INFLUENCE OF ORGANIZATIONAL COMPETENCE ON CORPORATE GOVERNANCE PRACTICES IN NATIONAL INDUSTRIAL TRAINING AUTHORITY

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ABSTRACT

In respect of the critical role played by corporations in promoting economic and social development, corporate governance has become an issue of global importance in the 21st century. This study investigated the influence of organizational competence on corporate governance practices in National Industrial Training Authority in Kenya. Organizational competence was operationalized on the bases of acquisition of skills, placement mechanisms, and sharing of information. Moreover, participation, transparency, accountability and turn-around time were utilized as indicators of corporate governance practices. The study adopted descriptive research design, a non-experimental approach that is suitable for past events or conditions. The target population for this study comprised of all the employees of the National Industrial Training Authority offices in Nairobi from which a sample of sixty respondents was selected using stratified random sampling. This study used primary data that was collected using a self-administered semi-structured questionnaire. In addition, secondary data was reviewed in order to validate information collected from the questionnaire. The response rate in this study was seventy five percent and thus was sufficient for making inferences. Quantitative data was analysed using descriptive and inferential statistics. Descriptive statistics included percentages, frequencies, mean and standard deviation. Nevertheless, inferential statistics involved univariate regression analysis. Results from quantitative data analysis were presented using figures and tables. The findings of the study established that organizational competence has a positive influence on corporate governance practices. Management of National Industrial Training Authority in Kenya should design training programs that would enhance the competence of their employees. The recruitment and selection process should be carefully designed to ensure that the right skills, knowledge and abilities are placed in appropriate positions within the organization.

Keywords: Employees Competence, Corporate Governance and Corporate Governance Practices.

1.0 Introduction

Corporate Governance has become an issue of worldwide importance since corporations play a vital role in promoting economic development and social progress (Gregg, 2007). Governance is viewed as the manner in which power is exercised in the management of economic and social resources for sustainable human development and has assumed critical importance in these days of political pluralism (OECD, 2002). It seeks to promote efficient, effective and sustainable corporations that contribute to the welfare of society by creating wealth, employment and solutions to emerging challenges. Furthermore, it consists of rules that direct the roles and actions of key stakeholders rather than processes. Unlike simple policies and procedures, such as a dress code or expense reimbursement procedure, rules of corporate governance focus on creating better management and fewer ethical as well as legal problems.

Corporate governance practices enables an organization to put in place mechanisms that make them to operates within the mandate established by shareholders, and allocate and utilizes corporate resources efficiently and effectively in pursuit of the stated mandate (Clarke, 2004). Corporate governance practices ensures that organizations have established mechanisms, processes and systems to constantly ensure that there is transparency and accountability to the various stakeholders, compliance with legal and regulatory requirements, disclosure of all pertinent information to stakeholders, and effective monitoring and management of risk, innovation and change. Good governance is founded upon the attitudes, ethics, practices and values of the society regarding to accountability, efficiency and effectiveness, integrity and fairness responsibility, and transparency in management of organization functions and resources (Gregg, 2007).

The concept of corporate governance gained prominence in the 1980s due to the volatility of the stock market across the world (Francis, 2000). This volatility led to stock market crashes in many different countries globally and thus there was a need to change corporate governance codes and practices. There was also a growing realization that management needed to focus on the day-to-day activities of firms while boards of management would be required to ensure that firms are run effectively and in the right direction (Adams, 2002). As noted by Clarke (2004), improved corporate governance is crucial for the growth and development of the whole economy of a country. Recently, developing countries have embraced corporate governance ideals in order to actualize the benefits associated with such practices. However, developing countries practice corporate governance models that are different from the models adopted by developed countries (Clarke, 2004). This is partly due to the unique economic and political systems found in developing countries. According to McNutt (2010) developing countries are poorly equipped to implement the type of corporate governance found in the developed market economies because developing countries are characterized by state ownership of firms, interlocking relationships between governments and financial sectors, weak legal and judiciary systems and limited human resource capabilities.

