CONTRIBUTION OF CORPORATE GOVERNANCE PRACTICES TO FINANCIAL DISTRESS FACING LOCAL AUTHORITIES IN KENYA.

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CONTRIBUTION OF CORPORATE GOVERNANCE PRACTICES TO FINANCIAL DISTRESS FACING LOCAL AUTHORITIES IN KENYA.

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Abstract

Purpose: The purpose of this study was to establish the contribution of corporate governance practices to financial distress facing local authorities in Kenya.

Methodology: A descriptive research design was used to conduct the study. The study population comprised of the 175 Local Authorities in Kenya. A sample of 20 Local Authorities was selected using a stratified random sampling technique. A questionnaire was used to collect data from both the Local Authorities officers and customers of Local Authorities. The data collected was analyzed using descriptive and inferential statistics. Qualitative responses were analyzed using content analysis.

Results: Results indicated that Local Authorities had poor governance practices. Specifically, Local Authorities did not ensure transparency through the display of performance results to all stakeholders. In addition, the Local Authorities do not have a good leadership structure which supports corporate governance. It was also observed from the results that the number of corruption cases had not reduced in Local Authorities.

Unique contribution to theory, practice and policy: The studies recommended that there should be clearly defined boundaries between political and administrative wings and minimize interference by politicians in the implementation of policies and the recruitment of bureaucrats to ensure efficiency and effectiveness. The culture of kickbacks and corruption should be eliminated through a cultural and mind set change.

Keywords: Corporate governance practices, financial distress, local authorities.

1.0 INTRODUCTION

1.1 Background of the Study
The terms Local Governments and Local Authorities are used interchangeably in this thesis so as to avoid being bogged down by terminological quagmires. Local government means an intra-sovereign governmental unit within the sovereign state dealing mainly with Local affairs, administered by Local Authorities and subordinate to the state government (Khan & Ara, 2006; Jahan, 1997).
Local government is also defined as a political sub – division of a nation or state which is constituted by law and has substantial control of Local affairs, including the power to impose taxes or to enact prescribed purpose (Ajayi, 2001). Wanjohi (2003) and Institute of Economic Affairs (2009) too defined Local Government as an institution whose operations addresses the needs and aspiration of the citizenry and also extends the administrative and political control to the community. These two definitions forms the accepted view of LAs for the purpose of this study.

Local Authorities according to Institute of Economic Affairs (IEA, 2009) constitute one of the layers of Government. The other layers of Government are Central government, national government or (where applicable) federal government. Local Authorities derive their mandate from powers delegated to it by legislation or directives of the higher level of government (Central government or federal government) (IEA, 2009). The nature of Local Authorities differs from country to country.

The formation of Local government may have been motivated by the need to reduce bureaucracy and the growth of institutional power to the detriment of the citizens. This is exemplified by the quote from a letter from Thomas Jefferson to J. Cabell.

"The way to have good and safe government is not to trust it all to one, but to divide it among the many, distributing to everyone exactly the function he is competent to. Let the National Government be entrusted with the defense of the nation and its foreign and federal relations; the State governments with the civil rights, laws, police, and administration of what concerns the State generally; the counties with the Local concerns of the counties, and each ward direct the interests within itself" (Thomas, 1816).

1.2 Problem Statement

Financial distress in Local Authorities exists in various forms (Walker & Jones, 2007). For instance Local Authorities are often unable to pay current liabilities such as salaries and short term obligation to creditors (Omamo, 1995). In order to meet their short term financial obligations they are forced to operate on overdrafts with high interest rates. Local Authorities are also unable to meet long term liabilities such as bank loans. An example of such financial distress include those currently being experienced by Mombasa City council which is staggering under heavy borrowing as it owes the creditors a whooping Ksh 1.9 billion according to Mombasa City Council Budget of 2011, while City Council of Nairobi owes its creditors Kshs 5.3 billion (CCN budget, 2011), just to mention but a few.

