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Corporate Governance and Performance of Local Petroleum Companies in Kenya

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ABSTRACT

The decline in the market share was as a result of stiff competition from the multinationals, which has continued to affect the organizational performance of local petroleum firms in Kenya. The purpose of this study was to determine the relationship between corporate governance and organizational performance of local petroleum companies in Kenya, as listed by Energy and Petroleum Regulatory Authority. The study population was 834 local petroleum companies in Kenya licensed by Energy and Petroleum Regulatory Authority as of August December 2022. This study was anchored on Theory of Transformation Leadership and supported by Institutional Theory and Resource Dependence Theory. These theories are linked to corporate governance, strategy implementation, government regulations and organizational performance variables. Primary data was collected using structured and unstructured questionnaires. The study was guided by positivism philosophy and the data collected was coded and analyzed using Statistical Package for Social Sciences (SPSS version 22) and be presented in bar charts, percentages and tables. Data was analyzed using ANOVA, correlation and multiple regressions. The study result showed that the coefficient of determination adjusted R Square is 0.593. The model indicates that corporate governance explains 59.3% of the variation in organizational performance of local petroleum companies. The study findings indicated that corporate governance had a significant relationship with organizational performance of local petroleum companies in Kenya. The study recommends that companies be encouraged to adopt good corporate governance practices.

Key Word: *Corporate Governance, Performance, Local Petroleum Companies*, *Kenya*

1. Introduction

1.1 Background of the Study

Girgin and Krausmann (2016), noted that crude oil is the key source of petroleum products. Petroleum is largest, complex and dynamic industry in the world, affecting people's lives in a daily basis from households to industries across the globe, making it a prominent source of energy which met over 60% demand worldwide (Cohen 2016). Petroleum can also be referred to as oil or fuel. Petroleum was accidentally discovered in the USA inform of methane gas (LPG) by miners while digging for coal in 1873 (US Energy Information Administration, 2022). Oil has been discovered mainly across the west counties forming a union called Organization of Petroleum Exporting Countries Plus (OPEC+). This birthed the creation of multinational oil companies, with west countries endowed with this scarce resource, having a competitive edge over developing nations that have none.

Kenya used supply petroleum products to land-locked Eastern Africa states for example Uganda, Rwanda, Burundi, Southern Sudan, and Congo. However, due to corporate governance issues Tanzania has partially overtaken Kenya to supply of petroleum products in the Eastern part of Africa. Kenya and Uganda propose to jointly extend a 784-kilometre petroleum pipeline from Eldoret Kenya to Kampala Uganda, passing through Malaba, then Rwanda Kigali. However, due to corporate governance issues it has not been a reality yet, due to weak government regulations in Kenya.

Buallay et al. (2017) define corporate governance as a set of principles, ideas, relationships, systems and processes by which an organization is directed in forming decisions and judgments. Governance is the fundamental factor in the organizational performance of any company, be it governmental or non-governmental. According to Okiro (2014), governance is the system that promotes and enhances efficiency, transparency and accountability of an organization in regards to compliance with the law and proper utilization and management of organizational resources. Corporate governance can be seen as a composition of measures that inspire factors for the society to participate in the process of over production by the organization. The excess production is then distributed fairly among the partners bearing in mind personal contribution towards the organization (Olumbe, 2012).

Corporate governance can be seen as a composition of measures that inspire factors for the society to participate in the process of over production by the organization. The excess production is then distributed fairly among the partners bearing in mind personal contribution towards the organization (Olumbe, 2012). In the world, good corporate governance practices have become necessary for improving firms' organizational performance in Europe by enhancing the investment atmosphere and encouraging economic development (Baydoun, Maguire, Ryan, & Willett, 2013). According to Braga-Alves and Shastri (2011) and Adiloglu and Vuran, (2012) good corporate governance has gained extensive fame in the market economy.

Mahapatra, Mukherjee and Bhar (2015) define organizational performance as the ability of an organization to achieve set mission through good management, transparent governance and a persistent recommitment to achieving targets. Every organization aims at having a sustainable organizational performance for a successful enterprise using a criterion. Parameter (2015), observed that organizational performance indicates the effectiveness of an organization even though it is difficult to measure it. This is because its measure is neither a one-dimension theoretical construct nor a single operational metric.

