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# Corporate Governance Practices on Financial Performance of Petroleum Industries in Kenya

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**Abstract:** The main objective of the study was to carry out an analysis of influence of corporate governance practices on financial performance of petroleum industries in Kenya. Specifically the study sought to establish the effects of corporate accountability on financial performance of petroleum industries in Kenya. The study will be based on stakeholder theory. The study adopted a descriptive research design. The sample consisted of was 112 operation managers that one from each of petroleum industries. From the study, it was established that there was significant and positive relationship between corporate accountability and financial performance (r=0.413, p=0.000) from the finding, the study recommended that petroleum firms in Kenya should embrace corporate accountability.

**Keywords:** Corporate governance, accountability, financial performance,

## I. INTRODUCTION

### 1.1 Background

Corporate governance strives to facilitate effective monitoring and efficient control of business, according to Arora and Bodhanwala (2019). Its core values include justice, transparency, and improved disclosures to safeguard the interests of many stakeholders. Corporate governance frameworks are anticipated to support the company in making better decisions that will improve performance. Also, according to the International Finance Corporation (2019), implementing corporate governance is one of the methods for enhancing a company's financial performance and resolving agency issues. Effective corporate governance will simplify business operations, boost operational effectiveness, and lower capital expenditures to help businesses grow their sales and profits. Implementing strong corporate governance (GCG) can boost earnings and lower the likelihood of future losses, according to Handayani (2019).

Corporate governance is now more important than ever as organizations develop and flourish in both developed and developing economies the focus of corporate governance shifted from its traditional foundations of agency conflicts to ethical considerations such as responsibility, openness, disclosure, and reporting amid the post-Enron financial crises in Asia and WorldCom in the United States (Deakin & Konzelmann, 2020).Indian companies are making their efforts to attract investors known through corporate governance disclosures, which has also increased market valuation. (Patibandla, 2020). According to Cheung et al. (2020), companies that have implemented corporate governance changes appear to provide investors on the Hong-Kong stock market a superior risk-return trade-off. The adoption of good corporate governance practices by Korean businesses has enhanced the performance of the equity market and increased foreign ownership of corporations (Bae and Goyal, 2020).

Tarner (2019) research on the relationship between company governance and financial performance demonstrated that the quality of corporate governance practices among listed firms in Egypt is generally low based on the aggregate performance of the corporate governance. In Nigeria, every sector of the economy has made corporate governance a top priority. (Ogbechie, 2019). As per Adeabah, Gyeke-Dako, and Andoh's (2019) research, Ghanaian institutions had low levels of corporate governance; an estimated 35% implied that the majority of the listed companies did not publish enough internal control information in their annual reports. Wasike (2019) asserts that inconsistent corporate governance practices in Kenya have allowed for anti-competitive business activities, which have resulted in subpar performance and eventual failure. The petroleum sector has placed a strong emphasis on sustainability reporting as a means of boosting businesses' pledges to fostering growth in ways that better serve both internal and external partners (Epstein et al., 2021). The petroleum industry has committed to promoting financial standards in Kenya in order to fulfil

community goals in an effort to advance financial performance practices in petroleum firms and the capital markets generally(Keter etal.,2019).

Corporate governance is extremely important and, if done well, can prevent corporate scandals and fraud as well as enhance a business's reputation in the public as a trustworthy and trustworthy company worthy of shareholders' capital and the capital of debt holders. Financial crises and institutional failures such as Enron, WorldCom, Commerce Bank and XL Holidays have compelled businesses to increase their attention on sound corporate governance and to create and put into place a number of efficient procedures to regain investor confidence. Effective corporate governance has become crucial to enhancing business performance, protecting investor rights, enhancing the investment climate, and fostering economic growth (Braga-Alves & Shastri, 2021). Pillai and Al-Malkawi (2020) states that economically speaking, wealth maximization has been mutually exclusive, which has caused a problem in the markets. The majority of markets that need investment ideas anticipate an increase in investment choices that are impacted by ethical and financial factors. Corporate governance and financial performance frameworks are therefore necessary. In business, shareholders and corporate managers typically seek different goals that are also at odds with one another in terms of their own interests. As a result, this has encouraged the development of a complex array of strategies and procedures to ensure that conflicting interest spill overs are kept to a minimum. The concept of corporate governance has grown to be a part of the worldwide programme as one of the crucial elements of the global financial architecture in light of the corporate financial issues of the late 1990s and early 2000s. This research intends to add knowledge by carrying out an analysis of the influence corporate governance on listed petroleum industry in Kenya.

