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Legal and Regulatory Framework as a Determinant of Effectiveness of Corporate Governance in State Corporations in Kenya

Peris Koech*
Jomo Kenyatta University of Agriculture and Technology

Prof. Gregory S. Namusonge
Dean School of Entrepreneurship, Procurement & Management, Jomo Kenyatta University of Agriculture and Technology, P. O. Box 62000,NAIROBI, KENYA

Dr. Fred M. Mugambi,
The Director, Jomo Kenyatta University of Agriculture and Technology- Mombasa Campus, P.O. Box 81310-80100, MOMBASA-KENYA

Abstract
This study sought to establish the determinants of effectiveness of Corporate Governance at state corporations in Kenya. Based on the literature, research hypotheses were formulated to investigate the relationships between legal & regulatory framework and the dependent variable. This study was based on The Agency and Stewardship theories. The research methodology selected was a descriptive survey design. The design ensures ease in understanding the insight and ideas about the problem. The target population of the study was the managers in all the 151 state-owned corporations in Kenya. The sampled companies for the study were 46 representing 30% which were identified through systematic random sampling technique. Five managers from each of the 46 sampled companies were identified through systematic random sampling by purposeful sampling technique giving a total sample size of 230 managers. The key research instrument used was a 5-point-likert scale questionnaire ranging from 1-strongly disagrees to 5-strongly agree. Primary data was collected by use of questionnaires which were administered through drop and pick method. Reliability and convergent validity of the questionnaire was tested using the Cronbach's alpha and principal component analysis respectively. .Descriptive statistics of means and standard deviation of Likert scores were calculated. Correlation analysis technique was undertaken to determine whether there was a significant relationship between study variables. However regression analysis was performed so as to test the hypothesis and subsequently model the relationship between the variables. The study found out that Legal and Regulatory Framework was positively correlated with corporate governance in State Corporations in Kenya. The regression analysis led the study to conclude that legal & Regulatory Framework was critical in determining effectiveness of Corporate Governance in State Corporations in Kenya. Consequently the study recommended that stakeholders of State Corporations should enhance, Legal & regulatory framework to sustain effective Corporate Governance in these institutions. Finally further research was recommended to include other corporation's not only state corporations.
Keywords: Legal and Regulatory Framework, Corporate Governance, State Corporations

1.0 Introduction

Corporate Governance can be conceptualized as a set of processes, customs, policies, laws and institutions affecting the way a corporation is directed, administered or controlled, and its purpose is to influence directly or indirectly the behaviour of the organization towards its stakeholders (Dignam and Lowry, 2006). Gompers *et al.* (2003) assert that good Corporate Governance increases valuations and boosts the bottom line of corporations.

Recent times have seen the renewal in Corporate Governance interest amongst scholars, practitioners and media alike due to the high-profile collapse of several large corporations, whose governance systems failed to prevent corruption and adequately implement risk management procedures (Ermann and Lundman, 2002). The collapse of major corporations such as the Bank of Credit and Commerce Internation`al (BCCI), the Maxwell Empire, Ferranti, and Coloroll in the UK drew the world's attention to this phenomenon. The collapse of Enron and WorldCom and other major corporations in the US in 2002 reinforced interest in Corporate Governance.

In recognition of weak Corporate Governance structures and low disclosure in Africa, there have been numerous initiatives to address Corporate Governance problems. At its inaugural summit in July 2002 in Durban, South Africa, the "African Union" adopted a declaration on democracy, political, economic and Corporate Governance. A peer review mechanism was established to guide future peer reviews based on agreed codes and standards of democracy, political, economic and Corporate Governance (Mensah et al., 2003). Since then, a large number of governance guidelines and codes of "best practice" have been adopted in African emerging economies, with local institutes and agencies attempting to promote Corporate Governance principles and accountability for local companies.

The corporate sector in Kenya at a seminar organized by the Private Sector Initiative for Corporate Governance formally adopted in 1999 a national code of best practice for Corporate Governance. In Ghana, The Ghana Institute of Directors (IoD-Ghana), in collaboration with the Commonwealth Association of Corporate Governance, conducted a survey on the state of Corporate Governance in Ghana over the period 1999-2000. Upon the results of the survey that revealed an increasing acceptance of good Corporate Governance practices by business in Ghana, the Manual on Corporate Governance in Ghana was launched in 2001 (Mensah et al., 2003).

