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IMPACT OF BOARD COMPOSITION, BOARD SIZE AND BOARD TRAINING ON THE PERFOMANCE OF DIRECTORS IN ENERGY SECTOR PARASTATALS IN KENYA

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ABSTRACT

This paper focuses on the impact of board composition, size and training on the performance of directors in parastatals: A study of the energy sector parastatals in Kenya. The objective of the paper was to find out how board composition, board size and board training affect performance of board of directors in the energy sector. The scope of the study for the research project was the Kenya's energy sector parastatals and the target organizations were: Kenya Pipeline Co Ltd, Kenya Power & Lighting Co Ltd, KenGen Co Ltd, KETRACO, Geothermal Development Corporation and the National Oil Corporation. The study was anchored on the Agency theory supported by Transactional Cost theory and Upper Echelon theory. The research methodology was a descriptive survey design. The target population for the study was board of directors drawn from various parastatals within the energy sector. A sample size of 62 directors was selected by use of a simple random sampling method. The key research instrument that was used was; a 5-point-likert scale questionnaire. Primary data was collected by use of questionnaires which was administered through drop and pick method. The data collected was analyzed using the SPSS version 25. Descriptive statistics of means and standard deviation of Likert scores was calculated. Board composition positively and significantly impacted the performance of board of directors in Kenya's energy sector parastatals. From the research findings it showed that the presence of women on the board brought additional perspective on the decisions made by the board. Further, the study showed that there was diversity within the board which led to having improvement on their performance. Additionally, with the diversity within the board meant the board was not comprised of one majority group as well as the age difference of the board was more inclusive and made it effective. Board size was significant and positively affected the performance of board of directors in Kenya's energy sector parastatals. It was established that smaller sized boards enhanced the performance of the entire board. Moreover, bigger sized boards needed to deal with more conflicts among its board members hence hard to find consensus. On the other hand, medium sized boards tend to benefit parastatals by giving effective oversight of management and provide necessary resources. Large boards improved performance through reducing CEO's dominance on the board. Other than board size, attention should also be directed to the importance of the human element in board performance. The board training had led to the encouragement of the board members to continue with further studies on the improvement of their skills. Additionally, the level of education of the board members affected the performance of the board members during a board meeting. It further established that board members without requisite skills contributed the least during board meetings. For the board members who had high number of years of experience and training in various industries, they had a broader understanding of the board activities.

Keywords: *Board of Directors, Performance, parastatal, energy sector*

INTRODUCTION

Although board members select, supervise, and remunerate top managers in companies in addition to formulating policy, the board of directors is one type of internal control mechanism in corporate management (Campbell, 2018). Therefore, the understanding of the determinants that affect the performance of board of directors in the energy sector is crucial. The research variables in this research study are; board composition, board size and board training . The study explores how and to what extent these variables impact on the performance of board of directors in the energy sector. The board is in charge of safeguarding shareholders' interests, developing management policies, overseeing the organization and making critical decisions about the organization's issues. An organization's bylaws specify the structure, obligations, and powers granted to its board of directors. The laws and regulations normally specify how many board members should be on the board, how they should be appointed, and how often they should meet. A board of directors does not have a fixed structure; it is highly dependent on the corporation, the market in which it operates and the shareholders (Bhagat, 2019).

It is generally understood that the board of directors must serve the interests of both shareholders and owners and that it is typically a good idea for the board to include both internal and external stakeholders (Stuart, 2019). As a result, there is normally an internal director – a member of the board who is involved in the company's day-to-day operations and handles the needs of shareholders and staff and an external director who expresses the views and interests of external stakeholders. According to Klein (2019) the principles of corporate governance, which are described as the mechanisms and processes for the direction and control of businesses, must be followed by an effective board. It's about how management, the board of directors, controlling shareholders, minority shareholders, and other stakeholders interact. By improving company efficiency and increasing their access to outside capital, good corporate governance leads to long-term economic growth. A company's management, board of directors, shareholders, and other stakeholders are all involved in corporate governance. Corporate governance is often described as the mechanism that determines the corporation’s goals, as well as the means of achieving those objectives and monitoring performance (Knoeber, 2019).

