EFFECT OF STRUCTURE OF THE BOARD ON PERFORMANCE OF PUBLIC TECHNICAL VOCATIONAL AND ENTREPRENUERSHIP TRAINING (TVET)T INSTITUTIONS IN NYANZA REGION, KENYA

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Abstract

The board has the responsibility to monitor, discipline, and remove ineffective management teams, and to ensure that managers pursue the interests of shareholders. The Bonn Resolution noted that TVET is the master key for alleviation of poverty, promotion of peace, creation of employment, food security and conservation of the environment, in order to improve the quality of Human Life and promote sustainable development. However, Kenya has continued to experience challenges of unemployment, poverty, food insecurity and environmental degradation. Although the structure of the board is very important for the success of an organization, the effect of structure of the board on performance of TVET Institutions is not clear. Prior studies show mixed relationships between structure of the board and performance. The main objective of this study was to establish the effect of the structure of the board on performance of public TVET institutions in Nyanza region, Kenya. The design used was correlation research design. Population of the study included the principals, deputy principals and heads of department of TVET Institutions in Nyanza region Kenya who were 99 in number. The study employed a census survey with response at 97.5 %. Reliability was measured using cronchbach's alpha which revealed 0.872 consistency. Regarding the size of the coefficient, the study found that as the variable changes by 1 unit, performance too changes by a magnitude of 0.125. The results however showed that the probability of structure of the board is insignificant (p values = 0.164) at 5% level in determining performance. The study concludes that performance of TVET Institutions is determined by several factors which vary in their magnitude of influence. This study recommends that stakeholders employ the principles of corporate governance in appointing boards of management since they impact on performance positively. Findings of this study may be used for decision making by policy makers to improve governance of TVET Institutions and other stakeholders for further research.

Keywords: TVET Institutions, Corporate governance, Structure of the board

Introduction:

The structure of the board for value addition represents a difficult balance between diversity of views and skills, the size, and director competency. According to Raheja (2005) the smaller the board, the more likely that it will be able to perform its functions comprehensively, particularly as they relate to management. The larger the board, the more diverse its membership will be, but the less likely it will be to reach clear decisions quickly. While much attention has focused on the issue of optimal board size there is no consensus about what the actual ideal size it should have. Empirical evidence (Kiel and Nicholson 2003; Leblanc and Gillies 2004) on the relationship between structure of the board and performance, point out that results are mixed and inconclusive. Kiel and Nicholson (2003) suggest that there is an “inverted U” relationship between board size and performance in which adding directors can bring the board to optimal skills and experience mix level and hence improve performance. A comparative study of Australian and Japanese firms found that the conventionally large size of Japanese boards did correlate with poorer performance. However, board size in the Australian context, where boards are conventionally smaller, did not show an influence on firm performance (Bonn *et al*. 2004).

Structure of the Board for Value Addition and Performance

College Board members have a critical responsibility to direct the institution toward achieving its mission. As a trustee one has an opportunity to contribute their talent, expertise and dedication to a worthy cause. A trustee has to remain focused on providing good stewardship of the institutions mission reputation and resources (Grant, 2009). Paul (2008), further states that governing bodies of higher institutions are responsible for personnel decisions, institutional operation and corporate governance. Like coordinating boards, they plan and budget for the institutions subject to ultimate decisions by the government. According to Raheja (2005) the size of a board represents a difficult balance between diversity of views and skills, and the board's functional effectiveness. The smaller the board, the more likely that it will be able to perform its functions comprehensively particularly as they relate to management. The larger the board, the more diverse its membership will be, but the less likely it will be to reach clear decisions quickly. Larger boards typically rely on the committees to work through issues and to report to the full board, (Boone, et al 2007).While much attention has focused on the issue of optimal board size there is no consensus about what the actual ideal size it should have. In Australia according to the ASX (2010), it is proposed that a not-too-large board will help in efficient decision-making by minimizing negative board dynamics. The ASX recommends, for example, that board size be limited so as to encourage efficient decision-making. Eight directors are cited as the upper limit and 6.6 as the mean board size in a study by Kiel and Nicholson 2003. In another study, eight is described as "typical" (Larcker*et al.,* 2004), while Leblanc and Gillies (2004) note that eight to eleven is viewed as optimal. Uhrig (2003) reports that six to nine is current good practice in the private sector but goes on to suggest that optimal board size in the public sector may differ from one organization to another. In summary, as Leblanc and Gillies (2004) point out, the board needs individuals with a strong commitment to the fundamental purpose and mission of the institution. Boards should consider performing an annual inventory of talent to assess whether the right professional capabilities are represented on the board. The board should also include individuals with the specific skills and know-how needed to examine issues through multiple lenses: legal, financial, public relations, communications, management, and professional development, among others. In conclusion, the board must be attentive to its internal processes, so that its meetings focus only on board-level matters and do so in a way that draws upon the combined knowledge and experience (Higher education board member handbook 2009).