In Kenya, the institutions that have been at the forefront in sensitizing the corporate sector in Kenya on Corporate Governance are: Capital Markets Authority (CMA), Nairobi Security Exchange (NSE), and Centre for Corporate Governance (CCG) and Central Bank of Kenya (CBK) which regulates the banking industry. CMA created a major impact in the development of Corporate Governance guidelines in Kenya when it issued the Capital Market Guidelines on Corporate Governance Practice by public listed companies in 2002. These guidelines were published under a gazette notice No. 369 of 25th January 2002 and not a legal notice and therefore do not have the force of law. However, certain guidelines have subsequently been incorporated into legal notice No.60 of 3rd May 2002 as part of the Capital Markets guidelines and are enforceable in law. The stated objective of the CMA guidelines on Corporate Governance is to strengthen and promote the standards of self-regulation and bring the level of governance practices in line with international trends.

State corporations have legal capacity to contract debts and other liabilities to finance their requirements. As at the end of 2011/12 FY, Government of Kenya loans to state corporations (both on-lent funds and direct loans from exchequer resources) stood atKsh.88 billion. These loans are yet to be paid to the lenders by the corporation, or indeed by Government of Kenya in cases where the corporation has defaulted and Government of Kenya guarantee called up. For instance, out of the explicit contingent liabilities, the guaranteed debt in respect of KBC and TARDA has since crystallized and Government of Kenya guarantee called up. For KBC, Government of Kenya has so far repaid Ksh.9.29 billion leaving the outstanding amount of Ksh.5.997 billion.

The debt restructuring for the five public sector owned sugar companies including Nzoia, South Nyanza, Chemelil, Muhoroni and Miwani was approved by Government as part of the on-going privatization of the companies out of the total ksh.41,825,786,485 owed to Government of Kenya and Kenya Sugar Board by the five sugar companies, Kshs.33,780,465,838, was approved for write-off in order to clear excess debt from the books of the companies that had excess debt (i.e. debt in excess of assets) namely, Nzoia Sugar Company, Muhoroni Sugar Company and Miwani Sugar Company.

There are notable failures in the history of performance of state corporations in Kenya, including Kenya Railways Corporation, the Numerical Machining Complex, the Kenya Meat Commission and the Kenyatta International Convention Centre amongst others. However, there are also notable successes, such as Safaricom.

Most state corporations were established to fulfill the social objectives of the state rather than to maximize profits. However, rising stakeholder expectations have forced governments in many countries to reform the Corporate Governance systems of state corporations, with expectations of improving their operations to reduce deficits and to make them strategic tools in gaining national competitiveness Herbert, 2000).

State corporations are still deeply implicated in most fiscal problems of African governments because of their inefficiency, losses, budgetary burdens, and provision of poor products and services. Occasionally, they achieve some non-commercial objectives, which are used to justify their poor economic performance (Mwaura, 2007).

Good Corporate Governance dictates that the Board of Directors governs the corporation in a way that maximizes shareholder value in the best interest of society. Kenya Railways Corporation is a shell of its former self, despite its significant role towards the achievement of the country's vision 2030. The lack of strategic vision of what this entity could and should do has led to selection of sub-optimal choices that have cascaded negative effects into the wider economy. Numerical Machining Complex (NMC), previously known as the Nyayo Motor Corporation limited represents a significant missed opportunity, pointing to lack of effective translation of strategic vision into tangible outputs contributing to the national development effort. The Kenya Meat Commission is also another missed opportunity for transforming the livestock industry in Kenya. All this has worked to the detriment of the economy and the people of Kenya in terms of lost wealth creation opportunities.

The State Corporations Act (SCA) gives the President a strong measure of control over appointments, allows him to provide for the management of every public corporation established under the SCA and also empowers him to determine composition the of the board of directors. Similarly, due to the political nature of appointments, SC boards are composed of mainly directors who are ex-civil servants with little or no private business experience, and who act in the interests of their appointers rather than the corporation. Subsequently, Mwaura (2007) argues that the poor and ineffective management of SCs can be attributed, partly, to the appointment criteria, which is based on political influence rather than relevant technical expertise.

