OWNERSHIP STRUCTURE AND CHIEF EXECUTIVE TURNOVER: EVIDENCE FROM COMPANIES LISTED ON NAIROBI STOCK EXCHANGE

RESEARCH PROJECT BY:

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DECLARATION

This research project is my original work and has not been presented for any degree award in any other University.

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This research paper has been submitted for examination with my approval as the University supervisor.

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DEDICATION

To My Dad John Mwanthi and My Mum Zipporah Mwanthi whose love and constant inspiration has enabled me reach this far.

To My Grand Mother Rael Mwanthi who has been a source of encouragement and blessings to me at her old age.

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ABSTRACT

The purpose of the study was to investigate whether ownership structure affects Chief Executive Turnover of companies quoted in the NSE. The study was motivated by the fact that issues of corporate governance in Kenya have attracted attention of late.

Ownership of shares by chief executive officer (directors) leads to the entrenchment in office where as the presence of block-holders ensures effective monitoring of the CEO performance. The number of year's / tenure of the CEO reduces the turnover of the CEO as this leads to entrenchment.

On the other hand, the presence of foreign investors in the firm and the market returns increase probability of CEO turnover although this was found to be insignificant in Kenyan firms. The increase in the size of the firm reduces probability of CEO turnover, as the expansion would mean the firm is doing well hence the need to maintain the leadership for consistency. The increase of outside board members in the board representation reduces the probability of CEO turnover and is highly insignificant.

CHAPTER ONE

1.0 INTRODUCTION

1.1 Background

Corporate governance refers to the manner in which the power of corporation is exercised in the stewardship of the corporation total portfolio of assets with the objective of maintaining and increasing shareholder value and satisfaction of other shareholders in the context of its corporate mission. Thus corporate governance is concerned with creating a balance between individual and communal goals while encouraging efficient use of resources, accountability in the use of power and stewardship, and as far as possible to align the interest of individuals, corporations and society (Corporate Governance Trust, 1990).

According to Berle and Means (1932) the modern corporation has been characterized by widely dispersed ownership and concentrated control exercised by managers resulting in potential for managerial interest dominating the shareholders interest. Hence this leads to agency problem due to conflict of interests. Mwangi (2004) asserts that agency theory is based on the notion that the delegation of managerial responsibilities by principal (owners) to managers requires the presence of a mechanism that either aligns the interest of principal and agents or monitor the performance of managers to ensure that they use their knowledge and the firm's resources to generate the highest possible return for the principal.

To minimize agency conflict, Fama and Jensen (1983) suggest that the board of directors should exercise control over managers' decision on behalf of the shareholders thereby

monitoring managerial behaviour. Stockholders rely on the internal and external monitoring mechanism to help resolve problems that arise from separation of ownership and control in the modern corporations. Boards of directors and block holders are important internal control mechanisms whereas the takeover market is a major source of external control mechanism (Huson et al, 2001).

The decision to replace a chief executive officer (CEO) is arguably among the most important decisions made by board of directors. It has long-term implications for a firm's investment, operating and financing decisions made by the board of directors. It is expected that changes in internal governance mechanisms and the external control market mechanisms improve the monitoring of managers. These changes should be accompanied by an increase in the likelihood that managers of poorly performing firms being replaced and their successors better representing stockholders interests (Huson et al, 2001). According to Murpy (1992) outgoing CEOs of poorly performing firms threatened by termination make accounting or investment decisions in an attempt to cover up the firms' deteriorating economic health while the incoming CEOs take a bath; that is boosting future earnings by writing off unwanted operations and unprofitable divisions.

