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Unlocking the Potential: Examining the Relationship between Corporate Governance Practices and Employee Performance at the Kenya Revenue Authority

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Abstract

In the wake of growing concerns over institutional deficiencies in corporate governance, this study delves into the impact of structural alignment, internal control systems, and organizational structure on employee performance within the Kenya Revenue Authority. While previous research has predominantly focused on the relationship between corporate governance and firm performance, there has been limited exploration of its influence on employee performance. Drawing upon two key theoretical frameworks, namely the Stakeholder Theory and the Expected Theory, this research adopts a case study approach to investigate this crucial nexus. The study's target population comprises all Government-Owned Entities in Kenya, as defined by the State Corporations Act. However, the scope of the study is narrowed down to the Kenya Revenue Authority, which employs 4,898 individuals. A stratified sampling method was employed, with different departments within the organization forming the strata. Heads of divisions within these departments were selected as respondents and were provided with self-administered questionnaires for data collection. The collected data was subjected to rigorous analysis, primarily employing regression analysis techniques, and the results are presented in tabular format. The findings indicate that the variations in corporate governance elements, specifically structural alignment, organizational structure, and internal control systems, collectively account for 41.9% of the variance in employee performance among government-owned entities in Kenya. Significantly, the study reveals that organizational structure exerts the most substantial influence on employee performance, followed by structural alignment and internal control mechanisms. Furthermore, this research establishes that organizational structure, structural alignment, and internal control mechanisms, as integral components of corporate governance, exhibit significant and positive relationships with employee performance. These findings underscore the importance of optimizing corporate governance practices within public institutions, with the potential to enhance employee performance and ultimately contribute to organizational success.

Keywords: Corporate Governance, internal Control Systems, Employee performance and Organizational Structure

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Background of the study

Recent global events involving major corporations have underscored the critical importance of sound corporate governance in ensuring the viability and financial health of business entities. Corporate governance serves as a safeguard for the interests of all stakeholders and promotes equitable treatment. Failures in corporate governance practices have been implicated in recent financial crises experienced by major corporations worldwide. Consequently, there is a growing recognition that good corporate governance practices can help prevent problems and offer numerous advantages.

One compelling reason for the heightened interest in corporate governance and the current emphasis on best practices is their role in fostering efficient markets and facilitating economic growth (Rankin *et al.,* 2012). As Stone, Hurly, & Khumani (2008) suggest, good corporate governance practices can maximize profitability and long-term value for shareholders. Similarly, studies such as Yuksel (2008) emphasize that global investors now better appreciate the impact of corporate governance practices on company performance. International investors place a greater premium on companies with strong corporate governance practices, particularly in countries undergoing reforms.

Corporate governance encompasses the allocation of authority, responsibilities, and roles among administrators, investors, and employees within an organization (Lower, 2009). In Kenya, a notable growth of 9% in State-Owned Enterprises (SOEs) was observed among the Fortune 500, with a subsequent increase of 23% in 2014, driven in part by the growth of Chinese SOEs (PWC, 2015). This growth has led to increased attention on the benefits of corporate governance. Researchers in developed countries have undertaken studies to establish the correlation between corporate governance and organizational performance (Bauer, Frijns, Otten, & Tourani-Rad, 2008; Lehn, Patro, & Zhao, 2007).

UNCTAD (United Nations Conference on Trade and Development) identified four core values for good governance: predictability, accountability, transparency, and participation. While some developing countries have enacted reform-oriented legislation, challenges such as resource constraints, corruption, and abuse of authority hinder effective implementation. UNCTAD has developed a four-point value document as a benchmark for assessing good governance standards, which can be used as an assessment tool by countries.

In the context of Kenyan state-owned entities, poor corporate governance has been associated with the loss of resources and financial burdens on the public (Muriithi, 2009). Weak or ineffective boards and numerous oversight institutions have contributed to a lack of strategic direction and accountability (Mang'unyi, 2011). To address these issues, the President formed a taskforce that recommended reforms, including the implementation of the MWONGOZO code of governance. This code aimed to enhance board effectiveness, transparency, accountability, risk management, internal controls, ethical leadership, and corporate citizenship. Kenya's adoption of MWONGOZO also allowed it to become the first African country to gain membership in the OECD.