Board of directors are of great concern to the investment community, business world and general society at large. According to Cadbury, 2017), (this attention is understandable given the fact that boards of directors serve as a link between the shareholders who provide capital and the management who are in charge of running the central functions of the corporate governance. Discussion is in view that the board of directors is the guardian of shareholders’ interests (Dalton et, al; 2015). Yet, at the same time boards are criticed for failing to meet their roles and governance responsibilities, Major institutional investors have put more pressure on (incompetent) directors and have also long advocated for changes in the board of directors’ structure (Monks and Mino, 2001), Their call has been strengthened by many corporate governance reforms from major corporate failures. The reforms put great emphasis on formal issues such as; board composition, board size, board independence board training and board leadership style (Weil; Gotshal and Menges; 2002).

1.2 Statement of the Problem

Despite tight regulatory framework in Kenya’s energy sector parastatals, effective Board management continues to weaken in Kenya (Mangunyi, 2018). According to Mureithi, (2019), many parastatals have been punctuated by scandals as a result of directors acting improperly or in unethical conduct with their shareholders. Due to lack of competent management and governance, as well as malpractices, some stock brokers have found themselves in serious financial troubles, prompting the Capital Markets Authority to put them under receivership management.

While the majority of studies have looked at composite stock indices in relation to board composition of firms, (Gitobu 2019) looked at the relationship between corporate governance and firm results. Despite of all these alternative studies, there is still a gap in the literature when it comes to examining the performance of board of directors in Kenya's energy sector parastatals because no comprehensive results have been achieved on the subject. As a result, this research aims to bridge that gap by critically examining the performance of board of directors in the energy sector.

1.3 Objective of the Study

The general objective of the study was to establish impacts of board composition, board size and board training on performance of board of directors in Kenya’s energy sector parastatals.

1.4 Research Questions

i. How does board composition affect the performance of board of directors in Kenya’s energy sector parastatals?
ii. How does board size affect the performance of board of directors in Kenya’s energy sector parastatals?
iii. To what extent does board training affect the performance of board of directors in Kenya’s energy sector parastatals?

2.0 LITERATURE REVIEW

2.1. Theoretical Review

2..1.1. Agency Theory

The Agency theory was first introduced by Stephen Ross and Barry Mitnick in 1973. This was to solve the agency problems that would arise from the agency relationship between principals (shareholders or owners of the business) and the agents (management or workers) of the business.

The relationship between principals, such as shareholders, and agents, such as company executives and managers, is referred to as agency theory. According to this theory, the shareholders, who are the company's owners, recruit the employees to do work on their behalf. Ross and Mitnick proposed this theory to clarify the distinction of ownership and power in companies. It views the corporation as a network of interconnected contracting relationships among people. The theory states that all parties in a contract relationship will use the available information to maximize their wealth. In the agency theory, a principal appoints employees as agents to undertake a job that the principal him/herself is unable to accomplish. In this case, the parties in the theory are the principals and the employees. The principals in the sense of companies are the company's owners, who assign work to the employees, who in this case are the management. Self-interest motivates both the principals and the employees, according to another assumption of the theory. If all sides are motivated by self-interest, this statement holds true (Mitnick & Ross, 2019)

2.1.2. Transaction Cost Theory

The origins of Transaction Cost theory can be traced back to the work of Coarse (2016), "The Nature of the Firm". Coarse explains that economic organizations operate to reduce the cost of trade in the industry. A corporation is regarded as a governance framework for minimizing the cost of trading in the market in this regard. (Taylor, 2010). According to this theory, if a transaction is coordinated through the market or through the hierarchy (firm) it is decided by the efficiency of all modes of organization in minimizing the transaction's expense. In terms of Corporate Governance, the transaction at hand is an investment in a company that is accompanied by a guarantee of future return rather than payment. (Dyck, 2001). This theory states that, the board of directors is a structure that has evolved to solve issues that arise from managers' opportunistic conduct. Williamson, (2019). He stated that the board of directors' proper function is to safeguard the rights of shareholders. However, in terms of corporate governance, transaction cost theory has several weaknesses. The theory provides no guidelines about how the board should be structured to be effective in protecting shareholder rights (Williamson, 2019)