The separation of ownership and control that characterizes the corporate firm creates the potential for conflict of interests between shareholders and managers. Managerial ownership may better align the interests of the two groups thus increasing the value of the firm. In addition, increases in managerial ownership may make it more difficult to remove a manager from office (Denis et al, 1997). This is beneficial to shareholders if it encourages managers to invest in firm specific capital whose returns might otherwise be

appropriate if control was transferred to another management team. However, it will be costly to shareholders if it makes it more difficult to remove a manager who is performing poorly, whether due to incompetence or top manager's pursuit of private benefit at shareholders' expense. This negative ownership effect is referred to as managerial entrenchment (DeAglo and DeAglo, 1985).

Denis et al (1997) in their survey done between 1985 and 1988 found that although managerial ownership is beneficial if it better aligns managers interest with those of shareholders, it can also make it more difficult to remove a poorly performing top executive. Morck et al (1988) suggest that managerial ownership is likely to be correlated with relative power of the top executive. External control market influences the internal monitoring process, while greater level of managerial ownership will reduce the effectiveness of internal control mechanism by decreasing the probability of external threat. Other aspects of ownership structure can also have an impact on the effectiveness of internal monitoring efforts such as the role of block-holders in monitoring top managers. McConnell and Serveas (1990) and Morck et al (1988) reports that beyond some ownership ranges, increased managerial ownership is associated with a reduction in a firm's value. In addition, the probability of forced management change is too small to effectively align the interests of managers and shareholders.

Thus, chief executive officer ownership is the primary component of the insider ownership, and the changes of the top executive are on average associated with substantial changes in ownership structure (Denis and Sarin, 1997). A publication by Government of Kenya (2002), provides that there should be a clear separation of the role

and responsibilities of the chairman and chief executive which will ensure a balance of power of authority and provide for checks and balances such that no one individual has unfettered powers of decision making. Where such roles are combined, a rationale for the same should be disclosed to the shareholders in the annual report of the company.

To ensure independence of the board, the Capital Market Authority (CMA) Act further provides that no person who is a chairperson of a public listed company shall hold such a position in more than two public listed companies at any one-time in order to ensure effective participation in the board. The chief executive is responsible for implementing the board's corporate decisions and there should be a clear flow of information between the management and the board in order to facilitate both qualitative evaluation and appraisal of company performance (Government of Kenya, 2002).

The companies listed at the Nairobi Stock Exchange (NSE) represent a small proportion of all companies operating in Kenya. However, these companies can give a clear picture of the Kenyan situation because there are standards and guidelines that the CMA requires them to adhere to, failure to which a company is de-listed.

1.2 Problem statement

The ownership of a firm to some extent determines the manner in which the firm is governed. Issues such as board composition, size, and compensation, as well as institutional compensation determine the relationship between ownership structure of a firm and chief executive turnover. The presence of outside board members will increase the effective monitoring function of the board. However, the amount of incentives paid to the board members may compromise their independence especially where the members are not independent. Even in instances where there is presence of institutional investors, the monitoring mechanism will increase as the likelihood of CEO turnover following a poor performance of the firm.

Coffee (1999) argues that successful governance systems penalize managers of firms with poor stock performance and low cash flows. Paolo (2002) found that when the controlling shareholder sits as top executive of the firm the relationship between turnover and performance becomes even weaker. The level of turnover is also significantly lower when a member of the controlling shareholder sits among the top executives. This weak relationship favors the entrenchment hypothesis, which states that it is possible that the controlling shareholder is entrenched as a top executive against the interest of other shareholders in order to preserve his ability to extract extra benefits (Paolo, 2002).

According to Denis et al (1997) top executive turnover is significantly greater in poorly performing firms with low managerial ownership than poorly performing firms with high managerial ownership. This favors the entrenchment hypothesis. In Kenya, there are few studies, which have been done on ownership structure and firm performance. Olteita

(2002) in his study on ownership and performance of companies listed on the NSE found that the influence of the state as a shareholder, institutional and individual shareholders, to firm's profitability was significant. Thuku (2002) carried a study on ownership and banks financial performance in Kenya and found that institutional ownership and performance in Kenyan banks are independent. Non-government ownership was found to be unrelated to banks' financial performance. Further, listed bank's ownership and bank's financial performance in Kenya was found to be independent.