The survival or success of any organization is associated to its organizational performance (Ahmed & Shafiq, 2014). Through improvement of the organizational performance, an organization benefits through alteration in the manner in which it operates its business. This implies that organizational performance has inputs and outputs, and connects work with outcomes (Chamanifard, Nikpour, & Chamanifard, 2014). The goal of organizational performance can be either specific or general (Bennet, Lance & Woehr 2014).

In this study, organizational performance was measured by use of organizational performance contracting. There needs to be adjustments of business-related costing in the petroleum industry in Kenya, that have remained unchanged whereas all other facilitating cost to conduct a petroleum business in Kenya are going up. Lack of access to tailor made financial assistance, or insurance to help local petroleum companies to help them navigate during hard time has led to many unprecedented pains for no return on capital, is threatening to keep these local investors in business.

1.2 Statement of the Problem

Petroleum consumption in Kenya is expected to grow from 4.5 million metric tonnes to 12 million metric tonnes by the year 2030 (National Oil, 2015). The total quantity of petroleum products imported into the country has increased from 6,114.4 thousand tonnes in 2018 to 6438.9 thousand tonnes in 2019, representing 5.3% increase, according to EPRA 2020 report. This anticipated growth in consumption of petroleum products, will make Kenyan government to make changes through the Energy and Petroleum Regulatory Authority to encourage new local petroleum entrants especially locally owned oil marketing firms. In 2013, local petroleum firms in Kenya had a combined market share of 71% which in a span of 2 years had significantly declined to 52% as of 2015 (Africa, 2015).

The decline in the market share was as a result of stiff competition from the multinationals, which has continued to affect the organizational performance of local petroleum firms in Kenya. Thus, there is need for these local firms to implement different strategies to mitigate challenges in organizational performance. Yermack (2017) states that corporate governance in developed countries influence firm organizational performance inversely. There exist contextual and conceptual gaps in his study.

1.3 Study Objective

To establish the relationship between corporate governance and organizational performance of local petroleum companies in Kenya

2.0 LITERATURE REVIEW

2.1 Theory of Transformational Leadership

This is the study anchor Theory; this is because the theory supports profound change in organizational structures to bring a sense of newness. This corporate theory was conceptualized by Burns in his descriptive research on political governance in 1978 and later improved by Bass in 1985. Transformation occurs through a system of continual questioning, challenging, exploring, discovery, evaluation testing and creation of strategy implementation and organizational performance (Mardalena, 2018). This theory is significance to this study because it contextually captures so well, the third objective of this study was to determine the mediating effect of strategy implementation on the relationship between corporate governance and organizational performance of local petroleum companies in Kenya.

As an organization travels the road of uncertainty and unpredictability, when implementing new strategies, this transformation leadership theory, encourage the corporate governance of an organization to embrace new learning while taking actions based on new discoveries rather than perception with an intention to adopt new behavior (Northouse, 2016). According to Hanaway (2019) he explains that, transformation begins with the realization or revelation that an organization current thinking is incomplete, limiting flawed or even worse and destructive.

A transformational leader puts effort on his vision, develops the intellectual stimulation for the followers, inspires while fostering subordinates' organizational performance (Baquer, & Ramesh, 2015). Transformational leadership style established reciprocal relationship between the leader and the subordinates to achieve desired objectives (McCleskey, 2014). Transformational leadership focuses on group effort instead of individual (Breevaart, Bakker, Hetland, Demerouti, Olsen & Espevik, 2014). This transformational leadership theory is applicable to unknown destination, especially when an organization is implementation new strategies, which they have not applied before.

2.2 Resource Dependence Theory

Resource dependence theory (RTD) argues that enterprises must learn to exchange with their environment if they can be able to gain resources (Scott 1987). Paetzold (2010) states that the theory centers on the role of resources and how they can be acquired externally or from other sources for the firm to survive or thrive He Further notes external resources can make a firm depend on vital resources to help reduce reliance on other firms, which implicates a firm must increase its ability to use their environment for the benefit (Johnson, Daily and Ellstrand 2012). According to Hillman et al. (2010) explain that external resources make an organization depend on vital resources to reduce dependency on other organization in their environment for their advantage. This theory is applicable during strategy implementation, as it factors out various external environmental factors, regarding the future of an organization Johnson, et al. (2014).

