CORPORATE LEADERSHIP AND PERFORMANCE OF MACHAKOS WATER AND SEWERAGE COMPANY IN KENYA

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ABSTRACT
This study sought to investigate the effect of board leadership on performance of Machakos Water and Sewerage Company in Kenya. It had been noted that the performance of this company had been fluctuating making it difficult to deliver services to the stakeholders and operate at the required minimum service levels. The research variables were underpinned on the postulates of stewardship theory. Descriptive research design was adopted and utilized as a strategy for integrating the different components of the study in a coherent and logical way. The unit of analysis was Machakos Water and Sewerage Company. However, the unit of observation comprised of employees from the functional areas of the company. A representative sample was selected from the target population using proportionate stratified random sampling technique. The study used both primary and secondary data. Primary data was collected using structured questionnaire whereas secondary data was obtained through a review of relevant published reports in order to validate the data collected from the field. The research instrument was administered through the drop and pick method with an object of enhancing the response rate. The response rate for this study was eighty eight percent which was considered sufficient for making inferences and drawing conclusions. The quantitative data was analysed using mean, standard deviation and regression analysis. Results of analysis were presented using figures and tables. The findings of study revealed that corporate leadership has a positive contribution to the overall performance of the company. Drawing from these inferences, management of Machakos Water and Sewerage Company should formulate favourable policies on corporate leadership and support inherent practices through availing commensurate resources so as to improve corporate performance. It’s further recommended that management should leverage on CEO duality, leadership styles and motivation to enhance the operational efficiency of the company.

Key Words: Corporate Governance, Corporate Leadership and Performance
INTRODUCTION
Performance is considered the most important criterion in evaluating the impact of actions of organizations in their varying context of operation (Short, McKelvie, Ketchen & Chandler, 2009). Organizational performance is viewed as the realization of tasks or set goals to certain levels of anticipated satisfaction and reflects the economic well-being of a nation (Kiratu & Moronge, 2016). Organizations are formed with the sole aim of achieving specific goals and objectives that matters to the stakeholders. Moreover, business enterprises represent a voluntary interaction of productive assets comprising of human resources and capital resources primarily for achieving the set goals and shared purpose. Al-Matari, Al-Swidi and Fadzil (2014) contend that corporate success can be sufficiently explained by its performance over time and that corporate governance practices play a major role towards accomplishment of organizational goals and shared purpose. In this case, operations of a firm should be properly matched with corporate governance system.
Understanding the elements of corporate governance and their contribution to the growth and development of national economies has been a critical issue driving contemporary research agenda. It has been noted that the practices of corporate governance are essential in strengthening the foundation of strategic economic performance of countries and organizations (Pletzer, Nikolova, Kedzior & Voelpel, 2015). According to Cleasssens and Yurtoglu (2013), poor corporate governance is a leading cause of poor performance and failure in organizations. Furthermore, existing literature supports the role of good corporate governance in enhancing corporate performance. In respect of this, corporate governance practices cannot be over emphasized as one of the key elements that have derailed economic growth and development of countries globally.
Corporate governance is a phrase denoting the mechanisms through which companies are directed and controlled (Cadbury Report, 1992). Naimah and Hamidah (2017) assert that corporate governance is system that is designed to direct the company professionally and is based on good corporate principles. These principles include transparency, accountability, responsibility, independence and fairness. All this qualities have a bearing on the extent of success of organizational leadership. Many contemporary scholars have defined corporate governance on the basis of the characteristics of the organization being studied.
Corporate leadership signifies the manner in which the board provides direction, implementing plans, policy formulation and motivating staff to get work done. It is the influence and legitimate authority acquired by the leader that effectively transforms an organization through directing resources towards achieving a desired goal. Leadership styles of the board therefore should be carefully selected and to guide and motivate subordinates (Kibiwott, 2014). Cole (2012) defines leadership style as a particular behaviour a leader displays which have a direct implication on the output of both individual and collective workforce.
The board in an organization plays a central role in the formulation of policies which serve as the guiding principles for day-to-day operations in organizations. If these policies are deemed to be positive and binding or otherwise, can be a source of motivation or demotivation of the workforce (Aggarwal, 2013). As identified by Muriuki, Cheruiyot and Komen (2017), corporate leadership is essential in discharging the management mandate and thus it’s imperative for board members to have the relevant knowledge and experience. The responsibilities of the chief executive officer (CEO) and chairman should be held by different individuals so as to enhance good corporate leadership and for effective decision making as well as implementation and controls (Muriuki et al., 2017).
Commercialization of the Water Service Providers (WSP) in Kenya has led to increase in the expected output in service delivery to both internal and external customers of these companies. This called for more productive corporate leadership to steer water service providers to greater performance heights. The board of directors represents the shareholders. Shareholders are more concerned in value maximization of the company while managers inclined to focus more on their perks and job security. Machakos Water and Sewerage Company (MACHWASCO) has a specific service provision agreement (SPA) with TAWSB mandating the company to ensure sustainable supply of adequate and quality water services with affordable tariffs, maintenance and improvement of water and sewerage infrastructure. However, it has been noted that the performance of this company has been fluctuating making it difficult to deliver services to the stakeholders and operate at the required minimum service levels (WASREB, 2015). This scenario therefore makes it imperative to examine the effect of board leadership on performance of Machakos water and sewerage Company in Kenya.