From studies done on the Kenyan market there is no study which direct links ownership structure and CEO turnover. Besides, no known study has been done in any emerging market to capture the ownership and CEO turnover relationship, notwithstanding the significant linkage between the two. It is also evident that most of the studies in this area have been done in the developed economies. This paper focuses on ownership structure and CEO turnover in Kenya, a developing economy. Samuelson and Nordhaus (1995), define a developing country as one with real per capita income that is low relative to that of industrialized countries like United States, Japan and those in Western Europe. Typically, developing countries have populations with poor health, low level of literacy, poor housing and meager diets.

This research therefore tried to answer the following research questions:

- Does an ownership structure variable for listed companies affect CEO turnover?
- What other factors influence CEO turnover?

1.3 Research objectives

The study satisfies the following specific objectives:

- To establish the relationship between Ownership Structure and Chief Executive Turnover of listed companies, and
- To examine other factors that influences CEO Turnover using a Logit model.

1.4 Importance of the study

This study will benefit the following groups among others

Academic researchers

The study will contribute to the existing body of knowledge in the area of firm ownership structure and chief executive turnover. The findings of the study will also be useful to scholars who may wish to conduct further research in this area.

Management consultants

The study will benefit financial and management consultants who endeavor to advice firms and the government on the impact of chief executive turnover in relation to ownership structure.

Shareholders

This study will enlighten shareholders on issues of corporate governance in the organizations. It will also be important to managers, as it will enlighten them on issues of corporate governance.

Regulators

The study will provide insights on how to regulate and control powerful shareholders in management, so as to safeguard the interests of small shareholders.

CHAPTER TWO

2.0 LITERATURE REVIEW

2.1 Corporate governance

Corporate management succession and corporate control issues attract substantial attention in business communities and academic literature. This is because informational signals sent through turnovers about changes in corporate policies and the replacement may be a value-increasing event that reflects correction of poor performance. The threats of involuntary resignation may provide management with an incentive to align their actions with the interest of shareholders and thus reducing the agency problem.

2.2 Ownership structure hypothesis

The ownership structure hypothesis states that "the entrenchment effect of concentrated insider holders of superior voting stock will cause a discount in value of inferior voting stock relative to what their value would be if they had full voting rights". This hypothesis predicts that insider shareholding of inferior vote stock will lower the discount by lessening their incentive to exploit their inside positions at the expense of the inferior-vote stockholders. Conversely, superior-vote stockholdings by insiders increase the opportunistic incentives and thus the discount will also be increased. (Weston et al, 1997).

Meggison (1988) explored the ownership structure hypothesis and found that managerial shareholding can have both incentive and entrenchment effects. This study found evidence that showed the voting rights premium was directly related to insider holding of superior voting shares and was inversely related to insider holding of restricted voting

shares. This is consistent with ownership hypothesis. Other studies Grossman and Hart (1988); Harris and Raviv (1988a); Morch et al (1998a); and Stulz (1988a) document that when managerial shareholding is large, managers are effectively entrenched in office and it is difficult to discipline them (even through a takeover). Regression analysis showed that the voting rights premium was directly related to insider holding of superior voting shares and inversely related to ownership structure hypothesis (Meggison, 1988).

2.2.1 Ownership structure and top executive changes

According to Olteita (2002) ownership structure can be categorized into two: ownership concentration and ownership mix. Ownership concentration is the degree in which ownership of a firm is concentrated among various categories of owners; while ownership mix refers to the composition of shareholders of the firm. Thus, it includes the state, management, foreign investors, institutional investors and individual investors.