The Kenyan situation is not any different as deliberate efforts have been made to promote corporate governance practices. In view of this development, a consultative forum of the corporate sector held in November 1998 and March 1999 resolved that a private sector Initiative for corporate governance be established to formulate and develop a code of best practice for corporate governance in Kenya, explore ways and means of facilitating the establishment of a national apex body, and Co-ordinate developments in corporate governance in Kenya with other initiatives in East Africa, Africa, the Commonwealth and globally (Kiare,2007). Mwiria (2006) points out that governance is the most critically needed area of reform in the management of state corporations in Kenya. These authors contend that poor corporate governance practices in Kenyan state corporations have contributed to numerous corporate scandals in the past. The last decade has seen corporate governance emerge in business literature as a major area of interest. Unfortunately, this development was triggered by numerous corporate scandals which set the need for the sound corporate governance practices in many countries (Wong, 2008).

In many state corporations in Kenya, the corporate governance practices that are embraced are characterized by high level of inefficiency, unfairness, lacks of transparency in disclosure of corporate information and exhibit low level of accountability in management of organization resources. According to Mwelwa (2010) the challenges of corporate governance in many state corporations are influenced by problems associated with incompetent board and staff. Waweru (2011) showed that communication channels employed and the level of compliance with relevant legislations impedes implementation of corporate governance practices in about 38% of state corporations in Kenya. It has been noted that implementation of corporate governance practices in the National Industrial Training Authority is considerably hampered by challenges emanating from factors in the internal environment such as inadequate capacity building, poor knowledge base, ineffective mechanisms for recruitment, selection and placement of employees (NITA, 2015)

2.0 Literature Review

2.1 Competence Theory

Organizations are considered as aggregations of resources which are translated by management into strengths and weaknesses of the firm. Companies gain sustainable competitive advantages by deploying valuable resources and capabilities that are inelastic in supply (Grunert & Hildebrandt, 2004). In addition, organizational effectiveness can be viewed as the ability of a firm in either absolute or relative terms, to obtain scarce and valued resources and successfully integrate and manage such resources (Dess, Lumkin, Eisner, Lumpkin & McNamara, 2012). The resources of a firm are financial, physical, social or human, technological, and organizational factors that allow a company to create value for its customers. Company resources are either tangible or intangible (Jones & Hill, 2009). Intangible resources are non-physical entities that are the creation of managers and other employees, such as the knowledge that employees have gained over time.

The competence perspective views an organization as an adaptive, open and target seeking system for continuous value creation. It's an integrative management perspective that incorporates economic, organizational and behavioral concerns. These concerns recognize and capture the dynamic, systemic, cognitive and holistic dimensions of organizational competences (Sanchez, 2004). In essence, the competence perspective describes the competence-based organization functioning as an adaptive open system that incorporates the strategic logic of an organization for creating value in markets, which is held to be the essential activity through which an organization may achieve its objectives, and organization's management processes for deploying and coordinating intangible and tangible assets in the organization's operations for creating and producing goods and sevices.

The state level of understanding of corporate governance practices is greatly influenced by the level of organizational competence which forms a key part of organization resources (Hilman & Dalziel, 2003). It has been observed that the changing business environment has pushed the boundaries of the required knowledge and skills beyond what has been the more traditional focus on the technical and administrative procedures and systems associated with management (Hussain, Rahman & Nurul, 2006). Organizational competence enables a firm to respond to the dynamics of the external environment by leveraging its ability to create value in the marketplace even as changes take place. In addition, competence enables a firm to manage the internal organizational dynamics that may result in various forms of organizational entropy.

2.2 Empirical Literature Review

Organizational competence is the combination of observable and measurable knowledge, skills, abilities and personal attributes that contribute to enhanced employee performance and ultimately result in organizational success. Implementation of corporate governance practices requires organization to have competent employees with ability to understand and embrace the principles of corporate governance practices. Colley (2004) considers competency to be a set of defined behaviours that provide a structured guide enabling the identification, evaluation and development of the behaviours in individual employees. Competency entails the ability to perform a task adequately (Roe, 2002) and combines knowledge and skills; they represent both the under-laying knowledge base and the set of skills required to perform useful actions (King, Fowler & Zeithaml, 2001).