In Europe, the two most important functions of the board of directors are those of advising and monitoring (Raheja, 2005). According to Adams and Ferriera, (2007) the advisory function involves the provision of expert advice to the CEO and access to critical information and resources. This is performed by both insiders and outsiders. Although Fama and Jensen (1983) note the importance of outside directors, who bring valuable expertise and potentially important connections, the advantage of larger board size is the greater collective information that the board subsequently possesses and hence larger boards will lead to higher performance (Dalton *et al.,* 2005). Secondly, the board has the responsibility to monitor, discipline, and remove ineffective management teams, to ensure that managers pursue the interests of shareholders.

Raheja (2005) argues that insiders are an important source of firm-specific information for the board, but may have distorted objectives due to private benefits and lack of independence from the CEO. Compared to insiders, outsiders are more independent, providing better monitoring, but are less informed about the firm’s activities. Again, the advantage of larger board size and an increasing number of nonexecutive directors is the greater collective information possessed by the board which is also valuable for the monitoring function (Lehn *et al*., 2004). Therefore, both functions predict an initial improvement in board performance as board size increases; since increases in the number of non-executives are expected to have a more positive impact than increases in the number of executive directors. However, there are eventually disadvantages of large boards in the form of coordination costs and free rider problems. Firstly, coordination and communication problems arise because it is more difficult to arrange board meetings, reach consensus, leading to slower and less-efficient decision-making (Jensen 1993). Secondly, board cohesiveness is undermined because board members will be less likely to share a common purpose, communicate with each other clearly, and reach a consensus that builds on the directors’ different points of view (Lipton and Lorsch, 1992). Thirdly, director free-riding increases because the cost to any individual director of not exercising diligence falls in proportion to board size (Lipton and Lorsch, 1992). Jensen (1993) and Lipton and Lorsch (1992) suggest that as board size increases beyond a certain point, these inefficiencies outweigh the initial advantages from having more directors to draw on, leading to a lower level of corporate performance.

Psaros and Seamer (2002) explain that board independence is critical to ensuring that the Board of Directors fulfills its objective oversight role and holds management accountable to shareholders. Agency theory underlies this rationale. Ensuring a majority of independent directors (outsiders) on the board will counterbalance the power of the CEO in decision-making and provide assurance to shareholders. Of course, in theory, all directors should exercise independent judgment in decision-making. Psaros and Seamer (2002) explain that independence should not be equated with non-executive. As they point out, “some non-executive directors are independent, others are not”. An independent outsider will not only be non-executive – that is, not on the existing management team – but also independent in other ways. These include: Not a former employer; not a major shareholder; not holding a significant contractual, supplier or advisory relationship with the company; does not have any other significant interest in the company, which could negatively impact on the director’s ability to act in the interests of the company. An Independent board is one of the effective mechanisms in monitoring the accounting process (Klein 2002). Similarly, Gilson (2006) argues that the independence of directors are complementary developments. However, independence is equally intended to operate not just as a conduit, but also as a counterbalance to shareholder demands as a more enlightened version of the shareholder value approach. Coleman (2007) concluded that the direction and extent of impact of governance is dependent on the performance measure being examined. According to Hay group (2003), competencies are skills knowledge and behaviours that lead to performance. They further define competency as an underlying characteristic of a person which enables them deliver superior performance in a given job. In distinguishing competencies it's important to distinguish between the major categories. Threshold competencies are the characteristics that any major job holder needs to have to do the job effectively but that do not distinguish the average from the superior performer. Whereas differentiating competencies are characteristics that superior performers have but the average person lacks. An evaluation of the range of skills, experiences, and expertise of the board is therefore beneficial before a candidate is recommended for appointment. The Cadbury report (1992) emphasizes that non-executive directors' competency is an important factor for the board to be effective. Among others, directors should have knowledge on managing company and corporate governance processes (Chtourou *et al*., 2001). Managers without appropriate competency in accounting and finance field may be able to monitor business processes but they may not be able to understand management practices (Xie *et al*., 2003).

