ISSN 2348-3156 (Print)
International Journal of Social Science and Humanities Research ISSN 2348-3164 (online)
Vol. 7, Issue 2, pp: (829-836), Month: April - June 2019, Available at: www.researchpublish.com

INFLUENCE OF CORPORATE GOVERNANCE ON COMPETITIVENESS AMONG RETAIL SUPERMARKETS IN KENYA

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Abstract*: The Main objective of this study was to determine the influence of corporate governance on competitiveness among the retail supermarkets in Nairobi, Kenya. Census survey was used to collect data from the respondents. Census was used as the target population of middle level managers; junior level managers and senior level managers. The total target population was 90. A total of 71 respondents were used as the sample size for the study. Primary and secondary data were used. While self-administered questionnaires and interview guides were used to collect primary data, the study reviewed the previous evaluation reports to seek the secondary data on competitiveness. The study used two regression models. The results of this study are to benefit policy makers, managers, administrators, entrepreneurs, consultants, scholars and trainers involved in strategic management. This study tested the null hypotheses that corporate governance has no significant influence on the competitiveness of retail supermarkets in Nairobi Kenya. The questionnaire was tested for validity and reliability. Quantitative and qualitative techniques were used to analyze the collected data with the assistance of Statistical Package for Social Sciences (SPSS) software. The study findings suggest that corporate government significantly contributes to supermarket competitiveness in Kenya. The study recommends that supermarkets should seek to increase geographical expansion as it holds significant benefits in competitive advantages; the government and other supermarket developmental organizations should formulate corporate governance standards and principles that are exclusive to supermarkets in order to improve compliance.

***Keywords:* Corporate Governance, Competitiveness, Competitive Advantage, Retail Supermarkets.**

1. INTRODUCTION

Competitiveness is a complex concept, long debated in the worldwide specialised literature. There are notable many ways in which there is defined competitiveness of the company, but no definition is universally accepted. Being inseparable from the notion of competition, the concept expresses at general level, the ability of individuals, companies, economies, regions, etc. to remain in the internal and/or international competition and to obtain economic benefits from it (Manole, 2014). The present-day organisations are faced with a new, more demanding business environment, which is often described as unstable, volatile, hostile, and for the following reasons unpredictable or even chaotic. New technological and market opportunities are rising from the development of science, technology and international markets, i.e. processes outside of a particular organisation. In such a situation is highlighted the importance of the organisation's power to gain and maintain a competitive advantage in the long term and the aspiration to gain competitive advantage is not possible without adequate environmental strategy (Korsakiene, 2012).

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Retailing can be defined as the sale of goods or merchandise from a fixed location, outlet, and department store or kiosk for direct consumption by the buyer who may be individuals or commerce. These may be located in the residential areas, central business district or shopping malls. Supermarkets have been defined by different authors in various ways. According to the dictionary of business and finance, a supermarket is defined as a large store selling a wide variety of consumer goods, particularly food and a collection of household requirements. Many supermarkets have grown rapidly in recent years by adopting aggressive strategies to attract customers mainly due to emergence of new supermarket formats and intense competition between supermarkets. In Kenya's Vision 2030, the retail sector is identified as one of the critical player in achieving the required rate of growth to drive significant increase in the countries investment. The success of supermarkets is thus of great concern to the sector's stakeholders. In the last few years, some supermarkets have collapsed in Kenya: this has been to the utter disappointment of their stakeholders. It is of utmost importance that supermarkets achieve high levels of sustainability.

In the last two decades, attention toward issues related to corporate governance has been increasing as a result of a series of financial and economic events occurring around the world. In this regard, high profile financial scandals, financial crisis, and unexpected corporate failure have driven countries to strengthen their corporate laws (Solomon, 2010). Corporate governance is the broad term describing the processes, customs, policies, and laws and institutions that directs the organisations and corporations in the way they act, administer and control their operations. It works to achieve the goal of the organisation and manages the relationship among the stakeholders including the board of directors and the shareholders. It also deals with the accountability of the individuals through a mechanism which reduces the principal-agent problem in the organisation. Fine corporate governance is an essential standard for establishing the striking investment environment which is needed by competitive companies to gain strong position in efficient markets (Khan, 2011)

However, corporate governance has often remained erroneously linked with the red tape barriers and agency problems that are left to large firms. It is an issue that has been completely divorced from especially the retail supermarket sector, owing to the absence of the agency problem because the owners of these firms are the directors and managers and assume many other duties within the firm (Bates, 2013). In reality, as argued by Bates (2013), corporate governance in its practical application is an important key, which unlocks the true value of a business regardless of the firm size. In other words, corporate governance can shift the retail supermarket from a survivalist entity incapable of growing past the abilities of its owners, to being an enterprise with factual and sustainable growth through improved competitiveness, firm performance and value (Bates, 2013). As such, the present-day global world has gradually been apprehensive with the application of corporate governance in retail supermarkets, also owing to the vital developmental roles fulfilled by these retail supermarkets in a number of economies.