Denis and Denis (1994) report that in the U.S, majority owned firms experience significant lower CEO turnover for a given performance than widely held ones. In addition, they also found that in majority owned firms the controlling shareholder typically sits as top executive of the firm. Paolo (2002) in the entrenchment hypothesis (EH), states that it is possible that the controlling shareholder is entrenched as a top executive against the interests of other shareholders, in order to preserve his ability to extract certain benefits. Hence the higher the fraction of cash flow rights owned by controlling shareholder, the larger the controlling shareholder, the larger the controlling shareholder's incentive to monitor management.

Pagano and Roell (1998) argue from theoretical viewpoint that large minority shareholders play a role in monitoring the controlling shareholder. For the United States of America the probability of top executive turnover is positively correlated to the presence outside of block holder (Denis et al, 1997). This leads us to a second hypothesis called the outside monitoring hypothesis which states that top executive turnover is higher and more sensitive to performance in companies with large minority shareholders and or a voting syndicate (Paolo, 2002).

2.2.2 Ownership structure and probability of CEO turnover

The results of the study by Denis et al (1997) suggest that top executive turnover rates are lower at high level of managerial ownership categories; while there is a distinctive drop at 10% ownership. The annual turnover rate when managerial ownership is between 5% and 10% is 0.081; this rate drops to 0.041 when ownership is between 10% and 15%. In addition turnover rates in all managerial ownership categories above 10% are lower than those in categories representing less than 10% ownership.

Studies on other governance characteristics for different levels of managerial ownership suggest that increased managerial ownership is associated with a lower incidence of outside block ownership, a lower fraction of independent outsiders on the board of directors and a lower fraction of shares held by institutions. Other studies by Morck et al (1988) indicate that the top executive is more likely to be the firm's founder in high ownership firms; but there is no obvious relation between top executive tenure and managerial ownership.

There is a negative relation between the probability of top executive turnover and ownership of officers and directors. Further more, top CEO turnover is positively related to the presence of an outside block holder, but unrelated to the outside board dummy and institutional ownership. Thus, top executive turnover is significantly less likely when the top CEO is a member of the founding family and less likely in large firms (Denis et al 1997).

2.2.3 Ownership structure and relation between turnover and performance

Weisbach (1988) reports a stronger relation between performance and turnover in firms with outsider-dominated boards. There is a strong relation between performance and turnover among Japanese firms with ties to the main banks (Kang and Shivasani, 1994). Denis et al (1997), classified ownership into the following: Less than or equal to 5%, between 5% and 25%, and greater than 25% and tested the influence of managerial ownership on the performance turnover relation. The results obtained suggest that managerial ownership has significant impact on sensitivity of turnover to performance.

The probability of turnover is negatively related to performance when managerial ownership is less than 5%. When managerial ownership is between 5% and 25%, the probability of turnover is significantly less sensitive to performance. Surprisingly, the sensitivity of turnover to performance is no different to the firms with managerial ownership greater than 25% than it is for firms with managerial ownership of less than 5%.

Weisbach (1988) tested the influence of outside block holders on performance-turnover relation. The finding was that the presence of outside block holders increases the

sensitivity of top executive turnover and firm performance which is statistically insignificant.

Finally, the sensitivity of turnover to performance was allowed to simultaneously vary by board composition, managerial ownership and outside block ownership. The results indicated managerial and block ownership has a significant impact on the sensitivity of turnover to performance. The negative relation between turnover and performance is significantly weaker in firms with managerial ownership between 5% and 25% and stronger in firms with an outside block holder. Turnover is significantly less likely in firms with higher managerial ownership.

Conditional on poor performance, the probability of turnover is substantially lower in firms with managers controlling more than 5% of the firms' shares. This is due to the unconditional turnover rates for high ownership firms and differences in sensitivities of turnover in poorly performing firms is 1.6 times more for firms with outside block holder than for firms without outside block holders.

A study done in Italy by Paolo (2002) found that there was a negative and significant relationship between turnover and performance according to either performance measures only for family- controlled firms. It is interesting to note that in bank controlled firms turnover is significantly higher after a good performance; otherwise for troubled companies the replacement of management could be a positive signal that liquidation can be avoided and firms can emerge from such re-organization.