2.0 Literature Review

2.1 Agency Theory

Agency theory, developed by Michael Jensen and William Meckling (1976), has been fruitfully applied in examining the nature of the relationship in a firm that exists between the principal and the agent (Denise 2001). The principal-agent relationship provides benefits since it allows specialization between shareholders, as risk bearer, and management in the management of the firm. The theory is based on assumptions of goal incongruence between the principal and the agent. It focuses on the relationships that are masked by the basic structure of the principal and the agents who are engaged in a cooperative effort, but have differing goals and differing attitudes toward risk. When an agent pursues risky projects, although they may lead to an increased value of the asset, such a move threatens the job security of the agent. He is therefore not interested in such projects because they are seen as risk since the agent's preferences or goals differ from the principal's, the agent has an incentive to deviate from the principal's interests. It is usually assumed that the interest of the principal is to maximize wealth (Denise, 2001). The agent, on the other hand, is interested in a variety of issues such as career goals, large salary, corporate jets, plush offices, and expense account meals. Given this conflict of interests, the agent, if left alone, will pursue his own interests to the detriment of the principal's. Therefore, the monitoring solutions by shareholders, especially major ones, constitute an important mechanism for encouraging managers not to deviate from shareholder interests.

2.2 Stewardship Theory

The stewardship theory invokes the notion of a company and its governance based on the applicable company law (Tricker, 1994). This theoretical underpinning is a normative one based on the belief that the directors to whom authority is delegated will exercise stewardship. The theory is predicated on the belief in the just and honest man who acts for the good of others. Clarke (1993) cites Japan as a context in which the representation of other stakeholders in the company decision-making organs is considered unnecessary as long as management pursues long-term growth which will benefit the interests of all parties, shareholders included. Stewardship theory appears to be appropriate for explaining Corporate Governance within the communitarian paradigm (Tricker, 1994). This theory is also applied in the liberalist sense for its promise to better service the interests of shareholder.

2.3 Stakeholder Theory

Friedman and Miles (2006) argued that organizations should consider the interests of stakeholders because they influence the performance of firms in various ways. Mitchell and Cohen (2006) highlight that stakeholders bear some risks as a result of their direct or indirect investment in a particular organization. A firm is therefore an interrelationship of various stakeholders who influence the organization both externally and internally.

It is stated that in an organization, stakeholder can either be primary or secondary depending on their relationship with the organization. This is because organizations are different and they harbour different interests. Organizations should develop tactics to respond to the needs of stakeholders in order to prevent the negative effects of stakeholders' activities. Stakeholders are very important for organizations because they interact with the organization on a day to day basis hence they have a very big influence on the affairs of the business (Fassim, 2008). Stakeholders can either take a cooperative potential or a competitive threat depending on how an organization treats them. Organizations should develop strategies for stakeholder management such as leading, educating, collaborating, defending, educating and motivating stakeholders (Enz, 2008). State Corporations are required to meet the needs of the stakeholders in order to be effective. The government was the major stakeholder and was regarded with utmost importance in this study which brought forth the need for greater collaboration.

Alhaji (2012) argue that the stakeholder theory is good in explaining the purpose of Corporate Governance by describing different stakeholders that constitute an organization. Some of the stakeholders according to this theory include governmental bodies, political groups, trade associations, trade unions, communities, associated corporations, prospective employees, the general public, competitors and prospective clients. Mitchell and Cohen (2012) assert that economic value is created by people who come together and cooperate to improve everyone's position.

The study adopted the Stewardship and Agency Theories. The Stewardship Theory is based on the belief that the directors to whom authority is delegated will exercise stewardship and this research sought to determine the relationship between Legal & Regulatory Framework) and Corporate Governance.

The Agency Theory relates to situations in which one individual (called the agent) is engaged by another individual (called the principal) to act on his/her behalf based upon a designated fee schedule. Mohammed, (2013).Since both individuals are assumed to be utility maximizers, and motivated by pecuniary and non-pecuniary items, incentive problems may arise, particularly under the condition of uncertainty and informational asymmetry.

The Agency theory is based on assumptions of goal incongruence between the principal and the agent (Jensen, 1976). The relationships that are masked by the basic structure of the principal and the agents who are engaged in a cooperative effort, but have differing goals and differing attitudes toward risk. The agent, if left alone, will pursue his own interests to the detriment of the principal's and thus, the monitoring solutions by shareholders. The research sought to determine the relationship between Agency dimensions, Legal & Regulatory Framework and Corporate Governance.