Mackenzie (2007) carried out a study and found out that most of government organizations in United States of America had succeeded in employing corporate governance practices as result of recruitment of highly qualified board members and continuous training of the employees. However, the finding of this study may not be generalized to corporations in k Kenya study due to contextual gap as this research was carried out in the United States of America. Colley (2004) noted that organizational competence is determined by how the employees share knowledge amongst each other, training and development programs, recruitment procedures, career development, reward management, delegation of duties among many other factors in the internal environment. However, this study drew emphasis on sharing of knowledge and hence fundamental conceptual gap that would inhibit making generalization to corporate governance practices in State Corporations in Kenya.

Critical review of related empirical literature revealed that there are very few studies that have focused on the role of employees' competence in implementation of corporate governance practices. Considering, the strategic value of state corporations in economic development and the pursuit for realization of vision 2030, this study sought to establish the influence of employees' competency on corporate governance practices. The study was guided by the null hypothesis presented below;

H_{01}: Organizational competence has no influence on corporate governance practices

3.0 Research Methodology

The study adopted descriptive research design as recommended by Sekaran and Bougie (2006). This research design is a non-experimental in the sense that it deals with relationships between non manipulated variables in a natural setting rather than a laboratory environment. It is also suitable for events or conditions that have already occurred. The research design utilized would therefore help to establish the influence of organizational competence on corporate governance practices in the National Industrial Training Authority in Kenya.

The dependent variable was considered as a continuous variable and thus regression analysis was adopted as recommended by Field (2009). Univariate analysis was used to perform regression on the relationships between the research variables. In essence, organizational competence was regressed on corporate governance practices as shown below.

Corporate Governance Practices = β_1 + β_1Organizational Competence + $\mathcal{E}$

The study was undertaken at National Industrial Training Authority offices in Nairobi County. The target population for this study comprised of all the employees of NITA from which a representative sample of 60 respondents was selected using stratified random sampling. Primary and secondary data were utilized in this study. Primary data was collected using a self-administered semi-structured questionnaire. The closed-ended questions constructed on a 5-point Likert scale (1-not at all and 5-very large extent) provided structured responses that facilitated quantitative analysis, testing of hypothesis, and drawing of conclusion. However, open-ended questions provided additional information that may not have been captured by the structured responses. Secondary data was obtained through document review of published sources including periodicals from National Industrial Training Authority.

The pilot study involved ten respondents randomly selected from the target population. Face and content validity of the research instrument for the two variables were verified through literature review and expert suggestions as recommended by Mugenda and Mugenda (2003). Cronbach's Alpha index for the study variables was established at 0.78 and 0.71 for employees' competence and corporate governance practices respectively which was within the threshold of at least 0.7 recommended by Marczyk, DeMatteo and Festinger (2005)

An appointment was sought with the target respondents before proceeding to issue the questionnaires for data collection. The respondents were requested to indicate their informed consent to participate in the study. The researcher administered the questionnaire individually to all the respondents and collected the completed questionnaires later. The information obtained from the respondents was handled with utmost propriety.

4.0 Results and Discussion

The researcher administered 60 questionnaires, out of which 45 were filled-in and returned translating to a response rate of 75% respondents. This response rate was considered adequate for drawing conclusions from the research data as recommended by Mugenda and Mugenda (2003).

4.1 Descriptive Statistics

The sample measures that were considered relevant to the objective of this study were sample mean and sample standard deviation. These measured formed the basis for summarizing, describing and comparing research variables numerically as well as revealing pattern of sample data-set.