LITERATURE REVIEW

Theoretical Literature Review

Stewardship theory was first put forward by Donaldson and Davis (1993) where emphasis was made on the existing relationship between ownership of a company and how it is managed. The theory elaborates on the relationship between business owners and stewards otherwise referred to as principals and agents respectively. The steward is expected to protect and maximize the wealth of the principal through prudent management of organizational resources (Davis, Schoorman & Donaldson, 1997). By so doing, the functions of a firm are maximized (Davis, et al, 1997). Further Davis et al., (1997) posited that the stewards should work in the best interest of the principals and the organization. Therefore, the relationship existing amongst the principal and steward, and the environment of a firm should help to build a responsible stewardship behaviour with the capacity to enhance performance of an organization.

Donaldson and Davis (1994) asserted that under stewardship theory, managers are good stewards who work diligently to realise high levels of profit and returns for the shareholders in an organization. Furthermore, Guzeh (2012) indicated that corporate executive and managers are seen as stewards who work, protect and make profit for the shareholders. Therefore, they work diligently, are responsible and honest so as to satisfy the interests of the company and its shareholders. This theory argues that managers are mainly accountable for the success or failure of a company and expect stern consequences in case of failure and will receive bonuses and other benefits when the business succeeds. Thus, they need freedom in decision making other than being constrained due to control by external directors which may hinder their optimum productivity. According to Clarke (2004), for managers to be successful in their quest for wealth maximization, the position of the CEO and chairman of the board should be held by one person. This convergence of roles ensures that power and authority is vested in one person such that employees clearly understand their boss. Unifying the role CEO and chairman can significantly help in reducing agency costs and plays a crucial role in safeguarding the interest of stockholders.

Stewardship theory as used in this study proposes the existence of a conceptual link between the leadership provided by the board and the overall performance of the company in line with the expectations of the shareholders. In addition, the theory provides insights into corporate leadership and explicitly lay bare the principle motive for contracting agents as generating and maximization stockholders’ wealth. Indeed, the pursuit for maximization of shareholders’ wealth has strategic implication on the level of performance of a firm. In this case, the
propositions of stewardship theory were used to underpin the research variables in this study.

Empirical Literature Review

Wanjiku (2011) undertook a study to assert how corporate governance practices relate to growth of companies listed in the Nairobi Securities Exchange. The study looked at issues like corporate communication, leadership, and technology application. The findings of the study revealed a positive linear relation on corporate governance and growth in those companies. This study made use financial indicators which are considered retrospective and cannot therefore reflect current and future operating conditions. The current study made use of a set non-financial indicators which as noted by Jafari, Jalal, Akhavan and Mehdi (2010) are suitable for measuring performance because they can be implemented at all levels of organizations and represent a more precise picture than financial indices whose results are superficial. Contemporary research is replete with evidence of use of non-financial measures of performance (Kinyua, Muathe & Kilika, 2015; Thangaru & Kinyua, 2017; Abdi & Kinyua, 2018). Mang’unyi (2011) explored the relationship between ownership structure and firms performance in Commercial Banks in Kenya. The findings of the study revealed that there was a significant difference between corporate governance and financial performance of Commercial Banks. The study recommended that corporate entities should embrace good corporate governance practices so as to realise positive performance for the investors. The regulatory agencies including the government should promote and socialize corporate governance and its relationship to organization performance across organization. Nevertheless, the study was conducted in the banking industry and thus its findings cannot be generalised to the water sector due to the inherent contextual differences.