Furthermore financial distress exist in the form of revenue deficits forcing the Authorities to always rely on the central government for fiscal transfers such as Local Authority Transfer Fund (LATF) and bank overdrafts (Omamo, 1995). Also other studies (Mcluskey & Fransen, 2005; Gachuru & Olima, 1998 and Muia, 2005), noted that the financial and budget deficits in Local Authorities in Kenya were growing and that there was urgent need to arrest the situation. Consequently a number of councils had their employees demonstrate due to unpaid salaries and salary arrears that have gone for several months (Muia, 2005, Muganda & Belle, 2009).

Financial distress in Kenyan Local Authorities has been a persistent phenomenon. For example, it was recorded in the Kenya Parliamentary sessions that Local Authorities were facing financial
challenges due to a weak financial base (ROK, 2001). This led to the introduction of Local Authority Transfer Fund (LATF) as a move to strengthen the financial base. However, these policy instruments together with internal sources of revenue have not mitigated the occurrence of financial challenges in Local Authorities. The persistence of this problem is exemplified in the quote from the Kenya Parliamentary session by ROK (2000) which went on to record that;

“Mr. Speaker Sir, the Nairobi City Council is in a state of chronic financial distress. It has been spending beyond its means, and it has debt payments arrears that exceed its annual income, before even taking into account its large future debt repayment obligations”. Kenya Parliamentary Hansard 15th June 2000, pg.1095.

The financial health of Local Authorities in any country is crucial in ensuring the sustainable delivery of services to the community (Capalbo, Grossi, Ianni & Sargiacomo, 2010). The presence of financial distress in Local Authorities such as inability to pay salaries leads to staff demotivation (IEA, 2009; Muganda & Belle, 2009). This is manifested through increase in shirking, laziness and corruption among the staff. This manifestation negatively affects the revenue collection which further compounds the problem of financial deficits (Institute of Economic Affairs, 2009).

However, other studies (Institute of Economic Affairs, 2009; Omamo, 1995; Mcluskey & Fransen, 2005; Gachuru & Olima, 1998 & Ekwubi, 2010) on Local Authority financial distress in developing countries in general, and Kenya in particular are inadequate because they do not exhaustively address the determinants of financial distress in Local Authorities. These studies acknowledge the presence of financial distress in Kenyan Local Authorities, which they claim inhibit service delivery but fails to address the causes of the same.

In addition, such studies are lacking in depth assessment and give generalized conclusions of the presence of financial distress in Kenyan Local Authorities, without analyzing the causal relationship between financial distress in Local Authorities and its determinants. In fact no adequate studies have been conducted specifically to establish the factors that contribute to financial distress facing Local Authorities in Kenya. This study therefore sought to bridge this evident research gap by investigating the contribution of corporate governance to financial distress facing Local Authorities in Kenya.

1.3 Research Objective

The objective of this study was to determine the contribution of corporate governance practices to financial distress facing local authorities in Kenya.

2.0 LITERATURE REVIEW

2.1 Theoretical Review

2.1.1 Financial Distress Theory

Financial distress can be subdivided into four sub-intervals: deterioration of performance, failure, insolvency, and default. Whereas deterioration and failure affect the profitability of the company, insolvency and default are rooted in its liquidity. Theoretically, the outcome of each interval can be positive, implying that the company breaks the downward trend, or negative indicating the continuing deterioration of the firm value and a movement downwards from one sub-interval of
the spiral to another. In many real cases, when entering financial distress, the company traverses all the stages of decline (Mueller, 1986).

Financial distress is characterized by a sharp decline in the firm’s performance and value (Opler & Titman, 1994). This part of the overall process has two important characteristics; moving down the spiral from one phase to another the sharp decline accelerates, whereas the length of each stage becomes shorter and shorter. Obviously, this decline of performance can continue longer than the economic failure of the company. The length of insolvency depends on the maturity structure of the firm’s debt, whereas default is dependent on the date of maturity followed by renegotiation and turnaround or liquidation and is, therefore, the shortest stage of financial distress.