### 1.2 Specific Objective

The specific objective was:

I. To establish the effects of corporate accountability on financial performance of petroleum industries in Kenya.

### 1.3 Research Hypotheses

Ho1: Corporate accountability has no significance influence on financial performance of petroleum industries in Kenya.

## II. LITERATURE REVIEW

### a. Theories

#### i. Stakeholder Theory

Stakeholder theory by Phillips., Barney, Freeman and Harrison.(2019) emphasises the idea that businesses will operate more efficiently and provide more value if they pay close attention to a variety of their stakeholders, including consumers, suppliers, employees, and communities. The organisation may then use this value to develop and thrive while also giving back to the stakeholders who helped build it. Stakeholders are typically believed to be those with an interest in the development and outcome of the petroleum industry and on whom the sector depends to achieve its goals, such as shareholders, customers, suppliers, investors, the government, and the general public (Missonier and Loufrani-Fedida, 2020). According to the theory, there are links between organisations that affect the business and its partners. A crucial element of this strategy is also taking into account the interests of all respectable stakeholders.

The theory encourages treating all parties involved fairly, honestly, and even generously. According to the theory, good stakeholder management will lead to synergy (Tantalo and Priem, 2020).Stakeholder theory, requires petroleum companies to consider the interests and concerns of various stakeholders. By addressing the concerns of stakeholders and considering their interests, petroleum companies can foster trust, sustainable growth, and long-term financial performance while contributing positively to society and the environment.

### b. Conceptual Framework

A model that is hypothesised to describe the model being studied and the relationship between the dependent and independent variables is called a conceptual framework. A conceptual framework's objective is to draw linkages between concepts that are pertinent to the study and classify and define such concepts (Mugenda and Mugenda, 2019). Figure 2.1 represents the conceptual framework for this study. The independent variable is corporate accountability while the dependent variable is financial performance

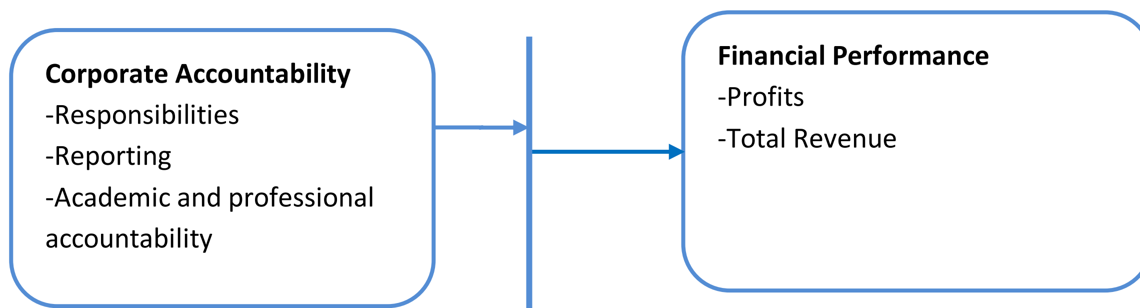


Fig 2.1: Conceptual Framework

### c. Empirical review

In their study Jeriansyah & Mappanyukki (2020) sought to determine the effect of accountability and transparency of regional financial management on local government performance at the Inspectorate of the Special Capital Region of Jakarta (DKI Jakarta Province). This study used primary data and the data obtained through a questionnaire method which involved 265 people as the population. The technical analysis of the data used the Smart PLS version 3.0 programs. The results of this study indicated that the accountability and transparency of regional financial management have a positive and significant effect on local government performance

A research by Mmari (2019) assessed the impact of corporate governance on performance of SACCOS in Moshi Municipality, Tanzania. The study used cross sectional research design and it adopted multi stage sampling technique with three stages. Result of this of the findings showed that there was a significant statistical association between accountability and savings value of SACCOS (X2 (3) = 0.544, p = 0.004). The findings further showed that accountability had positive significant influence on savings value of members in their SACCOS and that 54.4% of the variation in savings value could be explained by the level of accountability

In Kenya, Meithei and Wasike (2019) sought to determine effect of transparency and accountability on banking sector sustainability. The study was guided by the agency theory, stewardship theory and the stakeholders' theory which provided key information to corporate governance practices and how interests of different stakeholders are taken care of. The target population comprised 495 employees within the banking industry in Kenya. The study established that accountability has positive and significant effect on sustainability of the banking industry in Kenya

## III. RESEARCH METHODOLOGY

### a. Research Design

The study was conducted through descriptive research design. Research design involved gathering of quantitative information that was tabulated along a continuum in a numerical form Collis & Hussey, (2013). This design entailed gathering data that described events and then organized, tabulated, depicted and described the data collected.