METHODOLOGY

Descriptive research design was adopted and utilized as a strategy for integrating the different components of the study in a coherent and logical way. According to Cooper and Schindler (2005), descriptive design helps to explain the relationship among variables and fact finding inquiries of different kinds. The design helped the researcher to focus more on the state of affairs as they exist in the field. Descriptive studies often result in formulation of essential principles of knowledge that enables realization of solution to research problems (Mugenda & Mugenda, 2003). Thus, descriptive design was suitable for this study as it helped the researcher to determine the effect of corporate leadership on performance of Machakos Water and Sewerage Company. Descriptive research design, a non-experimental that it deals with relationships between non-manipulated variables has been used by extant researchers (Thangaru & Kinyua, 2017; Abdi & Kinyua, 2018) as it facilitates making observations in natural rather than laboratory environment.

The dependent variable for this study was considered as a non-categorical variable making it appropriate to use regression analysis as recommended by Field (2009). Simple linear regression was utilised to facilitate analysis of inferential statistics. In this case, corporate leadership was regressed on performance as shown in model (i).

\[ Y = \beta_0 + \beta_1 X_1 + \varepsilon \]  
Model (i)

Where;

\[ Y = \text{Performance of Water Service Provider} \]
\[ X_1 = \text{Corporate Leadership} \]
\[ \beta_i = \text{Regression coefficients} \]
\[ \varepsilon = \text{error term} \]

The target population of this study comprised of employees from the functional areas of Machakos Water and Sewerage Company. A representative sample of sixty employees from top level managers, middle level managers, supervisors and unionisable staff were selected using proportionate stratified random sampling. Both primary and secondary data were gathered for the purpose of this study. Primary data was collected
using semi-structured questionnaires. The questions were constructed on 5 point likert scale with alternative responses ranging from strongly disagree to strongly agree. Secondary data was obtained through review of published reports obtained from the company and water sector. Face validity was confirmed through making of consultations with experts in the relevant field of management. In addition, content and construct validity were ensured through extensive review of related theoretical and empirical literature. A pilot study comprised of ten questionnaires which were issued to randomly selected respondents so as to facilitate the test of reliability. Internal consistency was analyzed using Cronbach’s Alpha index of at least 0.7 as recommended by Cohen, Manion and Morrison, (2007). Thus, board leadership and performance yielded Cronbach’s Alpha indexes of 0.812 and 0.709 respectively confirming that the items of the questionnaire were reliable. The researcher obtained a research permit from National Council of Science, Technology and Innovation (NACOSTI) before embarking on data collection. At the company level, permission to collect data was sought from the human resource department of the company. The questionnaires were dropped to all respondents and picked by the researcher at the time agreed with individual respondents. Follow-up was undertaken through contact persons in the company with the object of enhancing the response rate. The researcher maintained a research instrument register to provide a clear account of the questionnaires that were issued and received back.

**RESULTS**

The researcher administered 60 questionnaires out of which 53 were received back duly completed by the respondents translating to a response rate of 88%. Mugenda and Mugenda (2003) aver that a response rate of 50% is sufficient for data analysis and reporting, 60% good and 70% response rate is excellent. In this case, the response rate was considered appropriate for making statistical inferences and drawing conclusions from the observed sample.

**Descriptive Statistics**

Saunders, Lewis and Thornhill (2009) recommended that for quantitative studies, the sample measures that are appropriate comprise of sample mean and standard deviation. These measures are used as a basis for summarizing and describing a given set of sample data. As such, sample mean and sample standard deviation were utilised for the purpose of analysing the descriptive statistics of the sample.