The biggest challenge in financial distress is to recognize adverse processes as early as possible in order to gain more time for response. The later financial distress is anticipated, the more time pressure and the more questionable is the success of counter measures (Opler & Titman, 1994). The theory of financial distress may be useful in explaining the causes of financial challenges facing Local Authorities. In addition, it may be used to give indicators of financial distress in Local Authorities and how the challenges can be resolved.

2.2 Empirical Review

Sanda, Mikailu and Garba (2005) defines corporate governance as mechanisms that are concerned with ways in which all parties interested in the well-being of the firm (the stakeholders) attempt to ensure that managers and other insiders take measures or adopt mechanisms that safeguard the interests of the stakeholders. The Cadbury report (1992) defines corporate governance as the system by which companies are directed and controlled. According to Claessens (2003), corporate governance is the set of processes, customs, policies, laws, and institutions affecting the way a corporation (or company) is directed, administered or controlled. Corporate governance comprises the long-term management and oversight of the company in accordance with the principles of responsibility and transparency.

Claessens (2003) also defines corporate governance as the range of institutions and policies that are involved in these functions as they relate to corporations. On the other hand, Shleifer and Vishny (1997) also define corporate governance as “mechanisms of economic and legal institutions that can be altered through political process”.

O’Toole (2005), in exploring community governance in Victorian Local government tested the extent to which councils were using new governance ideas. The context was the policy decision by the Blacks Labor government, following the defeat of the Kennett Liberal government in 1999, to redefine good governance and to embrace engagement by the community in the governing process. He reviewed council annual reports to determine how they were reporting on governance and the extent to which they referred to external governance. He found that over half the respondents had some section which referred explicitly to the term governance, but the term community governance was rarely used if at all used. However 18% of the councils reported on community participation through different council forums and committees. This may be seen as a form of community governance.

A study by Muranda (2006) assessed the role of corporate governance on financial distress in Zimbabwean Banks. The author observed that in all cases of pronounced financial distress, either
the chairman of the board or the chief executive wields disproportionate power in the board. The disproportionate power emanates from major shareholding. The overbearing executive overshadows other directors, executive and non-executive, thus creating power imbalance in the board. A study by Joh (2001) attempted to examine how ownership structure and conflicts of interest among shareholders under a poor corporate governance system affected firm performance before the crisis. Findings indicated that Controlling shareholders expropriated firm resources even when their ownership concentration was small. Firms with a high disparity between control rights and ownership rights showed low profitability.

Studies done by Moreno (2005); Frank and Dluhy (2003), demonstrate the contribution of corporate governance to good financial management practices of Local Authorities. The authors found a positive relationship between corporate governance mechanisms and good financial management practices. Literature by Boex and Muga (2009); Kloha, Weissert, and Kleine (2005) also assert that organizations that uphold tenets of corporate governance also reduce the risk of financial distress.

Specifically, the following aspects of corporate governance were investigated by the current study; Transparency through display of performance results; transparency through audited accounts; Accountability through signing the performance contract and adhering to service delivery charter; leadership structure that supports governance; corruption cases and community participation in decision making.

3.0 RESEARCH METHODOLOGY

A descriptive research design was used to conduct the study. The study population comprised of the 175 Local Authorities in Kenya. A sample of 20 Local Authorities was selected using a stratified random sampling technique. A questionnaire was used to collect data from both the Local Authorities officers and customers of Local Authorities. The data collected was analyzed using descriptive and inferential statistics. Qualitative responses were analyzed using content analysis.

4.0 RESULTS AND DISCUSSIONS

4.1 Response Rate

The number of questionnaires that were administered were 320, out of these, 200 was administered to senior officers/employees and 120 were administered to customers of the sampled Local Authorities.

Table 1: Response Rate

<table>
<thead>
<tr>
<th></th>
<th>Successful</th>
<th>Unsuccessful</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Officers/Employees</td>
<td>188 (94%)</td>
<td>12(6%)</td>
<td>200</td>
</tr>
<tr>
<td>Customers</td>
<td>107 (89%)</td>
<td>13(11%)</td>
<td>120</td>
</tr>
<tr>
<td>Total</td>
<td>295 (92%)</td>
<td>25(8%)</td>
<td>320</td>
</tr>
</tbody>
</table>

A total of 295 questionnaires were properly filled and returned, which included 188...
questionnaires from the officers and 107 questionnaires from the customers.