2.4 Empirical Studies on Structure of the board for Value Addition to Performance

It is worth noting that, as Kiel and Nicholson (2003), point out; from an agency perspective that it could be argued that a large board is better. The rather unconvincing logic is that the more people monitoring management action the better. They also note a possible positive relationship between large boards and the capacity of the board to harness external links and attract external resources to the organization. The authors draw a number of distinctions between the United States Context and the Norwegian context, for example US firms and Norwegian firms operate within different legal regimes. A comparative study of Australian and Japanese firms found that the conventionally large size of Japanese boards did correlate with poorer performance. However, board size in the Australian context, where boards are conventionally smaller, did not show an influence on firm performance (Bonn *et al*., 2004).

Ghabayen (2012) who assessed the relationship between board mechanisms (audit committee size, audit committee composition, board size, and board composition) and firm performance had data collected from a sample of 102 non-financial listed companies. Regression analysis was utilized to examine the relationship between board characteristics and firm performance. The study reports that audit committee size, audit committee composition and board size have no effect on firm performance in the selected sample while board composition has a significant negative relationship with firm performance.

A study by Wei Wu (2009) examines the correlation between board composition and firm performance of Chinese listed companies. The sample is composed by Chinese local companies listed on Shanghai Stock Exchange. The sample includes companies from the manufacturing industry, other service industries and financial service industry. A quantitative approach was adopted to examine the correlation between board composition and firm performance for listed companies. Some other determinants that may have an impact on firm performance are also examined, such as the correlation between firm performance and ownership structure, firm performance and board size. Tobin's Q was used to measure performance while regression analysis model was used to analyze data. The results reveal no significant associations between the proportion of independent directors in the board and firm performance. But the ownership structure has some association with firm performance. The study findings indicate that a firm with higher concentrated ownership structure has a tendency to have a better firm performance and a negative correlation between board size and firm performance is found.

Although literature is provided between structure of the board and performance, the findings are inconclusive and knowledge of structure of the board and performance of TVET Institutions is still lacking. A study should therefore be conducted to determine the relationship between structure of the board and performance of public TVET Institutions in Nyanza region, Kenya. This may in turn help in shading light on the influence of corporate governance on performance of TVET Institution Nyanza region, Kenya.

3.1 Required Data Input

The relationship between structure of the board and performance of public TVET Institutions was assessed using a Pearson's correlation analysis at 5% level of significance. A negative correlation was interpreted to mean that there is an inverse relationship between structure of the board and performance of public TVET Institutions i.e. as the board structure improves the performance of the TVET institution decrease.

4.1 Findings on the Relationship between Structure of the Board and Performance of Public TVET Institutions in Nyanza Region, Kenya.

The research objective was to determine the relationship between structure of the board and performance of public TVET Institutions in Nyanza region, Kenya. To establish this relationship, the researcher developed a questionnaire designed to determine the structure of the board for value addition. The scores on the structure of the board questionnaire were related to scores on performance of public TVET institutions questionnaire.

4.1.1 Structure of the Board for Value Addition

In exploring the structure of the board constructs, a questionnaire used had items drawn linked to concepts which were regarded as important components of the structure of the board for value addition measurements. The questionnaire was to investigate on; the balanced mix of the board, whether the roles of the chairperson of the board and chief executive officer were separated, whether the appointed committees had a defined term of reference, whether the committees had been established and appointed in the light of the need to increase the effectiveness of the board, whether the board had established and appointed various committees and lastly, whether the terms of reference of each committee were restricted and defined. The items were Likert-scaled statements in which the respondents choose from 5-point score; strongly agree, agree, neutral, disagree and strongly disagree.

The descriptive statistics on responses on board of structure were computed and presented in Table 4.1.