Despite a stringent regulatory framework, corporate governance has continued to weaken in Kenya (Mang'unyi, 2011), resulting in numerous corporate scandals. Directors have been involved in illegal or unethical actions towards their shareholders. Surprisingly, no study has investigated this problem within Government-Owned Entities (GOEs).

Most past studies have explored the relationship between corporate governance elements such as boards of directors, leadership styles, and organizational culture, primarily in the context of organizational performance (Sangmi & Jan, 2014; Yuksel, 2008). However, the present study seeks to address this gap by examining how organizational structure, structural alignment, and internal control systems are associated with employee performance.

1. Review of existing literature

Corporate governance is built upon the foundational principle that firms should not only be well-managed but should also operate effectively and be internally regulated (Parker, 2006). Kharbanda (2012) extends this perspective by emphasizing that enterprises have responsibilities not only to their customers but also to their employees, as the well-being of employees is integral to organizational progress and sustainability. This viewpoint aligns with that of Tenkorang (2012), who discovered that a firm's corporate responsibility toward its workforce extends to aspects such as wage payment and benefits. The provision of competitive wages and benefits is linked to employee job satisfaction, which, in turn, fosters a positive relationship between the organization and its employees.

Kharbanda (2012) further highlights the significance of organizational structures in influencing performance. Organizational structures can either inhibit or promote performance, depending on how effectively supervisory relationships and workflow influence productivity. Organizational structures are regarded as the foundational framework within which organizations operate. The structure of an organization has a profound impact on the behavior of its employees, who are shaped by the organizational structure in either a positive or negative manner. Consequently, structural deficiencies within an organization can have a detrimental effect on employee behavior and performance, ultimately affecting the organization's overall performance.

Oyewobi et al. (2013) conducted a study to explore the relationship between organizational structure and corporate performance. Their findings suggested that firms that adopt appropriate organizational structures tend to generate higher profits compared to those that do not. Additionally, their research confirmed a positive association between organizational structure and strategic planning. It is important to note, however, that each management structure has its own set of advantages and disadvantages, and the choice of management structure depends on the specific type and needs of the organization (Parker, 2006). In summary, the existing literature underscores the importance of corporate governance in ensuring the well-being of employees and the sustainability of organizations. It highlights the role of organizational structures in shaping employee behavior and performance, with appropriate structures contributing to higher profits and effective strategic planning. Additionally, it emphasizes that the choice of management structure should align with the unique characteristics and requirements of each organization.

1.1 Structural Alignment and employee performance

The relationship between structural alignment and employee performance is a critical aspect of corporate governance. A study conducted by Baker and Gompers (2003) focusing on venture capital organizations, involving a sample of 1000 organizations, sheds light on this connection. The study primarily centered on the composition of the board and its implications for governance within venture capital firms. Baker and Gompers (2003) found a noteworthy association between the composition of the board and governance in the context of venture capital organizations. Specifically, their research revealed that the composition of the board had a direct impact on the likelihood of organizational failure. One significant finding was that boards with venture-backed composition exhibited a substantially lower risk of liquidation, with a reduction of up to 10% compared to boards lacking venture backing. In essence, having a board with venture capital involvement was linked to a higher degree of stability and resilience within these organizations.

Furthermore, the study concluded that boards characterized by venture capital backing tended to introduce a higher level of management risk. This suggests that while venture-backed boards may reduce the risk of organizational failure, they may also introduce a different set of challenges and risks associated with their management practices. The importance of structural alignment becomes particularly evident in the context of enterprise risk management, strategic management, and governance. Misalignment among these critical aspects can arise due to factors such as rapid organizational changes, governance failures, and a lack of a strategic perspective in decision-making and risk management. Notably, some risks within an organization may receive more attention and management focus than others, depending on their ease of identification and mitigation. This can result in a misalignment of risk-return trade-offs across the organization.

To navigate these challenges successfully, corporate and business strategies must be closely aligned with the organization's risk management capabilities and its overall risk tolerance. Achieving this alignment ensures that strategic decisions and risk management efforts are harmonized, thereby enhancing the organization's ability to achieve its objectives while effectively managing risks. In summary, the study by Baker and Gompers (2003) highlights the importance of structural alignment, particularly in the context of board composition and its impact on organizational governance and risk management. It underscores the need for

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organizations to carefully consider how structural alignment can influence their overall performance and risk profile.