2.4 Anglo-US Model

The Anglo-US model is an outsider model of governance system (Gugler, Muller and Yurtoglu, 2004), in which ownership is dispersed and owners exercise indirect control on management by electing representatives to the board that monitors management. The Anglo-US model is characterised by share ownership of individual and institutional investors not affiliated with the corporation (known as outside shareholders). Equity financing is the common method of raising capital for corporations in the UK and the US. The three major players in the Anglo-US model are management, directors and shareholders.

The Anglo-US system, from which many elements of governance are taken and imitated by others (Witt, 2004), emphasizes the primacy of shareholders (Shleifer and Vishny, 1997) and presumes that top executives primary responsibility is to maximize shareholder wealth (Jensen and Meckling, 1976). This Anglo-American model focuses on a number of governance mechanisms including the separation of ownership from control, financing through the stock market, and the use of independent directors (Dalton et al., 1998).

In this system, the board of directors 'main tasks is to appoint and dismiss the managers, approve payments and acquisitions and decide on important strategies. Executive directors (who are members of management) and non-executive directors (who are outsiders) operate together in one organizational layer that constitutes the board. Boards are elected by the shareholders at their annual general meetings. As a result of the various Corporate Governance regulations in these countries, the non-executive directors constitute the majority on the board. However, many of the companies still have boards that operate with a board leadership structure that combines the roles of the CEO and the chairman (called CEO- duality). While most companies in the UK have board leadership structure that separates both positions, there are still a few boards in the US that practice CEO-duality. One-tier boards also make use of board committees such as audit, remuneration and nomination committees. In addition the board of directors is in charge of both decision management and decision control. This system of Corporate Governance is also referred to as ―stock market capitalism and it relies on external monitoring mechanisms. However, the Enron-type scandals have shown that these external monitoring mechanisms are not sufficient for controlling the discretionary power of top executives (Gomez, 2004). Managers tend to be disciplined by market-based rewards and punishments through capital markets in this system.

2.5 Legal and Regulatory Framework

The legal and regulatory framework is the basic mechanism outside the firm and refers to the laws and regulations that govern the establishment and cessation of firms and their operations in a country (Denise, 2001). The legal and regulatory framework also includes laws against corruption, laws pertaining to the protection of minority shareholders and. stock exchange rules, Laws and regulations are determined at the societal level (Dyck, 2001) and represent what is generally socially acceptable (Dore, 1993). The function of laws and regulations with respect to Corporate Governance is to provide a framework within which various organizational constituencies can relate to one another. They describe the relationship that must exist between management and the various stakeholders (Scott, 1997).

In Anglo-Saxon countries, the legal and regulatory framework defines the relationship between shareholders and directors. The legal and regulatory framework also influences the effectiveness of other mechanisms and in particular the way they evolve. For example, the ownership structure is largely influenced by the effectiveness of the legal and regulatory framework. Berglof (2004) posit that the ownership structure is a response to the effectiveness of the legal and regulatory framework. La Porta et al. (1997) and Roe (2003) point out that depending on the applicable laws and regulations, as well as their enforcement, Corporate Governance may be enhanced through the protection of capital providers (shareholders and creditors).

The legal and regulatory framework for Corporate Governance in Tanzania is generally regarded as weak because of the poor enforcement of laws and regulations (URT, 1996). In addition, some laws are outdated. However, this is not a problem unique to Tanzania. Poor laws and regulations, and the poor enforcement of existing laws and regulations, are generic problems in developing countries Lin, (2000); Berglof, (2004). The connection of laws and regulations to the political system makes them unreliable in terms of disciplining managers in these economies Berglof(2004). This is also related to the problem of "vested interests". In Tanzania, the problem of corruption undermines the rule of law and makes the use of the law a costly option (Melyoki, 2005).

In Kenya, government agencies operate under the Companies Act, and their operations are also governed by the relevant legislations and regulations including; the Public Finance Act, the Public Procurement Regulations Act, State Corporations Act, Exchequer and Audit Act and Labour Acts among others. From a regulatory framework, commercially oriented SCs are governed by the Companies Act 1978 c.486 (Companies Act, 1978). However, in the case of utilities and commercial regulatory bodies, they are incorporated under specific enabling regulations. Being a former British colony; Kenya adopted the Act almost entirely from the England's Companies Act of 1948 after the attainment of independence in 1963. The Act has only been subjected to minor amendments.