4.2: Demographic data

4.2.1: Category of Local Authority

Figure 1 presents results on category of local authority of the respondents.

![Pie chart showing categories of local authority]

**Figure 1: Category of Local Authority**

As demonstrated in figure 1, a majority (51%) which is slightly more than half the respondents were from municipal councils. Twenty-three percent (23%) were from county councils, 14% were from town councils, and 12% were from the three city councils. The findings imply that the study respondents were well spread across all categories of Local Authorities (representative of the population) and this may have a positive effect on the generalization, application and representativeness of the data.

4.2.2: Gender of Local Authority Officers

Respondents were asked to indicate their gender. Figure 2 presents the results.

![Pie chart showing gender distribution]

**Figure 2: Gender Distribution**
Figure 2: Gender of Local Authority Officers

Figure 2, illustrates that a majority (57%) which is slightly more than half of the respondents were males. Females formed 43% of the total number of respondents. The findings reflect the fact that the Local Authority is a male dominated field. According to Ellis, Cutura, Dione, Gillson, Manuel and Thongori (2007), in spite of women being major actors in Kenya’s economy, and notably in agriculture and the informal business sector, men dominate in the formal sector citing the ratio of men to women in formal sector as 74%:26%. Perhaps the gender disparity may have an implication on the level of financial distress in Local Authorities. This is supported by (Stevenson and St-Onge, 2005; Gakure, 1995; Gakure, 2001; Gakure, 2003) who argued that women are more prudent in resource management compared to their men counterparts.

4.2.3: Age Bracket of Respondents

Respondents were asked to indicate their age bracket. Figure 2 presents the results.

Figure 3: Age Bracket of Respondents

As revealed in Figure 3, a third of the respondents were aged between 31 to 40 years, 61, (33%) which was followed by 41 to 50 years, 60, (32%), 21 to 30 years, 42, (23%), over 50 years, 17, (9%) and 18 to 20 years, 5, (3%). The findings concur with those of Watson Wyatt Worldwide Study (2006) which asserted that the aging workforce exists in many countries including the U.S. and many European countries. The study by Watson also found that by 2050, Asia Pacific will be home to most of the world’s elderly with 998 million people aged 60 and over. The findings also concur with Mwendo (2009) who reported that local governments have an aged workforce which has resulted from increasing the mandatory retirement age in Kenya from 55 to 60 years to alleviate succession crisis.

The findings are consistent with expectations as majority of those in Local Authority employment are at their career peak or just preparing to go for retirement in the next decade (Mwendo, 2009). The age of the Local Authority staff may have an important implication for succession planning and decision making on the overall strategic direction of the Local Authorities.
4.2.4: Length of Service
Respondents were asked to indicate the length of time in service. Figure 2 presents the results

![Figure 4: Length of Service](image)

Figure 4 reveals that a majority (54%), which was slightly more than half the respondents, had worked for the Local Authorities for a period of over 10 years. It was also observed that 24% of the respondents had worked for the Local Authorities for 1 to 5 years, followed by those who had worked for the Local Authorities for 5 to 10 years (15%). Only (7%) of respondents had worked for the Local Authorities for less than 1 year.

The findings concur with those by Samuel and Chipunza (2009); Swailes and Fahdi (2010), which asserted that labour turnover, is lower in public institutions, compared to private institutions. The finding is consistent with expectations as it is a well established notion that Local Authorities (just like any other government related officers) have security of tenure.

4.3. Corporate Governance and Financial Distress
The current study sought to find out whether the quality and effectiveness of corporate governance practices were determinants of financial distress in Local Authorities in Kenya.

4.3.1 Transparency through Display of Performance Results;
Descriptive results in table 2 indicate that 26.6% of respondents agreed while another 17.0% strongly agreed bringing to a total of 43.6% of respondents who agreed with the statement that the Local Authority does not ensure transparency through the display of performance results to all stakeholders. Eighteen point one percent (18.1%) neither agreed nor disagreed while a further minority total of (38.3%) disagreed with the statement.