2.2.4 Top executive turnover managerial ownership and corporate control activity.

According to outside monitoring hypothesis, turnover should be more sensitive to performance when the company has large minority shareholders. However, the presence of a large minority shareholder does not increase sensitivity of turnover to performance when the company has large minority shareholders (Paolo, 2002). This indicates that minority shareholders have the power to play a governance role only when control is not locked in the hands of controlling shareholders.

The overall findings by Denis et al (1997) are consistent with the hypothesis that higher equity ownership partially insulates managers from internal monitoring efforts. Hirsheifer and Thakor (1994) predict that top CEO's turnover will increase following takeover bids because this signals poor management quality. If external control threats influence the internal control process, and if high managerial ownership reduces the probability of receiving a takeover bid, higher managerial ownership will reduce the effectiveness of internal monitoring efforts.

To test this hypothesis the study examined the frequency of corporate control activity over the twelve months preceding each top executive change and compared this frequency to that of a control set of firms experiencing non-top executive turnover over the same period. Corporate control activities such as Block purchases, Takeover threats and Formal acquisitions offers etc, were identified through a search of the Wall Street Journal Index. Denis et al (1997) examined 933 of the 1,394 sample firms over the 1985–1988 periods. They reported corporate control frequencies for those firms that decrease

diversification, those that increase diversification and those with change in diversification. The results indicate that firms that experience top executive turnover are targets of external corporate control activity than are firms with no top executive turnover. 29% of the firms with top executive turnover experience some form of corporate control activity in the twelve months preceding top executive change.

All in all managerial ownership categorizes the frequency of hostile control activity in at least twice as high in firms subsequently experiencing top executives turnover as it is in firms with no turnover. These findings support the preposition that external takeover threats are associated with subsequent internal monitoring. It was noted that, top executive turnover rates are low and less sensitive to firm performance when managerial ownership is high. It appears that in some cases an external control threat is needed to precipitate a top CEO's change (Denis et al, 1997).

Recent evidence by Denis and Serrano (1996) suggests that additional monitoring by active investors during and following takeover contest is often responsible for the dismissal of top executives. This finding is similar to Denis et al (1997) that reduction in the effectiveness of external control mechanisms is accompanied by a decline in internal monitoring effectiveness.

Other factors related to the fact that top executive turnovers are less sensitive to performance at higher managerial level. If firm specific capital is correlated with managerial ownership, turnover may be more likely in low ownership firms because the supply of individuals capable of managing the firm is greater. Thus, it may be therefore attributable to firm-specific capital rather than insulation from internal monitoring.

Second explanation for the findings is that because of the incentive effects of direct ownership, managers with high ownership are less likely to require disciplining following a year of poor performance. Hence, the likelihood of turnover is less sensitive to performance in these firms. However, two other findings make this alternative seem less plausible. The findings hold when performance is measured over two prior years, suggesting that poor performance is not quickly self-correcting in high ownership firms. In addition, the market responds favorably to the announcement of a top executive change particularly in firms with managerial ownership between 5% and 25%. Thus, the findings suggest that high ownership firms were performing poorly before the top executive changed and that the market viewed the top executive change as on average, a value-increasing event.

There is a possibility that managerial ownership accumulates with prior good performance, if boards update their views concerning managerial ability based on observable measures of firm performance, it is then plausible that the sensitivity of turnover to performance will be lower in firms that have performed well in prior periods. Thus turnover is less sensitive to performance when managers own between 5% and 25% of the firm's shares; this is not a spurious byproduct of accumulation of shares in firms that perform well. Although there are alternative explanations for the findings, the weight of evidence seems to support the hypothesis that higher managerial ownership partially insulates managers from the discipline of internal monitoring mechanisms. The results provide direct support for the hypothesis that managers become entrenched at higher ownership levels.