1.2 Internal Control Systems and employee performance

Internal control procedures are policies implemented by an entity's board of directors, audit committee, management, and other personnel to provide reasonable assurance of the entity achieving its objectives related to reliable financial reporting, operating efficiency, and compliance with laws and regulations. Internal auditors are personnel within an organization who test the design and implementation of the entity's internal control procedures and the reliability of its financial reporting. More and more companies are extending their internal controls to encompass a range of ethics and integrity issues. Many investment managers examine the rigor and quality of these controls as evidence that companies are undertaking good business practices and are well managed (Baydoun *et al*, 2013).

1.3 Organizational Structure and employee performance

Wanyonyi & Olweny, (2013) study on the influence of composition of boards on cases of serious fraud in organizations, In relation to cases of fraud in organization, found that structures of oversight committee’s boards was significantly correlated to board composition. The study also established that corporate fraud decreased when the board and board’s audit and compensation committees increased the number of independent outside directors. It is worth noting that an inconclusive relationship was established on other national studies correlating the composition of the board with the organization performance. Organizational structure exists in both centralized and decentralized setups. An organization with a centralized organization structure has its high level managers being in charge of making decisions.

In a centralized structure, the organizations policies and procedures which are formulated by the executives in the organization are implemented by front-line employees. The centralized structure is therefore the one that opens up the organization to creativity and flexibility of the employees. These employees are normally left out in the process of making decisions which affects their day to day work and performance. At times, there are organizations which ask the opinion of front-line managers though they are rarely considered in the decision making process at all (Nganga *et al.*, 2013). He further argued that, properly laid down Structures (organogram, reporting lines and so on) allow for smooth and seamless flow of work and ensure proper monitoring of employee performance. Without proper structures, there is power play among workers and loss of man-power hours which greatly affects employee performance. An organization needs to consider the following before adopting a particular structure: channels and levels of communication and functionality of the system within that organization. An organizations culture is influenced by its structure through the roles of the individuals in that organization. Alignment of appropriate structure with cultural norms, leadership, and systems strengthens a firm's risk management abilities.

1.4 Employee performance

According to Oyewobi *et al.,* (2013), performance is related to efficiency and effectiveness, in most cases. As a matter of fact, most employees are expected to gradually improve over a period of time. Performance is a word that means different things at different context but at most times it's related to a measurement over time resulting in a future result (Baydoun *et al,* 2013). According to Nganga *et al.,* (2013), performance management is a crucial component of HRM and development plan. They argue that it is a gradual process where individual employees better themselves through the efforts they point at the organization as they seek to achieve its objectives. This is done through the assistance of the employer.

Tenkorang, (2012) posit that performance management is a means by which the administrators of a firm ensure there is a consistency in the activities and output of an employee in relation to the goals of the organization. Nganga *et al.*, (2013) contend that intangible assets such as culture, skill, competence, motivation and social interaction between people and teams are increasingly being seen as a source of strength in enhancing performance which is a characteristic of firms which combine people and processes together. It is therefore the responsibility of the organization to ensure that mechanisms are in place for maximizing the employee's ability at the organization.

2. Objective of study

This study has the following specific objectives-

i. To investigate the effect of Structural alignment on employee performance in Kenya revenue authority.
ii. To investigate the effect of internal control systems on employee performance in Kenya revenue authority.
iii. To investigate the effect of organizational structure on employee performance in Kenya revenue authority.

3. Hypothesis of the study

Hypothesis 1: Structural alignment has no influence on employee performance in Kenya revenue authority

Rejection of the null hypothesis indicates a significant influence Structural alignment on employee performance in Kenya revenue authority

Hypothesis 2: There is no significant relationship between internal control systems and employee performance in Kenya revenue authority.

Rejection of the null hypothesis indicates a statistically significant relationship between internal control systems and employee performance in Kenya revenue authority.

***Hypothesis 3*:** There is no significant relationship between organizational structure and employee performance in Kenya revenue authority.