2. STATEMENT OF THE PROBLEM

In Kenya, the retail sector is considered as one of the major contributors of the economy by providing income and employment to a significant proportion of the population. The retail sector in Kenya has been going through turbulent times according to a report released by Cytonn Investments (Cytonn weekly, 2017) that looked at the retail sector in Kenya. One of the challenges attributed to the dismal performance in the retail sector in Kenya include increased competition with new entrants such as Carrefour and choppies, and internal challenges facing retailers on financing and supply chain management, especially Nakumatt and Uchumi.

Many researchers have written a lot on factors influencing competitiveness of retail supermarkets in different areas around the world. For example Sakda (2017) conducted a study to examine the external and internal factors influencing the competitiveness of retail supermarkets in Thailand and concluded that firm performance had a positive relationship to the level of business competitiveness. In another study, factors affecting firm competitiveness, Panagiotis (2009) found out that leverage, export activity, location, size and the index for management competence are significantly correlated, as expected, with the economic performance of firms. In another study focusing on US firms, Tailab (2014) showed that debt ratio, higher levels of inventory and growth are negatively related to profitability as measured by return on assets while liquidity and size have a negative impact on profitability. Pervan and Visic's (2014) analysis from the study of the influence of firm size on its business success revealed that firm size and asset turnover have a weak positive influence on firm profitability, while debt ratio has a negative effect on profitability.

Firstly, as noted from above, there seems to be a lot of studies on competitiveness of the retail sector in Kenya in general but little attention focussing on the retail sector especially supermarkets and yet it's a very important sector, hence this study. Secondly, as is clear from the preceding discussion, there is no consensus on the impact of firm specific factors on competitiveness – more studies are needed to identify specific factors to reduce the number of retail firms' mortality rate. This study therefore examined the influence of corporate governance on competitiveness among the retail supermarkets in Nairobi, Kenya. Lastly, given the importance of the retail sector to the Kenyan economy, we cannot afford to relax, there was need to conduct this study in order to develop a deeper understanding of the competitiveness of the retail supermarkets not only to lower the rate of mortality but also for the growth of the economy as a whole.

3. LITERATURE REVIEW

In the last two decades, attention toward issues related to corporate governance has been increasing as a result of a series of financial and economic events occurring around the world. In this regard, high profile financial scandals, financial crisis, and unexpected corporate failure have driven countries to strengthen their corporate laws (Solomon, 2010). Corporate governance is the broad term describing the processes, customs, policies, and laws and institutions that directs the organisations and corporations in the way they act, administer and control their operations. It works to achieve the goal of the organisation and manages the relationship among the stakeholders including the board of directors and the shareholders. It also deals with the accountability of the individuals through a mechanism which reduces the principal-agent problem in the organisation. Fine corporate governance is an essential standard for establishing the striking investment environment which is needed by competitive companies to gain strong position in efficient markets (Khan, 2011)

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From global perspective, corporate governance is still a hot topic among shareholders, regulators and society at large and received increased attention in the past decades (Smolo & Smajic, 2011). This is due to collapsed of big corporations such as Lehman Bros., J.P Morgan, Morgan and Stanley and others, fraudulent activities, several major corporate scandals and long-lasting economic depression that raised the questions on the sustainability of existing governance practices of business firms (Mazudmer, 2013). In Kenya context, corporate governance has also gained prominence in the Kenyan context (Ekadah & Mboya, 2012). This has been caused partly by corporate failure or poor performance of public and private companies (Barako et al., 2006). In Kenya, corporate failures and regulatory initiatives have also placed corporate governance systems under closer scrutiny than ever for instance, CMC Motors and NHIF (Lekaram, 2014). Capital Market steering committee report (2014) explained that in the past few years, there have been a number of corporate governance scandals and boardroom wars among Kenya's retail supermarkets.