In this study, the theory conceptualizes the argument that organizational performance is enhanced when organizations use unique resources that they own and configure the same to enable the firm to attain a competitive advantage position. This theory is relevant since it helps in determining the resources (organizational skills, competencies and capabilities) that require proper corporate leadership with intervention of strategy implementation and government regulations to achieve desired organizational performance.

2.3 Empirical Literature Review

2.3.1 Corporate Governance and Organizational Performance

Onchieku and Ragui (2019) evaluated effect of corporate governance on organizational performance of housing co-operative societies in Nairobi City County, Kenya. The variables of the study were; strategic implementation, human capital, corporate culture and organizational flexibility. Descriptive research design was used. The study used primary data obtained from the respondents using self-administered questionnaires. The study used multiple regressions analysis. The study revealed that good communication and sustaining corporate culture of implementation strategic positively affects organizational performance.

The study recommends corporate governance to take part in strategy implementation, to take up training and courses with the aim of acquiring the necessary skills of creating better policies to enhance competitiveness of the sector. However, the study context was housing co-operative societies in Nairobi City County, Kenya. This study context was Kenya petroleum sector. The main aim of this study was to find the relationship between corporate governance and organizational performance of local petroleum companies in Kenya. This research showed that corporate governance has a significant relationship with organizational performance, and leadership is correlated with organizational performance, depending on the variables under consideration. Corporate governance and the mediating effect of strategy implementation permit the entire organizational performance. Corporate governance has a role to play in the implementation of proper strategies.

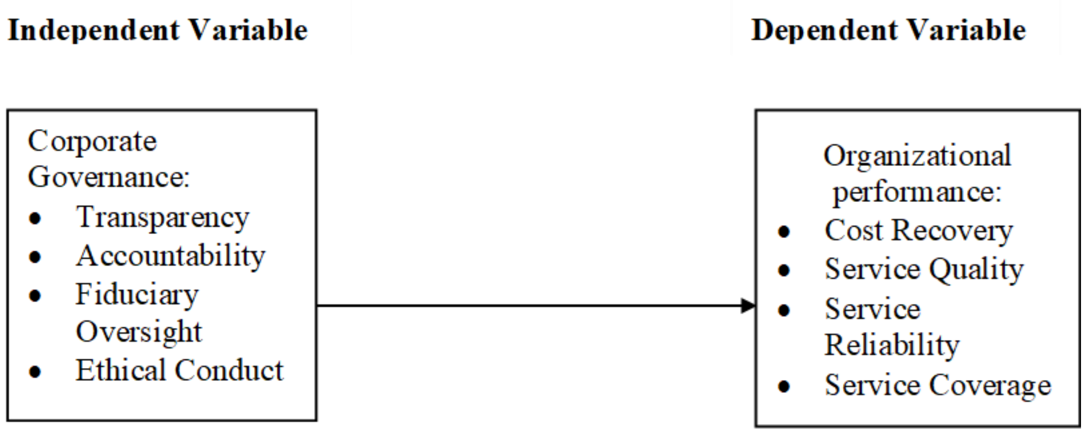
Ongeti (2014) revealed that organizational resources influenced organizational performance of state-owned institutions was moderately weak. This implies that there could be other factors that influence organizational performance other than organizational resources and organizational performance and therefore, recommended introduction of corporate governance practices as moderating variables. 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 behavior of the organization towards its stakeholders (Aguilera, Desender, Bednar & Lee, 2015).Corporate governance has also been successfully used as moderating variable on the organizational performance. Muturi, Mwau and Oloko (2017) indicated that moderating effect of the ownership structure have a positive effect on the organizational performance of firms in insurance industry in Kenya.

Earnest and Sofian (2013) also proved that corporate governance poses a moderating role between intellectual capability and corporate organizational performance by linking the resource-based view theory (RBV) and agency theory in its relationship. Kotler and Schlesinger (2015) observed that organizational performance is all about goal accomplishments through the transformational leadership. Poor organizational performance forms the basis for the organization management to think of strategic change process. This maybe reflected from the profit margin or market share of the organization.

Palmer (2016) observes that when the management of an organization is faced with this situation, they will start the search for better management or organizational strategies that will be able to improve the situation of the organization. Delima (2017) examined whether corporate governance has an impact on organizational performance in financial institutions in Sri Lanka. The research was carried out with the objective of measuring the association between corporate governance and financial institution’s organizational performance in Batticaloa district. Board size, corporate governance mechanism, communication strategies, and code of conduct were considered as the measurement variables of corporate governance and customer satisfaction, employee commitment and corporate reputation were considered as the measurement variable of organizational performance.