Rejection of the null hypothesis point towards a statistically significant relationship between organizational structure and employee performance in Kenya revenue authority

4. Database and methodology of the study

The study adopted a case study research design in establishing the influence and was important in enabling the research to obtain disruptive information about the concept in this study. The case study assisted in attaining an in-depth knowledge on the concept. Mugenda & Mugenda, (2003) defined case study as detailed investigation of one or more organization or groups within the organization with a view to providing an analysis of the context and process involved in the study of the phenomenon. Babbie & Mouton, (2001) supported this by pointing out that case studies involve in-depth investigation of units as small as an individual or as large as an entire community or region.

Mugenda & Mugenda, (2003) defines a population as a total sum of objects with similar observable likeness. He adds that the similarities need to fit within given specifications. Similarly, Babbie & Mouton, (2001) defines population as a grouping of entities with similar characteristics. The target population was all Government Owned Entities in Kenya as defined by the State Corporations Act. Currently there are 187 Government Owned Entities in Kenya. All the 187 formed the target population.

Stratified sampling technique was used for this study. Mugenda & Mugenda, (2003) opine that stratified random sampling the formation of homogenous subgroups being derived from a population then randomly sampling them. The study made use of stratified random sampling. According to Mugenda & Mugenda, (2003), proportionate sampling divides the population into homogeneous subgroups and then takes a simple random sample in each subgroup.The study population was classified into strata according to the department. For each of the departments, heads of divisions were picked to respond to the questionnaires. The technique is easy to operate: checking of data can be done quickly and is more efficient than random sampling (Babbie & Mouton, 2001).

In order to have a sample size that is more representative and reduce standard errors, a simple technique formulated by Yamane (1967) was adopted to determine the sample size for the study. That is: $n = \frac{N}{1+N(e^2)}$

Where “n” is the sample size to be determined; “N” is the target population; “e” is the acceptable sample error (5%). KRA has permanent staff strength (N) of 4,898. Therefore, the representative sample size for this study was calculated as follows:

Sample size $n = \frac{4{,}898}{1+4{,}898(0.05^2)}$

$$n = 399$$

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The study made use of standardized self-administered questionnaires to gather relevant data based on the set objectives. A questionnaire is a collection of questions to which research subjects are expected to respond to. Questionnaires were used because of their ability to be administered in a large group of respondents and be able to collect information faster and within a short span of time (Mugenda & Mugenda, 2003). The objectives in the study were transformed in to questions that provided answers in the questionnaire. Each objective culminated into a series of questions within the questionnaire and therefore guided the respondents in answering them. Questionnaires were chosen for their ability to collect data from a large number of respondents within a short time.

Qualitative data was analyzed using descriptive, cross tabulation and referential statistics. It was then organized according to the study objectives and categorized after scrutiny of the content. The analyzed data was generated through tables, graphs and percentages. Findings were given leading to discussions, recommendations and finally suggestions. The following analytical model was used in analyzing the relationship between the dependent and independent variables: $\mathbf{Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta 3X3 + \varepsilon}$

Where:

Y = Employee Performance (EP)

x_1= Structural Alignment (SA)

x_2= Internal Control Systems (ICS)

x_3= Organizational Structure (OS)

ε= Error term

β_0= Beta coefficient (the value of E_P when all x_i values are zero)

β_i= Beta coefficient of the $x_i$variable. $\boldsymbol{i}$ =1, 2… 3

5. Major findings of the study

5.1 Testing of Regression Model Assumptions

5.1.1 Collinearity Diagnostics

The study assessed multi-collinearity by analyzing tolerance and the Variance Inflation Factor. According to Babbie & Mouton, (2001) Tolerance or rather Variance Inflation Factor measures collinearity reported by most statistical programs such as SPSS where a small tolerance value indicates that the variable under consideration is almost a perfect linear combination of the independent variables already in the equation and that it should not be added to the regression equation. All variables involved in the linear relationship should have a small tolerance. Mugenda & Mugenda, (2003) suggested that a tolerance value more than 3.0 should be investigated further. The study results showed Variance Inflation Factor (VIF) of less than 3.0, accordingly there were no issues of concern with regards to multi-collinearity issues for the variables under study.