The findings imply that the Local Authorities do not ensure transparency through the display of performance results to all stakeholders. The failure to display results to some stakeholders may have led to the financial distress in Local Authorities since stakeholders such as anticorruption bodies have no way of knowing the exact amount of financial resources that are going to waste. It also discourages hard working officers because their effort is never recognized or rewarded. Consequently encourages corrupt practices which fleece the council’s meager resources leading to financial distress in Kenyan Local Authorities.
4.3.2 Transparency Through Audited Accounts;

Descriptive results in table 2 indicates that 42.1% of respondents in the officers category disagreed while a further 7.9% strongly disagreed bring to majority (50.0%) total of officers who disagreed that Local Authorities does ensure transparency by allowing its books of accounts to be audited. Nineteen point one percent (19.1%) neither agreed nor disagreed while a further minority total of (31.9%) agreed with the statement.

The findings imply that the Local Authorities in Kenya may have been making attempts to ensure transparency through the audit of accounts. However, the auditing of accounts has not improved the financial status of Local Authorities perhaps because the audited accounts may not necessarily portray the actual financial position of Local Authorities. This is also confirmed by the high number of respondents (32%) who confirmed that there is no transparency in auditing books of accounts.

4.3.3 Accountability through Signing the Performance Contract and Adhering to Service Delivery Charter

Descriptive results in table 4.8 indicate that 46.8% disagreed while a further 10.6% strongly disagreed bringing to a majority (57.4%) total of those respondents who disagreed with the statement that the Local Authority does ensure accountability through signing the performance contract and adhering to the service delivery charter. Meanwhile, 15% of the respondents were neutral while a further minority total of (27.6%) agreed with the statement.

The findings imply that majority of Local Authorities have signed performance contracts. However, the signing of the performance contract has not improved the liquidity and financial status of Local Authorities.

4.3.4 Leadership Structure that Supports Governance

Descriptive results in table 4.8 indicate that 33.0% agreed while a further 12.8% strongly agreed, bringing to a total (45.8%) of those officers who agreed with the statement that the Local Authority does not have good leadership structure which supports corporate governance. Meanwhile, 18.1% neither agreed nor disagreed while a further minority total of (36.1%) disagreed with the statement.

The findings imply that the leadership structure in Local Authorities is not supportive of corporate governance. The failure to separate political leadership from administrative leadership implies that transparency and accountability is threatened in Local Authorities. The lack of leadership structure that supports corporate governance may have led to the financial distress being witnessed in Local Authorities.

4.3.5 Corruption

Descriptive results in table 2 indicate that 27.1% agreed while a further 18.1% strongly agreed, bringing to a total (45.2%) of those officers who generally agreed with the statement that the number of corruption cases have not reduced in Local Authorities. Sixteen point five percent (16.5%) neither agreed nor disagreed while a further minority total of (38.3%) generally disagreed with the statement.
The findings imply that the Local Authorities have not made progress in reducing the number of corruption cases. The findings further reveal that corruption may have led to financial distress in Local Authorities.

4.3.6 Community Participation in Decision-making

Descriptive results in table 2 indicate that 38.3% disagreed while a further 8.0% disagreed, bringing to a slightly less than half total (46.3%) of those officers who generally disagreed with the statement that the Local Authority does encourage frequent community participation in decision making and setting up an Agenda for development. Meanwhile, 18.6% were neutral while a further minority total of (35.1%) generally agreed with the statement.
### Table 2: Corporate Governance and Financial Distress