Table 4.1: Descriptive statistics Structure of Board

	N	Mean		Std. Deviation
	Statistic	Statistic	Std. Error	Statistic
Balanced mix	90	2.09	.109	1.035
Power separation	90	2.00	.101	.960
Defined terms committee	90	2.28	.124	1.181
Increased effectiveness	90	2.19	.080	.763
Appointed committee	90	2.38	.102	.967
Restricted terms of reference	90	2.51	.124	1.173

Source: Survey Data (2015)

Table 4.1 indicates that the corporate governance is enhanced more when the board has established and appointed an executive committee, an audit committee, and a remuneration committee. This was reflected by high mean posted by this item (mean=2.51, standard deviation=1.173 and standard error =.124). This implies that most of the respondents believed that a board with relevant committees has appropriate competencies to enable it discharge its mandate effectively. On the other hand, the item with least mean was whether the roles of chairperson of board and chief executive officer were separated and held by different persons, at mean=2.00, standard deviation =. 960 and standard error =.101.

4.4.2: Frequency Responses on the Structure of Board

The responses were computed into frequency percentages as reflected in Table 4.8.

Table 4.2: Frequency on the structure of board [n=90, F (%)]

Statements	Strongly agree	Agree	Undecided	Disagree	strongly disagree
Balanced mix of the board	29 (32.2)	37 (41.1)	13 (15.4)	9 (10.0)	2 (2.2)
Role separation	25 (27.8)	51(56.7)	8 (8.9)	1 (1.1)	5 (5.6)
Committee’s terms of reference	28 (31.1)	30 (33.3)	15 (16.7)	13 (14.4)	4 (4.4)
Need to increase effectiveness	15 (16.7)	47(52.2)	24(26.7)	4(4.4)	0(0.0)
Appointed committees	12 (13.3)	46(51.1)	23(25.6)	4(4.4)	5(5.6)
Committees terms of reference	16 (17.8)	36(40.0)	24(26.7)	5(4.4)	10(11.1)

Source: Survey Data (2014)

4.4.2.1 Balance Mix of Board

The findings of study show that nearly three quarters (strongly agree:32.2%; agree:41.1%) of the respondents alluded that within their institutions there was indeed a balance mix executive, non-executive as well as independent non-executive directors. However, 10.0% and 2.2% of them disagreed and strongly disagreed respectively that there was any evident of reasonable balance mix in their institutions and another 15.4% of the respondents remained non-committal on whether their institutions embraced balance of mix of executive, non-executive and independent non-executive directors in the management board. This finding are in line with Leblanc and Gillies (2004) who point out that the board should also include individuals with the specific skills and know-how needed to examine issues through multiple lenses: legal, financial, public relations, communications, management, and professional development, among others. The findings are also in line with the Managerial Hegemony theory which suggests that board members should have professional knowledge so as to influence key power sources such as information and other organizational decisions.

4.4.2.2 Separation of Roles

On whether there was a clear separation of roles of chairperson of the board and chief executive officers, it was evident from the findings of the study that most TVET institutions in Nyanza region practiced separation of roles in their top management. Table 4.4 indicated that although 6.7% of the respondents refuted the assertion that there was separation of roles of the board chairperson and chief executive officers in their institutions, more than a quarter (27.8%) of the respondents strongly agreed and another 56.7%

agreed that it was evident that role separation existed among the top management in their institutions. However, 8.9% of the participants of the study were not sure whether or not roles of chairperson of the board and chief executive officer was separate and held by different people, hence they remained undecided.

4.4.2.3 Committees' Terms of Reference

It emerged from the findings of the study that most TVET institutions had committees that were appointed formally with clear defined terms of reference. Nearly two thirds (strongly agree: 31.1%; agree: 33.3%) of the respondents were in agreement that their institutions' board had formally established and appointed committees with defined terms of reference, composition and reporting requirements. This finding is in line with the argument Raheja (2005) who point out that boards should typically rely on committees to work through issues and to report to the full board. The respondents who were undecided on the matter formed 16.7% of study participants'. However, 18.8% of them held the opinion that their boards did not keenly observe such formality.

4.4.2.4 Need to Increase Effectiveness

On the need to increase effectiveness of the board, the findings of the study show that despite a significant proportion (26.7%) of the respondents not being sure whether their boards had consciously established their committees with a view of increasing their effectiveness, quite a reasonable proportion of the respondents agree that their boards do that. More than two thirds (68.9%) of the respondents generally accepted that the committees in their institutions were established and appointed in light of the need to increase the effectiveness of the Board by utilizing the specialized skills of board members, to provide support and guidance to management, to ensure effective and independent professional consideration of issues e.g. audit reports and finance issues, among others. Only a near negligible proportion (4.4%) of the respondents refuted the claim that their committees had been established and appointed in light of increasing effectiveness of boards.