3.0 Research Methodology

3.1 Research Design

This study is a quantitative study using a descriptive survey design. Descriptive studies ensure ease in understanding the insight and ideas about the problem. The cross-sectional quantitative data was collected from the state-owned corporation's employees at almost the same point in time using a questionnaire. The benefit of a cross-sectional study design is that it allows researchers to compare many different variables at the same time. We could, for example, look at age, gender, income and educational level in relation to determinants of Corporate Governance levels, with little or no additional cost. Scholars like Gay (1987), said that descriptive survey design involves collecting data in order to test hypotheses or answer questions concerning the current status of the subject of the study, which indeed is the purpose of the current study. It aims at testing of four hypotheses formulated from the review of the literature. This design is further appropriate for this study since Gall, Borg, & Gall (2003) note that descriptive survey research is intended to produce statistical information about the aspects of the research issue (in this case Corporate Governance) that may interest policy makers. The study used a quantitative approach which deals with data that is principally numerical in nature. Bryman (2002) identifies the following characteristics of the quantitative approach; it entails a deductive approach to determine the relationship between theory and research, it incorporates the practices and norms of the natural scientific model; and it embodies a view of social reality as an external, objective reality.

3.2 Target Population

Mugenda (2005) highlights the target population as a number of individuals about which a researcher is interested in describing or making a statistical inference. A population is a group of elements or causes, whether individuals, objects or events, that conform to specific criteria and to which we intend to generalize the results of the research McMillan, (2001). The target population for this study was management employees in 151 State Corporations.

3.3 Sample Size & Sampling Technique

Kothari (2004) suggests that the sample size should neither be too large nor too small. Sampling is particularly useful as it overcomes the impossibility of asking all members of a population their opinion. For the purposes of producing results that can be generalized to the population, systematic random sampling method was applied to select the 46Corporations. In systematic random sampling the sample is chosen by selecting a random starting point and then picking each "*i*th" element in succession from the sampling frame. The sampling interval "*i*" is determined by dividing the population size "*N*" by the sample size "*n*" and rounding to the nearest integer.

The 230 respondents were obtained by purposeful sampling technique. Purposeful sampling is a non-probability sampling technique where the respondents selected are only those deemed to have the required information. In this study managers were the ones deemed to have the necessary information regarding Corporate Governance due to their position. Out of the 151 government parastatals the researcher selected 46 (30%) Corporations by systematic random sampling technique.

In this study the sample size formula number (2) by Cronchan for continuous data was deemed appropriate. The formula was appropriate because the five point scale used is a continuous scale. The alpha level was set a priori at .05. The margin of error was set at 3% which is commonly used in educational and social research for continuous data Krejcie&, (1970). The scale standard deviation was estimated at 1.25.

$\mathbf{n_0 = (t_*)^2 s^2 / d^2}$**....................................equation 1**

Where t = value for selected alpha level of .025 in each tail = 1.96 (the alpha level of .05 indicates the level of risk the researcher is willing to take that true margin of error may exceed the acceptable margin of error.) s = estimate of standard deviation in the population = 1.25. (Estimate of variance deviation for 5 point scale calculated by using 5 [inclusive range of scale] divided by 4 [number of standard deviations that include (approximately 95%) of the possible values in the range]). And where d = acceptable margin of error = (number of points on primary scale * acceptable margin of error; points on primary scale = 5; Acceptable margin of error = .03 [error researcher is willing to except]). Using equation 1, n_0=266. That is;

$\mathbf{n_0} = \frac{(1.96)^2 1.25^2}{(5*.03)^2} = \mathbf{266}$........................... **equation2**

And since this estimated sample size exceeds 5% of the population (1671*.05=84), Cochran's (1977) correction formula in equation (3) should be used to calculate the final sample size n. These calculations are as follows:

$\mathbf{n} = \frac{n_0}{1+\frac{n_0}{N}}$..**equation3**

Where N = 1,671. Where n_0 = required return sample size according to Cochran's formula= 266. Using equation3, the adjusted sample size was= 229.5. And therefore 230 managers were sampled to take part in this study.