2.1.3. Upper Echelon Theory

Hambrick (2019) was the first person to propose the Echelon theory. The theory's core principle is that top executives in companies assess the opportunities, risks, alternatives, and probabilities of different outcomes from their operations. Because of executives' experiences, values, attitudes, and other human factors, these individualized perceptions of strategic circumstances emerge. As a result, companies, according to the theory, become representations of their top executives. Theorists argued that strategic decisions are inextricably related to the demographic profiles of decision-makers. Although most research on corporate executives and strategy have concentrated on the CEO and/or Top Management Teams (TMT), this study follows Hambrick's (2017) suggestion that research should include board of directors because they have a major impact on the corporation's strategic decisions. Boards of directors serve as advisors and are involved in the evaluation, approval, and facilitation of strategic policy direction. According to Zajac (2001), the demographic factors of the board of directors can affect the company's financial results inclination. This is crucial because corporate governance would necessitate the board's participation in the development, advice, analysis, and approval of strategic decisions (Williamson, 2019)

2.2 Empirical Literature Review

2.2.1. Board Composition and Performance of board of directors

Traditional approaches to board structure are focused on the discrimination-and-fairness model, which includes policies like affirmative action, which aims to select from under-represented groups, and numbers-based approach, in which statistics are the most valuable instrument. (Thomas, 2019). The ratio of inside directors who engage directly in routine management of the company to outside directors who serve as a check and balance to ensure that the interests of shareholders are covered.

According to Wegge (2019), age variability strengthens a group's capacity to solve high-c complexity tasks. Age variability, on the other hand, increased the amount of self-reported medical problems in groups working on simple tasks, suggesting that groups of different ages can be used more often for innovation or solving complex problems. Furthermore, prolonged career tenure is credited with the positive outcome of age composition. The increasing use of transaction cost theory, according to (Dagsson, 2018), can be used to predict board operation and enhance board processes. They argue that rather than attempting to connect team attribute variables to organizational efficiency, governance research should focus on developing and testing a theoretically sound model of board performance

2.2.2. Board Size and Performance of board of directors

The size of the board of directors has been shown to have a major effect on corporate governance efficiency. Several researches back up the notion that large boards can be inefficient. Hermalin (2018) argues that board size is a measure for the board's operation, which illustrates why smaller boards are superior to larger ones with free rider and oversight concerns. Yermack (2019), for example, discovered a negative relationship between board size and firm value, suggesting that smaller boards are more efficient because they have less contact and teamwork matters. The effects of board size on an ideal team varies depending on the organization's distinctive traits, as well as the region in which it operates. Having a large board size is of great benefit because it provides the board with more collective knowledge, skills, experience, and expertise thus contributing to the organization’s efficiency.

There have been two important reasons why board size has occupied the minds of researchers in the field of research study. For example, it is believed that the size of the board has a direct impact on the performance of the board of directors. According to agency theory, the number of directors in any organization may serve as a symptom of CEO’s domination of the board. Therefore, increasing the number of directors makes it difficult for the CEO to dominate the affairs of the board and hence makes it possible for the board to monitor the management and organizational performance (Van der Walt 2019.).

2.2.3. Board Training and Performance of board of directors

Morey (2018) defines training or growth as "the formal, ongoing efforts made within organizations to increase employee efficiency and self-fulfillment through a range of educational programs and other training approaches." Training is associated with rapid improvements in organizational performance by coordinated orders, while growth is associated with the achievement of long-term organizational and employee objectives.

Even though terms training and growth have different meanings, they are often used interchangeably. The two terms refer to an organization's overall improvement and education of its employees, including executives. Although the terms are similar, there are important distinctions between them that revolve around the nature of the application. In general, educational programs have very basic and quantifiable objectives, such as running a specific piece of equipment and understanding a specific process.

Developmental approaches, on the other hand, emphasizes on board abilities that can be used in a variety of contexts, such as decision-making, teamwork and goal-setting. Employee training is one of the vital tools that helps to enhance and increase effective organizational performance and at the same time helps to promote stability index of the organization. It is critically important for organizations to develop a robust training program for both board of directors and employees if it wants to achieve its goals and objectives in the most economical way.