<table>
<thead>
<tr>
<th>Statement</th>
<th>strongly disagree</th>
<th>disagree</th>
<th>neither agree nor disagree</th>
<th>agree</th>
<th>strongly agree</th>
</tr>
</thead>
<tbody>
<tr>
<td>The LA does not ensure transparency through display of performance results to all stakeholders</td>
<td>5, 2.7%</td>
<td>67, 35.6%</td>
<td>34, 18.1%</td>
<td>50, 26.6%</td>
<td>32, 17.0%</td>
</tr>
<tr>
<td>The LA does ensure transparency by allowing its books of accounts to be audited.</td>
<td>13, 6.9%</td>
<td>79, 42.0%</td>
<td>36, 19.1%</td>
<td>44, 23.4%</td>
<td>16, 8.5%</td>
</tr>
<tr>
<td>The LA does ensure accountability through signing the performance contract and adhering to the service delivery charter</td>
<td>20, 10.6%</td>
<td>88, 46.8%</td>
<td>28, 14.9%</td>
<td>39, 20.7%</td>
<td>13, 6.9%</td>
</tr>
<tr>
<td>The LA does not have a good leadership structure which supports corporate governance</td>
<td>7, 3.7%</td>
<td>61, 32.4%</td>
<td>34, 18.1%</td>
<td>62, 33.0%</td>
<td>24, 12.8%</td>
</tr>
<tr>
<td>The number of corruption cases have not reduced in Local Authorities</td>
<td>10, 5.3%</td>
<td>62, 33.0%</td>
<td>31, 16.5%</td>
<td>51, 27.1%</td>
<td>34, 18.1%</td>
</tr>
<tr>
<td>The LA does encourage frequent community participation in decision making and setting agenda for development</td>
<td>15, 8.0%</td>
<td>72, 38.3%</td>
<td>35, 18.6%</td>
<td>38, 20.2%</td>
<td>28, 14.9%</td>
</tr>
</tbody>
</table>
4.3.7 Rating the Corporate Governance Practices in the Local Authority

Results in figure 5 revealed that a majority of more than half (61%) of respondents in the officer’s category rated the corporate governance practices of Local Authorities poorly. Meanwhile, a further 39% rated the corporate governance practices of Local Authorities positively. The findings are in agreement with descriptive results which show that Local Authorities have poor governance practices.

Figure 5: Rating the Corporate Governance Practices in the Local Authority

Local Authority officers were also asked to explain why they rated corporate governance practices poorly. Those officers who rated corporate governance practices poorly explained that:

“A few people sitting and passing resolution which are detrimental to the welfare of the council”, “No good governance.”, “Because it has bad leadership and no transparency.”, “It’s poor because still, corruption is highly practiced.”, “Local Authority has embraced culture of impunity for a longtime. And they don’t normally involve community members when setting agenda for development. They come with their own agenda.”, “They are always harsh to their customers.”, “Highly Politicized”, “Governance is dependent mainly on self interest”, “there is poor leadership”, “there is no transparency in all departments”, “a lot of political interference”, “and there is no transparency and accountability.”

The Local Authority officers were requested to suggest recommendations for improvement of Local Authorities’ corporate governance practices. Some of the suggested recommendations included:

“The Local Authorities should fully allow community participation in its development programmes”, “I should recommend public private partnership”, “Involve more stakeholders to participate.”, “Civic participation is required in all activities”, “Proper Accountability should be adhered to.”, “To have good leadership management and to be transparent and accountable.”, ”Let the communities set their own agenda for development, because they are the one that knows what problem they are encountering.”, “Proper Utilization of Funds, Shun Corruption related Practices and Engage the Community/ Stakeholders in Service Delivery”.
Content analysis indicates that suggested recommendations for improvements of corporate management practices include; elimination of corruption, reduction of political interference by overhauling Local Government Act Cap. 265 to reduce the powers of the Civic Leaders devolve structures; clearly define boundaries between political and administrative wings, Civic participation in all activities, among others.

4.3.8 Customers’ Opinion on Whether Financial Distress Could Be Attributed To Poor Corporate Governance Practices

Customers were also requested to give an opinion on whether poor governance practices such as lack of accountability, transparency, corruption, failure to adhere to service delivery charter contributed to the financial distress of Local Authorities. Results in figure 4.12 indicate that a majority of more than half (59%) of customers agreed while a further 34% strongly agreed, bringing to an overwhelming majority (93%) of those customers who generally agreed with the statement that poor governance practices such as lack of accountability, transparency, corruption, failure to adhere to service delivery charter contributed to the financial challenges facing Local Authorities. Meanwhile, (1%) neither agreed nor disagreed with the statement while a further (6%) generally agreed with the statement.