3.4 Data Collecting Instruments

The data collecting tools included:

a). Literature Study

Text books, research reports, journals and government gazettes were used to review important Corporate Governance literature. The university libraries were resourceful as various academic online library databases; this was used to source information. An analysis of relevant documents such as codes of conduct and ethics, policy documents were also reviewed to provide insights of current state corporation policy guidelines and practices.

b). Questionnaires

A questionnaire was the main tool of collecting the cross-sectional data from the employee of state-owned corporations. The questionnaire is relatively economical, and has the same questions for all subjects and can ensure anonymity (McMillan & Schumacher, 2001). Also according to Mason and Bramble (1997) a questionnaire enables a larger sample be reached. The disadvantage of the questionnaire is that once the questionnaire has been distributed, it is not possible to modify the items, even though they may be unclear to some respondents and it cannot enquire or examine deeply into respondents' opinions or feelings (Gall, Borg & Gall, 1996). This research ensured the content validity of the questionnaire before use so as to mitigate the effect of the disadvantages. A pilot study was carried out to refine the final research questionnaire.

The insight gained from the literature study regarding Corporate Governance was used to develop a questionnaire that was divided into three parts. Part one of this instrument is designed to obtain participants' demographic data -gender, age, managerial experience, and educational background. Part two of the questionnaire comprised of items related to Corporate Governance practices (independent variables). This scale measured participants' responses towards identified dimensions of Corporate Governance. A 5-point Likert scale (1 = strongly disagree, 2 = disagree, 3 = neutral, 4 = agree, 5 = strongly agree) was used to establish current practices. Part three regards voluntary disclosure of Corporate Governance guidelines, codes of ethics, and codes of conduct (dependent variable).

3.5 Reliability and Validity

In order to test the reliability of the questionnaires, Cronbach's Alpha coefficient method was examined. According to Pallant (2001) a scale of Cronbach's Alpha coefficient of 0.70 or above is acceptable. Factor analysis is a statistical technique used to verify the factor structure of a set of observed variables and their relationship (Field, 2009). It is used to analyze the reliability and convergent validity of the research instrument by identifying and eliminating any items that do not strengthen the factors they represent.

Factor analysis assesses convergent validity through factor loadings values. Factor loadings are numerical values which range from zero (very poor) to one (excellent). Factors which load from 0.5 or less are considered unsatisfactory and discarded from the analysis Kaiser (1974).

3.6 Data Processing & Analysis

A research study produces a mass of raw data, therefore collected data has to be accurately scored and systematically organized to facilitate data analysis (Collins, 2010). In this study, data was collected from managers of State-Corporations through a self-administered questionnaire. The Data analysis entails bringing order, structure and meaning to the mass of time consuming, creative and fascinating process Marshall, (1995). The analysis was in two stages; first, descriptive statistics of each construct was used to inspect the characteristics of the study population. Descriptive statistics is a mathematical technique for organizing, summarizing and displaying a set of numerical data (Gall, Borg & Gall, 1996). Central tendency and variability measures was used to describe the values in distributions. In this case: frequencies, percent, mean, and standard deviation measures were applied

Secondly inferential statistics was used to test the null hypothesis. A Statistical Package for Social Science program- SPSS version 24 was used for the entire analysis. Correlation and regression analysis were the main inferential statistics techniques employed in this study to test the hypotheses. Scrutiny of the assumptions of multiple regressions like linearity, constant variance and normality was performed and appropriate measures undertaken if any of the assumptions was violated. The Multiple regression analysis was used to model the relationship between the independent variable and the dependent variable. The estimated linear regression model for this study was: $Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \varepsilon$

Where:

Y = effectiveness of Corporate Governance (dependent variable).

β_0 = Constant or intercept which is the value of dependent variable when all the independent variables are zero.

β_1-β_4 = Regression coefficient for each independent variable.

X_4 = Legal & Regulatory Framework

ε = Stochastic/disturbance term or error term.

4.0 Research Findings

Factor Analysis of Legal & Regulatory Framework

Legal and regulatory framework had seven factors which the researcher envisaged had a role in Corporate Governance in state corporations in Kenya. The factor analysis was performed to determine if these factors converge to smaller number of factors which determines the Corporate Governance in state corporations in Kenya. The result in table9 shows that for this data the value is .721, which falls into the range of being good (Hutcheson & Sofroniou,2009), therefore the sample size was adequate for factor analysis.Bartlett's measure tests the null hypothesis that the original correlation matrix is an identity matrix. A significant test means that the matrix is not an identity matrix; therefore, there are some relationships between the variables we hope to include in the analysis. For these data, Bartlett's test is highly significant (chi-square=325.318, $p < .001$). Accordingly factors of legal & regulatory framework are related and therefore converge to three components for further analysis. These three components' total variation and individual variations are presented in table10