Kisirkoi (2017) did a study on strategic factor influencing competitiveness of Commercial banks in Kenya targeting a population of 43 commercial banks in Kenya. The main results of the study were that there was a positive and significant relationship between strategic leadership, strategic planning and strategic adoption of technology, strategic innovativeness, strategic human resource competencies and competiveness of commercial banks in Kenya. In this study, he recommended that commercial banks should endeavour to put in place effective and proactive leadership, strategic planning, adopt up to date technology, embrace innovativeness and ensure they have a knowledgeable, skilful and talented workforce.

Chemengich (2015) conducted a study on determinants of competitiveness of electrical and electronics manufacturing enterprises in Kenya and established that the Kenyan electrical and electronics manufacturing sector was predominantly

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retail based concentrating in the production of the low value-added products and services, attracting low technology and knowledge intensity. Further, the study established the positive and significant effects of technology, innovation and market access in determining the electrical and electronics sector competitiveness.

4. RESEARCH METHODOLOGY

Census survey was used to collect data from the respondents. Census was used as the target population of middle level managers; junior level managers and senior level managers. The total target population was 90. A total of 71 respondents were used as the sample size for the study. Primary and secondary data were used. While self-administered questionnaires and interview guides were used to collect primary data, the study reviewed the previous evaluation reports to seek the secondary data on competitiveness. The study used two regression models. The results of this study are to benefit policy makers, managers, administrators, entrepreneurs, consultants, scholars and trainers involved in strategic management. This study tested the null hypotheses that corporate governance has no significant influence on the competitiveness of retail supermarkets in Nairobi Kenya. The questionnaire was tested for validity and reliability. Quantitative and qualitative techniques were used to analyze the collected data with the assistance of Statistical Package for Social Sciences (SPSS) software.

5. FINDINGS

Table 1: Descriptive Statistics on corporate governance

Statements	N	Mean	Std. Deviation
There exist an audit committee in the supermarket chain	71	4.21	0.411
The company has committee on various areas (e.g IT committee, Investment committee, HR committee)	71	3.44	0.841
The company has documented internal controls policies	71	4.15	0.69
Directors representing the family serve for indefinite number of terms	71	3.42	0.936
The company have a formal or informal succession plan for its current CEO	71	3.7	0.684

The study investigated the corporate governance practices carried out by the supermarket in Nairobi. This was tested through the questions on audit committee, presence of different committee, internal control process, director representation and CEO succession plan. The respondents agreed that there exists an audit committee in the supermarket chain (mean= 4.21) This implied that supermarket are at the forefront of adopting audit committee a corporate governance practices.

The study investigated if the supermarket has different committee. From the findings it was established that the respondents were neutral to the question that the supermarket has committee on various areas (mean = 3.44). This demonstrate that supermarket is yet to embrace the practice of having different committees apart from audit committee. The study results also established that the respondents agreed that the supermarket has documented internal controls policies (mean = 4.15). This implies that the supermarket has strong internal control systems. Additionally, the results indicated that the respondents were neutral to the question, directors representing the family serve for indefinite number of terms (mean = 3.42). These findings show lack of policy on director tenure in most retail supermarkets. Concerning the question on formal or informal succession plan, the findings indicated that respondents agreed that the supermarket chain has a formal or informal succession plan for its current CEO (mean=3.7). This suggests that success planning has been adopted by most retail supermarkets.

The study involved determining the influence of corporate governance on competitiveness of retail supermarkets in Kenya. The study had a response rate of 78.8%. Based on the first objective of the study, the findings revealed that corporate governance is a significant and positive determinant of supermarket competitiveness. However, the study findings showed that corporate governance results to low improvement in supermarket competitiveness in comparison to other strategic factors included in the study. These findings suggest that supermarkets that enhance corporate governance practices experience improvements in their competitiveness, although to a very small degree.

6. CONCLUSION AND RECOMMENDATION

The study findings suggested that corporate governance significantly contributes to supermarket competitiveness in Kenya. This suggests that embracing corporate governance principles results to competitiveness of supermarkets. Corporate governance is increasingly recognized as a key element in attracting investments and increasing the business performance and competitiveness of a company.

The study has also found out that corporate governance positively influences supermarket competitiveness. Based on the findings, the study recommends that the government and other supermarket developmental organisations formulate corporate governance standards and principles that are exclusive to supermarkets in order to improve compliance. This will help create a competitive edge for these Supermarkets, improve their competitiveness and enhance their growth and sustainability in the long run.

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