Kiratu (2016) conducted a study on the influence of corporate governance on organizational performance in Kenya with a case of agricultural state corporations. The study adopted a descriptive survey and a sample of 80 respondents was used for this study. The primary data was collected by use of questionnaires. The secondary data was obtained from published documents. A pilot study was conducted to pre-test the validity and reliability of instruments for data collection. The data was analyzed with the help of SPSS version 21 and Excel. The study adopted correlation and regression analysis at 5% level of significance to determine strength and direction of the relationship of the variables under study.

Okoye and Eze (2013) in a study of Analysis of corporate governance and the performance of pension scheme in Nigeria, found out that firm organizational performance improves if large independent private pension funds and public pension funds increase their equity stakes in the firm, but not if smaller pension funds and pension funds related to financial institutions and industrial groups increase their shareholdings. Augusto (2019) studied pension reform and corporate governance in Chile, and found that companies where pension funds have been invested are under close public scrutiny because of corporate governance and that capital market growth has also had positive consequence on corporate governance. Saona (2019) used ordinary least square method to determine corporate governance, stock market and economic growth in Brazil. By the methodology adopted, there are evidences that companies who adopt better practices of corporate governance have better organizational performance in the economic growth cycle than those companies that do not adopt them.



2.4 Conceptual Framework

The framework of this study highlights the relationship corporate governance on organizational performance of local petroleum companies in Kenya. The conceptual framework is a significant as it is used in this study to address the relationship between corporate governance and organizational performance of local petroleum companies in Kenya.

The following research null hypothesis was developed in order to accomplish the aims of the study:

$H0_1$: There is no significant relationship between corporate governance and organizational performance of local petroleum companies in Kenya.

3.0 RESEARCH METHODOLOGY

3.1 Research Design

Research design is the overall plan or strategy for conducting research. According to Eriksson & Kovalainen (2015), a research design is the plan, structure or blueprint of examination conceived to get answers to the research questions and control variance. To examine the relationship that exists between corporate governance and organizational performance, the researcher used cross-sectional survey design. Cross-sectional survey research design was applied for this study because it is easier to facilitate collection of data at one point in time from different respondents as well as providing standard data that enabled comparison to be made across different respondents.

3.2 Target Population

A population is an entire group of individuals, objects, elements or items from which samples are taken for measurement and results are generalized or transferred (Casteel & Bridier, 2021). Capturing the variability in population allows more reliability of the study (Banerjee & Chaudhury, 2010). Collis and Hussey (2013), states, a population is the total collection of elements, people, events or services of a study. The target population was 852, all local petroleum companies listed firms licensed by EPRA August 2022, which formed the unit of analysis for this study. The listed local petroleum firms in Kenya firms belong to the 7 sectors of the petroleum industry in Kenya. The various sectors were classified under these market segments as follows; storage depots, LPG storage and filling stations, pipeline transportation, wholesalers and exporters, transportation by road, retailers and petroleum.

3.3 Sample Size

According to Israel (2003) the strategies for determining the sample size are census for small population, using a sample size of similar study, using published tables, or using formulas. In this study, the researcher prefers to use Cochran formula for finite population to result in an adjusted size sample, which is more precise.

Given the population under the study is finite, 852, the sample size is corrected using Cochran formula for finite population, equation (2).

n'=no/(1+((no-1))/N)

Where:

n' = Sample size after a finite population correction,

no = sample size derived from equation (1)

N = population size, 852

This results in a sample size of **268,** which represent 31% of the total population**.**

Table 1: Distribution of Study Respondents

Oil company categories	Population	Sample (31% of population)
Export and wholesale of petroleum products	537	167
Export and Wholesale of Jet-A1	6	2
Import export wholesale of bitumen	7	3
Storage and wholesale of LPG in cylinders	10	4
Import export and wholesale of petroleum products2	9	3
Transport of petroleum products	279	87
Transporters of LPG with Cylinders	4	2
Totals	852	268

3.4 Data Collection Instruments

Data collection describes the instruments, procedures and tools to be used for collecting data. This study used questionnaire technique. A questionnaire is a research tool containing a sequence of questions for collecting data from respondents (Collis & Hussey, 2013). Primary data was used and a structured questionnaire facilitated collection of primary data (Appendix 2). The questionnaire contained Likert scale questions developed in line with the objectives of the study and compose responses on general information in section one to generate background information of local petroleum companies in Kenya and the respondents while sections two, three, four and five collected information on corporate governance, government regulations, strategy implementation and organizational performance respectively.

