing them on the need to operate in a businesslike manner. New board members must be taken through induction training to equip them with technical skills for managing public schools for financial optimality.

Public secondary schools should ensure that the principles of corporate governance as advocated for by the Ministry of Education and other relevant authorities within their jurisdiction are implemented and enforced at all times. The board members of these public secondary schools should ensure they get copies of these documents or that they are availed to them for purposes of supervision and monitoring of the public secondary schools activities. In addition, the public secondary schools should organize regularly business management skills training for the board members. This improves the level of supervision and monitoring within the public secondary schools as most of them were found to have relevant policies and procedures in place but were hardly followed or not strictly observed leading to several inefficiencies in the running of the

public secondary schools. Last, separation of duties be encouraged to avoid unnecessary conflicts between the two governance bodies. A clear policy on the involvement of the political class in appointing their cronies at the expense of considering professional members needs not to be overemphasized.

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