**Table 1: Results of Descriptive Statistics**

<table>
<thead>
<tr>
<th>Corporate Leadership</th>
<th>n</th>
<th>Minimum</th>
<th>Maximum</th>
<th>Mean</th>
<th>Std. Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>The management provides enabling environment for achievement of organizational goals</td>
<td>53</td>
<td>1</td>
<td>5</td>
<td>3.77</td>
<td>.974</td>
</tr>
<tr>
<td>The board provides and sustains the necessary motivation within the company’s workforce</td>
<td>53</td>
<td>2</td>
<td>5</td>
<td>4.04</td>
<td>.824</td>
</tr>
<tr>
<td>The separation of chairman and CEO roles creates environment which improves company performance</td>
<td>53</td>
<td>2</td>
<td>5</td>
<td>4.19</td>
<td>.761</td>
</tr>
<tr>
<td>The chairman leadership plays an important role in driving the agenda of the company forward</td>
<td>53</td>
<td>1</td>
<td>5</td>
<td>3.91</td>
<td>.925</td>
</tr>
</tbody>
</table>
The leadership styles employed in the company enhances accountability and participation. The aggregate score on this is 3.98 with a standard deviation of .951.

### Aggregate Score

<table>
<thead>
<tr>
<th>Performance</th>
<th>Score</th>
<th>Standard Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Corporate governance has led to improvement in customer satisfaction</td>
<td>3.79</td>
<td>0.793</td>
</tr>
<tr>
<td>Through proper governance the company has recorded growth in its area of coverage</td>
<td>4.04</td>
<td>0.766</td>
</tr>
<tr>
<td>Close monitoring and controls has led to reduction of non-revenue water</td>
<td>3.94</td>
<td>0.818</td>
</tr>
<tr>
<td>Corporate governance has led to increase in revenue growth over the last five years</td>
<td>4.12</td>
<td>0.832</td>
</tr>
<tr>
<td>Over the last five years the Company has improved in terms of service delivery</td>
<td>4.00</td>
<td>0.816</td>
</tr>
<tr>
<td>Proper corporate governance has resulted in efficiency and effectiveness in performance of the company</td>
<td>4.08</td>
<td>0.895</td>
</tr>
</tbody>
</table>

**Aggregate Score on Performance**

<table>
<thead>
<tr>
<th>Score</th>
<th>Standard Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>4.00</td>
<td>0.82</td>
</tr>
</tbody>
</table>

**Source:** Survey Data (2018)

Table 1 indicated that corporate leadership had a mean aggregate score of 3.97 which was approximated to 4.0 (agree) on the 5 point likert scale adopted for use in the study. This indicated that the respondents were in agreement that corporate leadership was employed in the company. Further, a standard deviation of 0.887 indicated that there was a low variability. This meant that the respondents shared almost the same view regarding the corporate leadership. Moreover, the low variability of responses implied that the aggregate mean was a stable and reliable estimator. Hence the respondents agreed that corporate leadership is key in performance.

The aggregate mean and standard deviation on performance were 4.00 and 0.82 respectively. The aggregate mean approximates to 4.00 (agree) on the 5 point likert scale used in this research indicating that there was an agreement amongst the respondents that the indicators of performance determined are employed in the company. There was a low aggregate standard deviation of 0.82 revealing narrow variability hence the aggregate mean response was stable and reliable hence a meaningful estimator of the population mean confirming performance in water companies. The respondents gave the least rating on corporate governance lead to improved customer satisfaction with a mean of 3.79 and standard deviation of 0.79 indicating a very narrow variability on the mean. This indicates that performance is vital in the water company.

**Regression Analysis**

A simple regression analysis was carried out at 95% level of confidence as a statistical basis for drawing statistical conclusions. However, diagnostic tests such as sampling adequacy, normality, linearity, and homogeneity were conducted to establish the suitability of the data for making inferences and drawing conclusions. Board leadership was regressed on performance as shown in Tables 2, 3 and 4.
Table 2: Analysis of Variance

<table>
<thead>
<tr>
<th>Model</th>
<th>Sum of Squares</th>
<th>Df</th>
<th>Mean Square</th>
<th>F</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Regression</td>
<td>43.528</td>
<td>1</td>
<td>43.528</td>
<td>4.932</td>
<td>.031b</td>
</tr>
<tr>
<td>Residual</td>
<td>450.152</td>
<td>51</td>
<td>8.827</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>493.680</td>
<td>52</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

a. **Dependent Variable**: Performance  
b. **Predictors**: (Constant), Corporate Leadership  

**Source**: Survey Data (2018)

The results of analysis of variance revealed that data had goodness of fit with a significance level of 0.031 against the set level of significance of 0.05. Further the model yielded F value of 4.932 against F critical value 2.74 from F critical tables. In this case, the calculated F value is greater than the F critical value, demonstrating that the overall regression model was sufficient and significant in predicting the relation between board independence and performance.