Table 4.12 :KMO and Bartlett's Test: Legal & Regulatory Framework

Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		.718
Bartlett's Test of Sphericity	Approx. Chi-Square	325.813
	Df	21
	Sig.	.000

Table 413 shows the initial eigenvalues, sum of square loadings before and after rotation the variance explained and variance of each component. From the result; Component 1 had highest initial total variance of **38.448**%, followed by component2, with **18.077**% and component 3 had a total variance of **14.341**% and these components collectively they accounted for 70.866% of total variance in Legal & Regulatory Framework in state corporations in Kenya

Table4.13: Total Variance Explained; Legal & Regulatory Framework

Component	Initial Eigenvalues			Extraction Sums of Squared Loadings			Rotation Sums of Squared Loadings		
	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %
1	2.691	38.448	38.448	2.691	38.448	38.448	2.151	30.731	30.731
2	1.265	18.077	56.525	1.265	18.077	56.525	1.409	20.135	50.866
3	1.004	14.341	70.866	1.004	14.341	70.866	1.400	20.000	70.866
4	.738	10.540	81.406						
5	.598	8.544	89.950						
6	.401	5.731	95.681						
7	.302	4.319	100.000						

4.1 Regression analysis diagnostics

Collinearity diagnostic table below indicated that there was no problem of multicollinearity since all variance inflation factor (VIF) was more 10. To this end therefore, regression analysis was appropriate to test the study hypothesis without severely violating the required assumptions in linear regression.

Table 4.24: Collinearity diagnostics

Model		B coefficient	T	Sig.	Collinearity Statistics		
					Tolerance	VIF	Comment
1	(Constant)	.188(.135)	1.391	.166			
	Legal Framework	.271(.031)	8.669	.000	.781	1.281	No multicollinearity

Note: standard errors are in parenthesis, VIF= variance Inflation Factor

Simple Linear Regression Analysis between independent Variable and Corporate Governance in state corporations in Kenya

A simple linear regression analysis was performed between the independent variable and the dependent variable, which was regressed with the Corporate Governance to establish whether the variable was a significant determinant of governance in state corporations in Kenya. The simple linear regression analysis was justified to enable the study underscore the contribution of the independent variable to the dependent variable and therefore test the study hypothesis. The model summary is presented in table 4.27. The table gives the R value the R Square and Adjusted R Square. The R square value is the coefficient of determination. It represents the portion of the variation that that independent variable accounts for in the dependent variable, in this case, Corporate Governance. The last two columns give the ANOVA result and its significance respectively of the simple linear regression model. Legal framework 35.8%. The regression beta coefficients for each independent variable are presented in table21.

Table 4.25: Regression Beta-Coefficients

Corporate Practices	Unstandardized B	t	Sig.
Legal Framework &	.513(.049)	10.438	.000

The result in table 4.26 shows that the coefficient of the independent variables, that is, legal and regulatory framework (β= .513, p<.001) was significant in explaining the following hypothesized relationships:

H1: There is a significant relationship between legal and regulatory framework and Corporate Governance in State-owned Corporations in Kenya.

The hypothesis was supported. That is, there was a significant relationship between legal framework and Corporate Governance in state-owned corporations in Kenya (β=.286, p<.001). Therefore the beta coefficient was significantly different from zero. The legal framework accounted for 35.8% of the variations in Corporate Governance in state-owned corporations in Kenya.

Table 4.26: model summary

Model	**R**	**R Square**	***Adjusted R Square***	**F**	**sig**
Legal Framework	.599	**.358**	*.355*	**108.962**	.000

The foregoing sections dealt with simple linear regression analysis. In simple linear regression, one independent variable was regressed with the dependent variable to enable the study to determine the influence of the dependent variable on the dependent variable when other factors are held constant.

5.0 Conclusion

Findings indicated that on average the Legal &Regulatory Framework was in support of Corporate Governance in Kenya (Mean=3.8**)**. The Legal & Regulatory Framework had a positive and significant correlation with Corporate Governance in State-owned corporations in Kenya (r=.597, p<.001). Regression result revealed that Legal & Regulatory Framework was a significant determinant of Corporate Governance (β=.513, p< .001). Legal & Regulatory Framework accounted for 35.8% of the variations in Corporate Governance. The standard multiple regression analysis revealed Legal and Framework was a significant factor (β=.271, p< .001) in the Corporate Governance model. The hypothesis that; there is a significant relationship between Legal & Regulatory Framework and Corporate Governance; was supported.

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