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5.1.2 Normality Test

Normality test was implemented by use of the Kolmogorov-Smirnov (K-S) tests to show that the sample data was drawn from a normally distributed population. Kolmogorov-Smirnov (K-S) justification was because, the two sample Kolmogorov-Smirnov test is a nonparametric test that compares the cumulative distributions of two data sets (1, 2). In this case the dependent and the independent variable (Mugenda and Mugenda, 2003). The value provides a relative indication of normality; as the value moves further away from zero, it becomes more certain that the data does not approximate a normal distribution. According to Mugenda and Mugenda, (2003) in the Kolmogorov-Smirnov statistic test, the distribution is normal if the Skewnes and Kurtosis statistic value is approximate to zero. Data is normally distributed if the significance value is > 0.5. The study results showed that; all the variables that is; Employee performance, organization culture, leadership style, organization structure and alignment had Kolmogorov-Smirnova Sig. of 0.00 confirming that the data was normally distributed.

5.1.3 Linearity Test

Linearity was tested in order to check the actual strength of all relationships. This was necessary so as to identify any departures from linearity which were bound to affect correlation. Linear models predict values which fall in straight line by having a constant unit of change (slope) of the dependent variable for a constant unit change of the independent variable. Linearity of the variables was tested using Pearson's product moment correlation coefficient. Correlation is a term that refers to the relationship between two variables (Mugenda & Mugenda, 2003). A strong or high correlation means that two or more variables have a strong relationship with each other while a weak or low, correlation means that the variables are hardly related. The value of -1.00 represents a perfect negative correlation while a value of +1.00 represents a perfect positive correlation. A value of 0.00 means that there is no relationship between variables being tested (Mugenda & Mugenda, 2013). In this study, Pearson correlation is carried out to determine how the research variables related to each other. Pearson's correlation reflects the degree of linear relationships between two variables. It ranges from+1 to -1. A correlation of +1 means there is a perfect positive linear relationship between variables (Mugenda & Mugenda, 2003). Multiple regression analysis was then computed considering all the assumptions of normality, linearity and collinearity diagnostics were fulfilled. To be exact, multiple regression analysis was computed to assess the combined effect of corporate governance investigated on employee performance.

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Table 1; Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics				
					R Square Change	F Change	df1	df2	Sig. F Change
1	.647[a]	.419	.413	.34612	.419	73.713	3	307	.000

a. Predictors: (Constant), Internal Control Systems , structural Alignment and Organization Structure

From the study findings, it can be concluded that; all the three elements of corporate governance tested; (Internal Control System, structural Alignment and Organization Structure, explain about 41.9% of employee performance in the institution, as represented by the R Square (R2).

Table 2: Analysis of Variance (ANOVA)

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	26.492	3	8.831	73.713	.000[b]
	Residual	36.778	307	.120		
	Total	63.270	310			

a. Dependent Variable: Employee Performance

b. Predictors: (Constant), Internal Control Systems , structural Alignment and Organization Structure

In an attempt to test the significant of the model, the study used ANOVA. From Table 2, the P-value is 0000b which is less than 0.05 thus the model is statistically significance in predicting the Independent variables influence on employee performance. The F critical at 5% level of significance is 2.19. Since F calculated (Value =73.713) is greater than the F critical, this shows that the overall model is significant. The coefficients of the multiple regression models are presented in the table 3

Table 3: Regression Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	1.459	.251		5.811	.000
	Organization Structure (OS)	.364	.035	.458	10.398	.000
	Structural Alignment (SA)	.308	.034	.395	8.978	.000
	Internal Control Systems(ICS)	.112	.040	.002	.056	.005

a. Dependent Variable: Employee Performance (EP)

The regression model has established that taking corporate governance elements investigated that is; Internal Control System, structural Alignment and Organization Structure at constant zero, employee performance is at 1.459. From the study findings, the researcher established that, Organization Structure had the greatest influence on employee performance at 36.4% followed by Structural Alignment at 30.8%, and finally Internal Control Systems at 20.0%, Leadership Style at 16.4% and finally, Internal Control Systems at 11.2%. This notwithstanding, Structural Alignment, Internal Control System and Organization Structure were found to be significant as their P-values were less than 0.05 at 5%. As a guide regarding useful predictors, the research determines the t values well below -0.05 or above +0.05. From the study results; the resultant model was;

$$\mathbf{Y = 1.459 + 0.364X1 + 0.308X2 + 0.112X3 + \varepsilon}$$

6. Conclusions

The primary objective of this study was to investigate the impact of corporate governance on employee performance within government-owned entities in Kenya. The multiple regression analysis results yielded important insights, explaining that a combined 41.9% of the variance in employee performance among these entities can be attributed to the corporate governance elements examined, namely Internal Control System, Structural Alignment, and Organization Structure.