Table 3: Model Summary

<table>
<thead>
<tr>
<th>Model</th>
<th>R</th>
<th>R Square</th>
<th>Adjusted R Square</th>
<th>Std. Error</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>.49a</td>
<td>.2401</td>
<td>.225</td>
<td>3.016</td>
</tr>
</tbody>
</table>

a. **Predictors**: (Constant), Corporate Leadership  
b. **Dependent Variable**: Performance  

**Source**: Survey Data (2018)

Table 3 showed that the adjusted R square value of 0.225 which implied that corporate leadership is responsible for only 22.5% of variations in performance. This therefore confirms that there is a set other variables that are not accounted for despite their importance in explaining the remaining 77.5% of variation in performance of Machakos Water and Sewerage Company.

Table 4: Regression Coefficients

<table>
<thead>
<tr>
<th>Model</th>
<th>Unstandardized Coefficients</th>
<th>Standardized Coefficients</th>
<th>T</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>B</td>
<td>Std. Error</td>
<td>Beta</td>
<td></td>
</tr>
<tr>
<td>(Constant)</td>
<td>18.506</td>
<td>2.543</td>
<td></td>
<td>7.277</td>
</tr>
<tr>
<td>Corporate Leadership</td>
<td>.235</td>
<td>.106</td>
<td>.297</td>
<td>2.221</td>
</tr>
</tbody>
</table>

a. **Predictors**: (Constant), Corporate Leadership  
b. **Dependent Variable**: Performance  

**Source**: Survey Data (2018)

The simple regression model that was estimated from the output of regression coefficients in table 4 are presented in model (ii).

Performances = 18.506 + 0.235 Corporate Leadership ..........Model (ii)  

Model (ii) indicated the estimated relationship between corporate leadership and performance of Machakos Water and Sewerage Company in Kenya. The calculated probabilities of 0.001 and 0.031 for $\beta_0$ and $\beta_1$ are below the adopted threshold of 0.05 demonstrating that there is a statistically significant relationship between
corporate leadership and performance at 95% level of confidence. In the case where corporate leadership was held at a constant zero, performance of the company would be at 18.506. Moreover, if corporate leadership was increased by a unit, there would be a corresponding increase of 0.235 in performance of the company. The outcome of the study was consistent with the findings of Wanjiku (2011) that corporate governance practices affect the growth of business enterprises. The study focused on such aspects as corporate communication, leadership, and technology application. These findings also support the postulates of stewardship theory that proposes the existence of a conceptual link between the leadership provided by the board and the overall performance of the company in line with the expectations of the shareholders.

Conclusion and Recommendations
Corporate performance is a key ingridient in management of organizations. This study sought to establish the effect of corporate leadership on performance of Machakos Water and Sewerage Company. Board leadership was measured on the basis of employee motivation, enabling working environment separation of the roles of CEO and board chairman, and leadership styles. On the basis of the findings, the researcher inferred that corporate performance is statistically significant hence has a positive influence on performance of the company. Performance was measured using indicators that would facilitate understanding of the current state of relationship and future oriented planning with respect to the phenomena at the core of the study.

It’s imperative to employ all the indicators of corporate leadership utilised in this study so as to bring synergy and thus enhance operational efficiency of the company. Relevant policies ought to be formulated to guide practice relating to good corporate leadership and foster delivery of services and performance of Machakos Water and Sewerage Company. Management should avail sufficient organizational resources to support activities and practices that strengthen corporate leadership in the Company. Moreover, further studies should focus on replicative research so as to assess whether the results are valid and reliable for making generalizations, and thus provide a basis for application of the findings to a wider context of organizations in different industries and sectors. It may also be necessary to investigate other factors that may be responsible for performance of Machakos Water and Sewerage Company.

REFERENCES