4.4.2.5 Appointed Committees

The findings of the study show that many of the management boards had put in place various committees to handle specific issues of the organization that arise in daily operations. For example, the analysis of the respondents responses indicate that more than half (51.1%) of the respondents agreed and 13.3% strongly agreed that there was appointment of committees such as an executive committee, audit committee, and appointment and remuneration committee in their institutions. Whereas those who were in disagreement (4.4% disagreed and 5.6% strongly disagreed) with that statement formed a tenth of the respondents, slightly more than a quarter (25.6%) of the respondents remained undecided on the matter.

4.4.2.6 Committees Terms of Reference

On whether terms of reference for each committee were restricted and defined, more than half of the respondents generally accepted that assertion. Those who strongly agreed were 17.8% and those who just agreed formed 40.0% of the respondents. However, more than a quarter (26.7%) of the respondents remained undecided on the matter, as the other 15.5% (4.4% disagreed and 11.1% strongly disagreed) of them differed with the rest of the respondents.

4.4.3: Hypothesis Testing of the Objective

To answer the research objective, the researcher tested the hypothesis, "there is no relationship between the structure of the board and performance of public TVET Institutions in Nyanza region, Kenya". The independent variable used was the scores from the structure of the board for value addition questionnaire computed by using the views of the respondents, while dependent variable was performance of TVET scores also generated from the views the respondents. Preliminary analyses were performed to ensure no violation of the assumptions of normality, linearity and homoscedasticity. The relationship between perceived structure of board and performance of TVET was investigated using Pearson Product-Moment correlation coefficient, as shown by Table 4.9 indicating the SSPS output of the correlation analysis

Table 4.3: Correlations between Structure of Board and Performance

		Structure of board	Performance
Structure of board	Pearson Correlation	1	.370**
	Sig. (2-tailed)		.000
	N	90	90
Performance	Pearson Correlation	.370**	1
	Sig. (2-tailed)	.000	
	N	90	90

. Correlation is significant at the 0.01 level (2-tailed). **Source: Survey Data (2015)

The results on table 4.9, show that there was a positive correlation between the two variables; structure of the board and performance [r= .370, p<.05], with high levels of significance. This implies that there is a positive association between structure of the board and performance. This means that structure of the board is one of the most important mechanisms of corporate governance. Many studies have tried to understand the influence that the structure of the board have on organizations performance, because its presence is fundamental for an organization. In doing this, the study mainly used the agency theory approach which indicates that the board structure is usually defined according to the following characteristics: size and composition, board independence and director competency and experience (Bachiller *et al*., 2014). The findings in this study are consistent with previous studies (Kiel and Nicholson 2003; Raheja, 2003). Alwshah, (2009) who used (Tobin's q), to observe the relationship between corporate governance and performance found that separation of the roles of CEO and COB, and CEO membership in the board have positive impact on corporate performance. Coles *et al* (2008) also showed that the structure of the board had a positive relationship on performance in complex organizations, as a higher number of directors corresponded to a higher level of company performance. Likewise, Bozec and Dia (2007) supported this positive correlation, arguing that the structure of the board can help a company to reduce environmental uncertainties through their different professional qualities. On the contrary, Wei Wu (2009) found no significant associations between the proportion of independent directors in the board and firm performance using quantitative approach. Ghabayen (2012) reported that board composition has a significant negative relationship.

Conclusion:

The research sought to determine the relationship between structure of the board and performance of public TVET Institutions in Nyanza region, Kenya. Mean and standard deviation was used to establish this. Respondents reported a high means on the items used to measure structure of the board. Restricted terms of reference scored the highest mean (mean=2.51, standard deviation=1.173 and standard error =.124). This implies that most of the respondents believed that a board with relevant committees has appropriate competencies to enable it discharge its mandate effectively. On the other hand, the item with least mean was whether the roles of chairperson of board and chief executive officer were separated and held by different persons, at mean=2.00, standard deviation =. 960 and standard error =.101. The results show that there was a strong, positive correlation between the two variable; structure of the board and performance. [r= .370, n=90, p<.05]. The alternative hypothesis for the objective was confirmed

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