3.5 Hypothesis Testing

3.5.1 Model for the Study

The significance of the independent variable (Corporate governance) on the dependent variable (Organizational performance) was tested using the following empirical model. According to Kent State University Libraries (2021), statistical mean function is used by a researcher to compute a subscale score from items on a survey or applying a computation conditionally, so that a new variable is only computed for cases where certain conditions are met and thus each statement contributes equally to the final mean (variable). To form a composite variable Corporate Governance (Independent Variable) a weighted average for the four constructs of the independent variable was computed using the following equation:

$CG=\sum(W1+W2+W3+W4)/4$…………..i

$P=\sum(W5+W6+W7+W8)/4$…………..ii

Where:

W1…8 = the value of each individual item in the list of statement in the construct being averaged

CG = Corporate Governance (Composite index of Transparency, Accountability, Fiduciary Oversight and Ethical Conduct)

P = Organizational performance (Composite index of Cost Recovery, Service Quality, Service Reliability and Service Coverage

The model for the study:

$P = \beta 0 + \beta 1CG + \varepsilon$………………………………………………………………………… (1)

Where:

P = Organizational performance

CG= Corporate Governance

B0 = Constant

$\beta 1$= Beta coefficients

ε = Error term

4.0 DATA ANALYSIS AND RESEARCH RESULTS

4.1 Response Rate

The response rate was analyzed to show the representativeness of the sample size. A response rate is very important to the credibility of the research results. A low response rate may decrease the statistical power of the data collected and undermine the reliability of the results. It may also undermine the ability of the researcher to generalize the results to the population.

Table 2: Response Rate

Response	Frequency	Percent
Returned	268	100%
Unreturned	0	0%
Total	268	100%

Source: Field Data (2023)

The results indicated that all the 268 questionnaires were filled representing 100% response rate. According to Mugenda and Mugenda (2003) and Kothari (2004), a response rate of above 50% is adequate for a descriptive study. Babbie (2004) also asserted that return rates of above 50% are acceptable to analyze and publish, 60% is good and 70% is very good. Thus 100% was considered excellent for the study and the implication was that it was a representative for the population.

4.2 Gender of Respondents

The study conducted demographic on gender for the respondents to establish the gender diversity of the top managers.

Table 3: Gender of Respondents

Gender	Frequency	Percent
Male	254	94.78%
Female	14	5.22%
Total	268	100

Source: Field Data (2023)

The results show that majority of the the leaders were male represented by 94.78% with 5.22% being female. This meant that that the management was dominated by male gender. A study by McKinsey Global Institute (2017) found that lack of gender diversity is associated with a greater likelihood of below par organizational performance and when companies commit themselves to diverse leadership, they are more successful.

4.3 Hypotheses Testing

4.3.1 Corporate Governance and Organizational performance

The objective of the study was to establish the relationship between corporate governance and organizational performance of local petroleum companies in Kenya.

A simple regression model was used to test the statistical significance of the independent variable (corporate governance) on the dependent variable (organizational performance) in local petroleum companies in Kenya. The first hypothesis was stated in the null form that there is no significant relationship between corporate governance and organizational performance of local petroleum companies in Kenya. The hypothesis was tested by regressing corporate governance and organizational performanceguided by the equation;

$P = ß_0 + ß_1 CG + \varepsilon$

Where P = Organizational performance; CG= Corporate governance

Table 4: Model Summary for Corporate Governance

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.771a	0.594	0.593	0.47869

Source: Field Data (2023)

As presented in the Table 4, the coefficient of determination adjusted R Square is 0.593. The model indicates that corporate governance explains 59.3% of the variation in organizational performance of local petroleum companies. This implies that there exists a significant relationship between corporate governance and organizational performance of local petroleum companies.