The results are consistent with those by O’Toole (2005) which concluded that poor corporate governance contributes to financial distress of local authorities.

![Figure 6: Customers’ Opinion on Corporate Governance Practices](image-url)
4.3.2.9: Relationship between Corporate Governance Practices and Financial Distress

Regression analysis was conducted to empirically determine whether corporate governance practices were a significant determinant of financial distress in Local Authorities. Regression results in Table 4.9 indicate the goodness of fit for the regression between corporate governance practices and financial distress is unsatisfactory. An R squared of 0.441 indicates that (44.1%) of the variances in the financial distress are explained by the variances in the corporate governance practices.

As indicated in Table 3 the relationship between corporate governance practices and financial distress is negative and significant (b1=-0.703, p value, 0.000). This implies that an increase in the effectiveness of corporate governance practices by 1 unit leads to a decrease in financial distress by 0.703 units.

Therefore, the results reveal that the null hypothesis which stated that “corporate governance practices do not have a significant contribution to financial distress facing Local Authorities in Kenya” is rejected at the critical value of 0.05 since the reported p value is 0.000. The alternative hypothesis which states that “corporate governance practices have a significant contribution to financial distress facing Local Authorities in Kenya” is accepted. 

The regression equation is as follows:

Table 3: Model Summary and Parameter Estimates

<table>
<thead>
<tr>
<th>Coefficient</th>
<th>R Square</th>
<th>Constant</th>
<th>b1</th>
</tr>
</thead>
<tbody>
<tr>
<td>Coefficient</td>
<td>0.441</td>
<td>19.388</td>
<td>-0.703</td>
</tr>
<tr>
<td>P Value</td>
<td>(0.000)</td>
<td>(0.000)</td>
<td></td>
</tr>
</tbody>
</table>

The overall model significance was presented in Table 4. An F statistic of 146.979 indicated that the overall model was significant. This was supported by a probability value of 0.000. The reported probability of 0.000 is less than the conventional probability of 0.05. The probability of 0.000 indicated that there was a very low probability that the statement “overall model was insignificant” was true and it was therefore possible to conclude that the statement was untrue.

Table 4: ANOVA for Corporate Governance Practices.

<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>1523.386</td>
<td>1</td>
<td>1523.386</td>
<td>146.979</td>
<td>.000</td>
</tr>
<tr>
<td>Residual</td>
<td>1927.819</td>
<td>186</td>
<td>10.365</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>3451.205</td>
<td>187</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Descriptive statistics in Table 5 indicate that highly distressed Local Authorities had a mean score of 8.42 on corporate governance practices. Moderately distressed Local Authorities have a mean
score of 11.21 on corporate governance practices while lowly distressed Local Authorities have the highest mean score for corporate governance practices (14.83).

Table 5: Descriptive for Corporate Governance Practices

<table>
<thead>
<tr>
<th>Category</th>
<th>N</th>
<th>Mean</th>
<th>Std. Deviation</th>
<th>Std. Error</th>
<th>Lower Bound</th>
<th>Upper Bound</th>
<th>Minimum</th>
<th>Maximum</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lowly Distressed</td>
<td>61</td>
<td>14.83</td>
<td>3.219</td>
<td>.412</td>
<td>14.01</td>
<td>15.66</td>
<td>8</td>
<td>21</td>
</tr>
<tr>
<td>Moderately Distressed</td>
<td>64</td>
<td>11.21</td>
<td>2.540</td>
<td>.318</td>
<td>10.58</td>
<td>11.85</td>
<td>6</td>
<td>18</td>
</tr>
<tr>
<td>Highly Distressed</td>
<td>63</td>
<td>8.42</td>
<td>3.529</td>
<td>.445</td>
<td>7.53</td>
<td>9.31</td>
<td>1</td>
<td>17</td>
</tr>
<tr>
<td>Total</td>
<td>188</td>
<td>11.45</td>
<td>4.058</td>
<td>.296</td>
<td>10.87</td>
<td>12.04</td>
<td>1</td>
<td>21</td>
</tr>
</tbody>
</table>