Effective training programs help in building supportive and conducive learning environment to the entire workforce and at the same time help organizations to deal effectively with foreseeable challenges easily and in time (Gunter; 2011). Training is a fundamental and effectual instrument in the successful accomplishment of the organizational goals and resulting to higher productivity, efficiency and superior quality

2.3 Conceptual Framework

The conceptual framework represents the hypothesized association between the independent variables and dependent variable. The independent variables were: board composition, board size, board training while the dependent variable was: performance of board of directors in Kenya's energy sector parastatals.

Independent Variables **Dependent Variable**

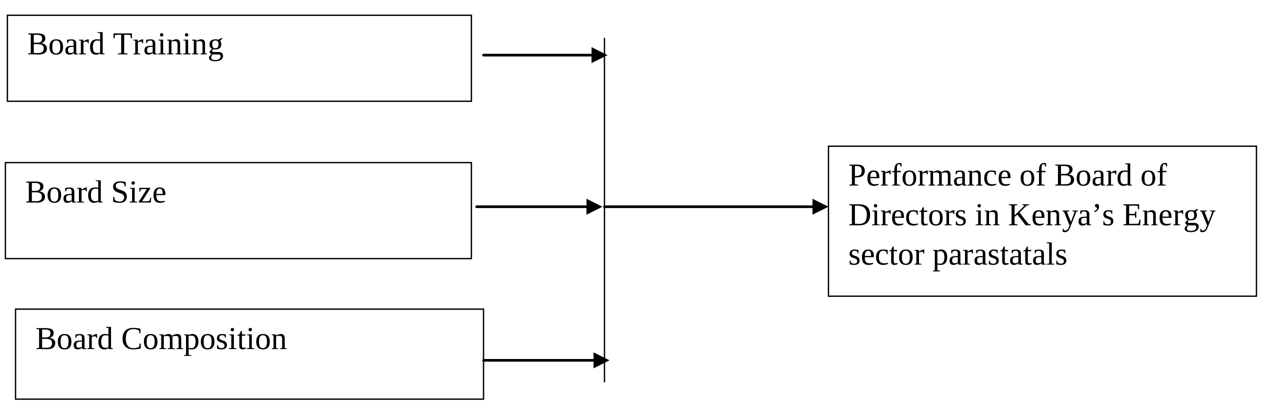

Figure 1: Conceptual Framework

3.0 METHODOLOGY

The research study adopted descriptive design where both qualitative and quantitative data was collected. This design enabled the researcher to fully establish the effect of board training, board size and board composition on the performance of board of directors in Kenya's Energy sector parastatals. The target population for the study was made up of directors of selected Kenya's energy sector parastatals. Studying the whole population is impossible. For this reason, the researcher picked a few directors from the selected Kenya's energy sector parastatals. To achieve a representative sample for a research study, directors who were studied (i.e. the subjects) were carefully selected using a simple random sampling methods (Amin, 2019). The researcher adopted the primary source of data that was collected by use of open structured questionnaires. This tool aimed at receiving the perceptions of the respondents in regards to the study objectives. The questionnaire was most preferred for the study as it allowed the respondents to deeply respond to every research objective. To determine the level of validity and the reliability of the research instrument, a pilot study was necessary to be done. The study targeted a total of 74 directors from the Kenya's energy sector parastatals. The collected data was tested and analyzed to determine its credibility, consistency and usefulness. The gathered data was analyzed, interpreted and presented as findings in graphs and frequency distribution tables for ease of interpretation. The researcher adopted the primary source of data that was collected by use of open structured questionnaires. This tool aimed at receiving the perceptions of the respondents in regards to the study objectives. A pilot study sample should be at least 10% of the sample projected for the major study. The pilot study was carried out on 12 directors of the Energy Sector who were randomly selected

4.0 Results and Discussions

4.1 Reliability Test

The research targeted a sample size of 74 respondents from a selection of 6 parastatals from the energy sector. The aim of the study was to establish the determinants affecting the performance of board of directors in Kenya's energy sector parastatals. The questionnaires were distributed to the respondents using the drop and pick method. However out of the 66 questionnaires, only 56 questionnaires were collected fully completed thereby making a response rate of 85%.