Table 1: Descriptive Statistics for the Research Variables

Organizational Competence	Sample Size	Mean	Std. Deviation
Acquisition of skills	45	4.479	.7716
Placement mechanisms	45	4.250	.9565
Information sharing	45	4.291	.8495
Aggregate score for Organizational Competence	45	**4.331**	**0.771**
Corporate Governance Practices	**Sample Size**	**Mean**	**Std. Deviation**
Participation	45	4.229	.8565
Transparency	45	4.166	.8337
Accountability	45	3.937	.8850
Turn-around time	45	4.337	.6032
Aggregate score for Corporate Governance Practices	45	4.167	0.795

Source: Survey Data (2016)

The results of descriptive analysis revealed that the aggregate mean score for the three indicators of employees' competence is 4.331and is therefore approaching 4.000 on the 5-point Likert scale used in this study. Furthermore, the variability of responses from the aggregate mean score is low as demonstrated by the aggregate standard deviation of 0.771. In this case, the level of agreement with activities relating to organizational competence is high. It can also be noted from the low variability that the responses are concentrated around the aggregate mean and thus the sample mean is a reliable estimator of the population mean.

In addition, the overall mean score and standard deviation for items on corporate governance practices are 4.167 and 0.795 respectively. Notably, the aggregate mean score tends to 4.000 on the 5-point Likert scale adopted in this research demonstrating that the indicators for corporate governance practices are present in National Industrial Training Authority. The small absolute value of aggregate standard deviation indicates that there is a narrow variability of responses and thus the aggregate mean response is a stable and reliable estimator of the population mean.

4.2 Test of Hypothesis

Univariate analysis was used to test the null hypothesis that was formulated for this study. This hypothesis was tested at 95% level of confidence as a statistical basis for drawing conclusions. The aggregate scores formed the composite indexes which were used in the regression analysis. Organizational competence was regressed on corporate governance practices as shown in Table 2.

Table 2: Regression Results for the Research Variables

		Unstandardized Beta Coefficients		t	Sig.
		Beta	Std. Error		
(Constant)		2.297	.096	23.968	.003
Organizational Competence		.268	.028	9.595	.012
R	**R Square**	**Adj R Square**	**Standard Error of Estimate**		
.729[a]	.530	.526	1.0254		
	Sum of Squares	**Df**	**Mean Square**	**F**	**Sig.**
Regression	9.119	1	2.280	84.351	.000
Residual	1.000	44	.027		
Total	10.119	45			

a. Predictors: (Constant), Organizational Competence
b. Dependent Variable: Corporate Governance Practices

Source: Survey Data (2016)

The regression model estimated in Table 2 for the direct relationship is presented below.

Corporate Governance Practices= 2.297 + 0.268Organizational Competence

The specific objective sought to investigate the relationship between organizational competence and corporate governance practices. The null research hypothesis formulated proposed that organizational competence has no relationship with corporate governance practices. The regression model estimated from the results in Table 2 demonstrated that organizational competence is statistically significant at $\beta=.268$, $t = 9.595$ and $p = 0.012$, in this case organizational competence has a positive contribution to corporate governance practices at 95% level of confidence. These results also demonstrate that a unit increase in organizational competence is responsible for increasing corporate governance practices by 0.268 units. This study concludes that organizational competence influences corporate governance practices in National Industrial Training Authority.

5.0 Conclusion and Recommendations

This study examined the influence of organizational competence on corporate governance in National Industrial Training Authority. On the basis of the findings, an important conclusion can be inferred and drawn. In respect of the specific objective of this study, organizational competence has been found to be statistically significant. Therefore, organizational competence has a positive influence on corporate governance practices.

Management of the National Industrial Training Authority should consider enhancing practices associated with the different dimensions and indicators of organizational competence. Particularly, training programs should be designed to enhance the competence of employees. The recruitment and selection process should be carefully designed to ensure that the right skills, knowledge and abilities are placed in appropriate positions within the organization. Management should also encourage sharing of information amongst employees in order to foster learning and creation of new knowledge. Moreover, substantial financial resources should be committed towards enhancing the knowledge, skills and abilities of the employees. Future research should focus on investigating other factors that influence corporate governance practices as organizational competence only accounts for 52.6% of corporate governance practice in the National Industrial Training Authority.

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