Table 5: ANOVA

	Sum of Squares	**df**	**Mean Square**	**F**	**Sig.**
Regression	89.328	1	89.328	389.828	.000
Residual	60.953	266	0.229		
Total	150.282	267			

Source: Field Data (2023)

The Analysis of Variance (ANOVA) results are shown in Table 5. Analysis of Variance consists of calculations that provide information about levels of variability within a regression model and form a basis for tests of significance. This was conducted using SPSS by using average mean score of corporate governance and organizational performance. The results in Table 25 indicate that F-Calculated (1, 267) = 389.828, $p=0.000<0.05$, which is greater than F-Critical (1, 267) = 3.84 at 95% confidence level. Therefore, the results confirm that the regression model of corporate governance on and organizational performance is significant.

Table 6: Regression Coefficients for Corporate Governance and Organizational performance

	Unstandardized Coefficients		**Standardized Coefficients**		
	B	**Std. Error**	**Beta**	**t**	**Sig.**
(Constant)	2.369	0.077		30.959	0.000
Corporate Governance	0.466	0.024	0.771	19.744	0.000

Source: Field Data (2023)

The fitted model from the result in Table 6 is:

(1)………Organizational Performance = 2.369 + 0.466 (Corporate Governance)

This implies that a unit change in corporate governance will increase organizational performance by the rate of 0.466 units. H_{01} states that corporate governance has no significant relationship with organizational performance of local petroleum companies in Kenya. Because the p value $0.000<0.05$ is less than the critical value 0.05, the study rejected the null hypothesis and adopted the alternative hypothesis that corporate governance has a significant relationship with organizational performance of local petroleum companies in Kenya.

The findings agree with Onchieku and Ragui (2019) evaluated effect of corporate governance on organizational performance of housing co-operative societies in Nairobi City County, Kenya and study revealed that good communication and sustaining corporate culture of implementation strategic positively affects organizational performance. The findings also agree with Ongeti (2014) who revealed that organizational resources influenced organizational performance of state-owned institutions was moderately weak. This implies that there could be other factors that influence organizational performance other than organizational resources and organizational performance and therefore, recommended introduction of corporate governance practices as moderating variables. The study by Mwau, Muturi and Oloko (2017) indicated that moderating effect of the ownership structure have a positive effect on the organizational performance of firms in insurance industry in Kenya. Earnest and Sofian (2013) also proved that corporate governance poses a moderating role between intellectual capability and corporate organizational performance by linking the resource-based view theory (RBV) and agency theory in its relationship. The study by Palmer (2016) observes that when the management of an organization is faced with this situation, they will start the search for better management or organizational strategies that will be able to improve the situation of the organization. The findings also agree with those of Zaman et al., (2018) who established that financial organizational performance was positively related to transparency and disclosure among the banks in Pakistan.

The study concluded that possession of requisite skills is one of the most important considerations in the appointment of board members. The study by Kiratu and Moronge (2016) on the influence of corporate governance on organizational performance in Kenya with a case of agricultural state corporations showed that managerial skills had the strongest positive. In addition, board structure, organizational culture and customer relation management were positively correlated to organizational performance. The study established that board managerial skills were the most significant factor.

5.0 SUMMARY AND CONCLUSIONS

5.1 Summary

The objective of the study was to establish the relationship between corporate governance and organizational performance of local petroleum companies in Kenya. The study concluded that there is a significant relationship between corporate governance and organizational performance of local petroleum companies in Kenya. This means that companies with good corporate governance are more likely to have better organizational performance. This could be because good corporate governance practices help to ensure that companies are run in a transparent and accountable manner, which can lead to increased trust from stakeholders, such as customers, investors, and employees. Increased trust can lead to increased investment, which can help companies to grow and improve their performance. Further, companies with better organizational performance are more likely to have good corporate governance. This could be because companies that are performing well are more likely to have the resources to invest in good corporate governance practices.

5.2 Conclusions

The study emphasizes the importance of how corporate governance influences organizational performance of organizations positively. Policy and decision makers need to ensure that appropriate corporate governance mechanisms are implemented in organizations. Further, this study provides notable evidence that strategy implementation is at the center of corporate governance and the nature of governance mechanisms adopted by organizations determines the type of strategies adopted. Hence leaders need to support the integration of strategy implementation into the organizations overall corporate strategy in order to achieve the goals of the organization. The study recommends on enhanced accountability in the organizations through regular and effective communication channels in monitoring management. This can be achieved by implementing policies that require regular elections for all members and by implementing effective communication channels between stakeholders.

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