4.2 Reliability Test

Variable	Number of Item	Cronbach Alpha
Board composition	4	0.772
Board size	4	0.820
Board Training	4	0.739
Average Cronbach Alpha	**3**	**0.777**

From the research findings, board composition had Cronbach reliability alpha of 0.772, board size had a Cronbach reliability alpha of 0.820, and board training had a Cronbach reliability alpha of 0.739. From the results, it clearly indicates that the research instrument used was reliable thus amendments were not necessary.

4.3 Model Summary

Model	R	R Square	Adjusted Square	R Std. Error of the Estimate
1	0.814[a]	0.663	0.660	0.46036

From the model summary above, the R-Squared is the proportion of variance in the dependent variable that can be explained by the independent variable. In this study the R-Squared was 0.668 that indicted the five independent variables, (board composition, board size, and board training) that explain 66.3% of the dependent variable. Therefore the other factors not studied in this study explain the 33.7% of the dependent variable (performance of board of directors).

4.4 Analysis of Variance

The analysis variable demonstrates the findings on the analysis of variance on the impacts that affect the performance of board of directors in Kenya’s energy sector parastatals.

Analysis of Variance

Model	Sum of Square	Df	Mean Square	F	Sig.
1 Regression	15.726	4	3.931	18.550	.000[b]
Residual	183.962	40	.212		

Total	**64.611**	**44**

The analysis of variance was utilized to determine if the model is a good fit for the data. From the findings, the p-value was 0.000 which is less than 0.05 thus, the model is good in predicting how the three independent variables, (board composition, board size, board and board training) influenced the performance of board of directors in Kenya's energy sector parastatals. Moreover, the F calculated (18.550) was more than the F-critical (2.45) that shows the model was fit in predicting the influence

5.0 Conclusions

Board composition positively and significantly impacted the performance of board of directors in Kenya's energy sector parastatals. From the research findings it showed that the presence of women on the board brought additional perspective on the decisions made by the board. Further, the study showed that there was diversity within the board which led to having improvement on their performance. Additionally, with the diversity within the board meant the board was not comprised of one majority group as well as the age difference of the board was more inclusive and made it effective. From the board of directors' perspective and for the board to be effective, the board of directors needed an appropriate structure.

Board size was significant and positively affected the performance of board of directors in Kenya's energy sector parastatals. It was established that smaller sized boards enhanced the performance of the entire board. Moreover, bigger sized boards needed to deal with more conflicts among its board members hence hard to find consensus. On the other hand, medium sized boards tend to benefit parastatals by giving effective oversight of the management and provide necessary resources. Large boards improved performance through reducing CEO's dominance on the board. Other than board size, attention should also be directed to the importance of the human element on board performance. This includes: a climate of trust and candour, a culture of open dissent, collective wisdom. Collective strength and behavioral expectations which are important elements that can enhance and increase the performance of board of directors (Carter , 2018).

The board training had led to the encouragement of the board members to continue with further studies on the improvement of their skills. Additionally, the level of education of the board members affected the performance of the board members during a board meeting. It further established that board members without requisite skills contributed the least during board meetings. For the board members who had high number of years of experience and training in various industries, they had a broader understanding of the board activities. Board training significantly affected performance of board of directors in Kenya's energy sector parastatals. The board of directors' training for other organizational employees', forms a vital tool that helps to enhance effective organizational performance and at the same time helps to promote stability index of the organization.

6.0 Recommendations

To enhance the performance of board of directors in Kenya's energy sector parastatals, diversity is to be encouraged to have more inclusivity and also gain different perspectives and views. Further, the board should ensure that they encourage appointment and participation of more women in board meetings as they bring in different views to the board. A board should be large enough to include a diverse of competencies required to carry out its responsibilities, but small enough to engage in active strategic discussions, make timely strategic decisions that move the organization forward, and bond as a team. The board should also provide more regular training programs in enhancing its performance effectively.

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