Organizational Structure and Employee Performance: The first specific objective aimed to determine the relationship between organizational structure and employee performance in government-owned entities. The results of the multiple regression analysis unequivocally demonstrated a significant and positive relationship ($p = 0.000$). This finding underscores the importance of organizational structure as a pivotal element of corporate governance in influencing employee performance. Organizational structure emerged as the most influential variable in the model ($\beta1 = 0.364$), indicating that an improved and well-suited organizational structure within government entities is associated with enhanced employee performance.

Structural Alignment and Employee Performance: The second specific objective sought to establish whether there is an association between structural alignment and employee performance in government-owned entities in Kenya. The study's results unequivocally confirmed that structural alignment, as an element of corporate governance, plays a significant role in influencing employee performance ($\beta2 = 0.308$, $p = 0.000$). Structural alignment emerged as the second most influential variable in the model, emphasizing that a better alignment of structures within government entities leads to improved employee performance. This finding underscores the importance of ensuring that organizational structures are in sync with the objectives and goals of these entities.

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Internal Control Systems and Employee Performance: The final specific objective aimed to determine whether internal control systems are related to employee performance in government-owned entities in Kenya. The study's results indicated that internal control systems are indeed a significant element of corporate governance in influencing employee performance ($\beta 3 = 0.112$, $p = 0.005$). While internal control systems were found to be the least influential variable in the model, their positive relationship underscores their role in enhancing employee performance. This suggests that effective internal control mechanisms can contribute to improved employee performance within government-owned entities.

In summary, this study reveals that corporate governance, encompassing organizational structure, structural alignment, and internal control systems, has a substantial influence on employee performance within government-owned entities in Kenya. The findings emphasize the importance of optimizing these corporate governance elements to promote higher levels of employee performance. Enhancing organizational structures, ensuring proper alignment, and implementing effective internal control mechanisms are essential steps in fostering an environment conducive to improved employee performance in the context of government-owned entities in Kenya.

7. Recommendations

Premised on the study findings, the study proposes the following recommendations;

Adopt and Adapt to Technology in Organizational Structure Design: Government-owned entities are encouraged to not only adopt appropriate technology when designing their organizational structures but also to remain responsive to changes in technology. The effectiveness of organizational structures in promoting employee performance is influenced by the type and nature of the organization. Embracing technology is crucial, as it not only impacts organizational efficiency but also plays a significant role in shaping the competitive landscape. Therefore, entities should continuously assess and adjust their structures to leverage technological advancements.

Formulate and Review Internal Control Policies: Government-owned entities in Kenya should develop comprehensive policies and programs concerning internal control mechanisms to safeguard the interests of stakeholders. Managers should be proactive in setting and periodically reviewing internal control mechanisms to adapt to the dynamic organizational environment. This proactive approach ensures that the organization's internal controls remain effective and relevant, reducing the risk of governance lapses that can negatively affect employee performance.

Promote Structural Alignment for Positive Employee Performance: It is recommended that structural alignment within government-owned entities should be oriented towards promoting employee performance while respecting existing organizational values. Organizational norms, including work practices and values, should positively influence

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decision-making for both management and employees. Creating an environment where these norms enhance performance and attract and retain top talent is crucial. Structural alignment should be seen as a means to align the organization's goals and values with those of its employees.

Enforce Corporate Governance Measures: Management of government entities should take proactive steps to ensure that employees are committed to adhering to corporate governance principles. This includes enforcing the governance measures laid down by the organization to ensure strict compliance with recommended governance structures. Consistent enforcement of governance standards is essential for maintaining the integrity of the organization and promoting good governance practices.

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