### b. Population

According to Castillo, (2019) population is refers to a large collection of individuals or objects that forms the focus of a scientific query and to whose benefit the study is done. Target population is a well-defined collection of individuals or objects known to have similar characteristics and usually have a common, binding characteristic or trait which are taken for measurement (Kitchenham and Pfleeger ,2012). The target population of the study consisted all the petroleum firms in Kenya

### c. Sampling size and Sampling technique

The study involved one operation managers in each of the 112 petroleum companies in Kenya. Thus, the totalling to a sample size of 112 respondents. The study adopted a purposive sampling method.

**d. Data analysis and presentation.**

Data collected was first processed by editing, coding, classification and tabulation. Data was entered and analysed using SPSS version 25 statistical software. The extracted data was quantitative in nature and was presented in tables due to ease of interpretation of information presented. Both descriptive and inferential statistics were analysed. Descriptive statistics composed of means and standard deviations while inferential statistics was examined using linear correlation and multiple linear regressions. The multiple linear regressions were used to establish the relationship between the cumulative effects of various independent variables on the dependent variable. The following regression model will be tested.

$Y = \beta 0 + \beta 1X1 + \varepsilon$

Where;

Y - Represents Project Performance

β0 - represents Constant

X1 - represents Corporate Governance

X2 - represents resource planning

B1 -Is the coefficients of the variables to be determined by the model

ε - Represents the estimated error of the regression model

## IV. RESEARCH FINDINGS AND DISCUSSION

**i. Response Rate**

Out of 112 questionnaires were issued in the field and 90 of them were successfully filled and returned for analysis thus giving the study 86% response rate. Nevertheless 15(14%) questionnaire either failed to cooperate or filled the questionnaires without abiding with prerequisite instruction. Saunders, et al (2019) that 50% response rate was adequate, 60% good and 70% very good. Thus this response rate was very good.

**II. Descriptive Analysis**

The study further evaluated the views of the respondents on the influence of corporate accountability on financial performance of petroleum industries. The data collected was analysed was on a 5-point Likert scale ranging from strongly agrees to strongly disagree

**a. Corporate Accountability and Financial Performance**

The study sought the respondents' view on the influence of corporate accountability. Their opinion are as shown in Table 4.1

**Table 4. 1: Corporate Accountability**

| Statement | N | SA (%) | A (%) | N (%) | D (%) | SD (%) | Mean | Std. Dev |
|---|---|---|---|---|---|---|---|---|
| Within the last three years, there have been no audit queries for the organisation | 90 | (4) | (7) | (0) | (63) | (26) | 2.01 | 0.966 |
| Increased financial disclosure positively impacts on the firm's performance | 90 | (57) | (24) | (0) | (11) | (8) | 4.11 | 1.311 |
| There is a disclosure of academic qualifications and professional qualifications of each member in the board. | 90 | (44) | (36) | (0) | (13) | (6) | 4.29 | 1.004 |
| The board accounts for their responsibility | 90 | (8) | (12) | (0) | (52) | (28) | 4.42 | 0.753 |

The findings in Table 4.4 suggest that majority (89%) of the respondents disagreed that the company is free from audit query in the past three years (Mean = 2.01; Std. Dev = 0.966).According to Nsiah (2021) audit queries must be answered and the collection of audit evidence is an essential process and cannot be restricted in any way by the client

Majority (81%) of the respondents agreed that the increased financial disclosure positively impacts on the firm's performance (Mean = 4.11; Std. dev =1.311). This is in line with a study by Qizam (2022), which found that higher disclosure will improve a company's performance under certain circumstances that are significantly influenced by the amount of proprietary information and competition.