Analysis of Variance (ANOVA) results in table 6 revealed that there exists a significant difference in corporate governance practices between the three categories of financially distressed Local Authorities (F=65.706, P value=0.000). This further implies that the effectiveness of quality governance procedures influences the financial distress of local authorities.
Table 6: ANOVA between Groups for Corporate Governance Practices

<table>
<thead>
<tr>
<th>Sum of Squares</th>
<th>df</th>
<th>Mean Square</th>
<th>F</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Between Groups</td>
<td>1278.854</td>
<td>2</td>
<td>639.427</td>
<td>65.706</td>
</tr>
<tr>
<td>Within Groups</td>
<td>1800.347</td>
<td>185</td>
<td>9.732</td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>3079.200</td>
<td>187</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Multiple comparisons were done using post hoc test. Multiple comparison results in table 7 indicated that there were significant differences in the effectiveness of corporate governance practices across the three categories of locally distressed Local Authorities. The difference in mean score of corporate governance practices between lowly distressed and moderately distressed local authorities was significant (p value =0.000).

The difference in mean score of corporate governance practices between lowly distressed and highly distressed local authorities was significant (p value =0.000). The difference in mean score of corporate governance practices between moderately distressed and highly distressed local authorities was significant (p value =0.000). The findings imply that corporate governance practices contribute to financial distress.

Table 7: Multiple Comparisons

<table>
<thead>
<tr>
<th>(I) Distress Category</th>
<th>(J) Distress Category</th>
<th>Mean Difference (I-J)</th>
<th>Std. Error</th>
<th>Sig.</th>
<th>95% Confidence Interval</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lowly Distressed</td>
<td>Moderately Distressed</td>
<td>3.617*</td>
<td>.558</td>
<td>.000</td>
<td>2.52 - 4.72</td>
</tr>
<tr>
<td></td>
<td>Highly Distressed</td>
<td>6.410*</td>
<td>.560</td>
<td>.000</td>
<td>5.30 - 7.52</td>
</tr>
<tr>
<td>Moderately Distressed</td>
<td>Lowly Distressed</td>
<td>-3.617*</td>
<td>.558</td>
<td>.000</td>
<td>-4.72 - -2.52</td>
</tr>
<tr>
<td></td>
<td>Highly Distressed</td>
<td>2.793*</td>
<td>.554</td>
<td>.000</td>
<td>1.70 - 3.88</td>
</tr>
<tr>
<td>Highly Distressed</td>
<td>Lowly Distressed</td>
<td>-6.410*</td>
<td>.560</td>
<td>.000</td>
<td>-7.52 - -5.30</td>
</tr>
<tr>
<td></td>
<td>Moderately Distressed</td>
<td>-2.793*</td>
<td>.554</td>
<td>.000</td>
<td>-3.88 - -1.70</td>
</tr>
</tbody>
</table>

* The mean difference is significant at the 0.05 level.

The results from the descriptive statistics, regression analysis and Analysis of Variance (ANOVA), indicate that corporate governance practices are a significant determinant of financial distress in Local Authorities.
5.0 CONCLUSIONS AND RECOMMENDATIONS

5.1 Conclusions

The study concludes that corporate governance practices of Local Authorities are ineffective. Poor corporate governance practices may have contributed to financial distress of Local Authorities. Highly distressed local authorities have poor ratings on corporate governance practices compared to moderately and lowly distressed local authorities. The study concludes that the relationship between corporate governance practices and financial distress is negative and significant.

5.2 Recommendations

The studies recommended that there should be clearly defined boundaries between political and administrative wings and minimize interference by politicians in the implementation of policies and the recruitment of bureaucrats to ensure efficiency and effectiveness. The culture of kickbacks and corruption should be eliminated through a cultural and mind set change.

REFERENCES


Wanjohi, N. G. (2003). Modern Local Government in Kenya, (KAS) and (ADEC), Nairobi