The findings also indicate that majority (94%) of the respondents disagreed that there is a disclosure of academic qualifications and professional qualifications of each member in the board (mean = 4.29; Std. Dev =1.004). The results corroborated a study by Hakovirta, Denuwara, Bharathi, et al. (2020), which showed that board members acknowledged their educational and professional backgrounds. Subsequent research revealed that a greater degree of education can occasionally spur creativity, particularly in high tech industries

However, Furthermore, the findings showed most (80%) of respondents disagreed that the board accounts for their responsibility (Mean = 4.42; Std. dev =0.753).According to Naciti (2019), board responsibility in governance is the framework that governs how the board is organised and functions. The board's duties include designing a supervisory procedure to guarantee that the management of the firm is efficient, reporting to shareholders on its performance, and helping the company accomplish its long

## III. Inferential Statistical Findings

Under this sub-section, the study focused on the correlation analysis and regression analysis to establish the relationship between the study variables.

**a. Relationship between corporate accountability and financial performance**

The relationship between corporate responsibility and financial performance is displayed in Table 4.2

**Table 4. 2: Correlation between Corporate accountability and financial performance**

| | | | Financial Performance | Corporate Accountability |
|---|---|---|---|---|
| | Financial performance | Correlation Coefficient | 1 | |
| | | Sig. (2-tailed) | | |
| Spearman's rho | | N | | |
| | Corporate Accountability | Correlation Coefficient | .0549** | |
| | | Sig. (2-tailed) | .000 | 1 |
| | | N | 90 | |

**. Correlation is significant at the 0.05 level (2-tailed).

Based on the analysis on Table 4.2 , there is a strong and positive correlation between board composition and financial success at a 95% confidence level (r = 0.549, p = 0.000, p< 0.05).This agrees with a past studies by Duc and Thuy (2019) who established that board composition leads to a positive as well as significant relationship with companies' financial performance

**b. Relationship between corporate accountability and financial performance**

**i. Regression Coefficients**

The relationship between corporate responsibility and financial performance is displayed in Table 4.3.

**Table 4. 3: Regression Coefficients**

Coefficients[a]

| Model | | Unstandardized Coefficients | | Standardized Coefficients | T | Sig. |
|---|---|---|---|---|---|---|
| | | B | Std. Error | Beta | | |
| | (Chalevas) | 1.887 | .243 | | 2.218 | .000 |
| **1** | corporate accountability | .489 | .067 | .525 | 2.012 | .000 |

Dependent Variable: Financial performance

The F-statistics as shown by the results on ANOVA in table 4.3 is 64.612 with a P value of 0.000 where p<0.05), implying that corporate accountability is significance in explaining the variations in petroleum firm's financial performance and thus the suitability of the overall regression model. These findings support those of Ngulumbu (2019), who found a favourable and substantial relationship between corporate accountability and financial performance.

**b. Relationship between corporate accountability and financial performance**

**Table 4. 4: ANOVA of the Regression Model**

**ANOVA[a]**

| Model | | Sum of Squares | Df | Mean Square | F | Sig. |
|---|---|---|---|---|---|---|
| | Regression | 21.839 | 1 | 21.839 | 64.612 | .000[b] |
| 1 | Residual | 39.254 | 88 | .338 | | |
| | Total | 61.093 | 89 | | | |

a. Dependent Variable: Financial performance

b. Predictors: (Chalevas), corporate accountability

Regression coefficient results in Table 4.4 indicate the extent that the corporate accountability can predict financial performance. Using these results, a simple linear regression equation takes the form of; Y=1.887+0. 489 X1 +e. The beta value of 0.489 means that for every 0.489 units use of corporate transparency, led to a corresponding 1 positive unit in financial performance.

In addition, these results indicate that the corporate transparency is statistically significant (p=0.000 where p where p<0.05) in offering an explanation of financial performance. The study agrees with Muhammad (2019)'s findings that a positive and significant association between corporate accountability and financial performance exists. The beta value helps in testing the first hypothesis: "HO1: There is no significant effect of corporate accountability on financial performance". Therefore, this study rejected the hypothesis.

## IV. Conclusion

The study found that there was a positive and significant relationship between corporate accountability and financial performance of petroleum firms.

## V. Recommedations

On the basis of the findings and conclusions of this study, the researcher recommended. petroleum firms in Kenya should embrace corporate accountability that will steer to the realization of objectives while meeting the needs of various stakeholders.

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