2.3 Institutional ownership and activism

The relative size of institutional investor's equity holding suggest that this group of investors both have the incentive and the position to exercise corporate control and solve corporate governance issues. Since large shareholders may perform such functions, Management compensation and board monitoring can be interrelated factors that affect management turnovers.

As Huson et al (2001) puts it, the presence of institutional investors in the equity markets and their holding in individual firms has increased, and the role of many institutional investors has developed from one of a passive stockholder activist. The most vocal institutional investors, the public pension funds, began to actively pressure companies through sponsoring of proxy proposals, negotiations with the firm's management and public targeting poorly performing firms in the 1980`s. A study done by Black (1988), Gillan et al (1998), and Karpoff et al (1999) discuss institutional investor activism and the evidence of improvement in long term stock market or operating performance following institutional activism.

The presence of institutional investors could be interpreted as a proxy for the lack of other investors, which is an ownership structure dominated by institutional investors that could reflect the absence of an entrepreneur family owner or foundation. There is also evidence that firms change their governance structures and their real activities after being targeted by institutional investors, (Huson, 1997). Thus if firms changed their governance structures, CEO turnover may also be influenced by increased activism, since the choice of which firms to monitor is typically based on prior performance. Huson (1997) suggests

that, the increase in institutional ownership and activism implies a stronger performance–CEO turnover relation in the period of their study.

2.4 Board compositions and size

Fama and Jensen (1983) argue that outside directors tend to be more effective monitors of management than inside directors; this is because they are generally key decision makers at other organizations who are concerned with their reputation in managerial labour market.

Weisbach (1988) asserts that inside directors are less likely to be effective monitors because it can be costly to them to challenge the CEOs to whom their careers are tied. This is especially in cases were the CEO can promote or appoint board members. Brorokhovich et al (1996) suggest that outside directors are also more likely to replace a fired CEO with an executive from outside the firm. Successors from outside the firm are more willing to break with the failed policies of their predecessors. As documented by Huson et al (2001) in 1978, an effort to increase the independence of outside directors in their information gathering and decision making functions, the New York Exchange began to require that the listed firms have audit committees composed entirely of outside directors.

If outside directors are more likely than inside directors to replace a poorly performing CEO and to appoint an executive from outside the firm, then the increase in outside director representation and extent of their monitoring role should be accompanied by increase in strength of the negative relation between firm performance and CEO turnover and in frequency of outside succession (Huson et al, 2001). According to Yermach

(1996) a more streamlined board can operate more efficiently and thus monitor more efficiently. This argument suggests that a reduction in board size would also be expected to strengthen relation between firm performance and CEO turnover.

2. 5 Board compensation

Perry (1988) reports evidence indicating that CEO turnover is influenced by payment of incentives compensation to directors. The likelihood of CEO turnover following poor stock performance is significantly greater when directors of independent boards receive incentive compensation than when they do not. Pear Meyer & partners (1996) argues that stock based compensation paid to outside directors at the 200 largest industrial and service corporations increased from 2 percent to 22 percent of directors' total pay between 1985 and 1995. Stock or option grants are likely to complement the managerial labour market in providing outside directors with incentives to represent stockholders' interests.

2.6 Chief Executive Officer turnover

The changes in top executive turnover can be attributed to any of the following factors.

Restructuring due to mergers

A research conducted by Drake Beam Morin (2002) found that mergers and acquisition reached record levels globally in the second half of 1990`s. This contributed to the increase in CEO departures over the past decade.

Declining stock prices

Drake Beam Morin (2002) found that CEO departures are also linked to declining stock prices. Nearly 15% of companies whose stock performance declined between 40 to 100 percent in a 12-month period experienced a departure of their CEO.

Forced lay offs/ Resignation

This may happen where there is mutual agreement between the CEO and executive board. In other instances there is an announcement of a sudden resignation in which the CEO leaves the firm immediately. According to Warner et al (1988) forced resignations are those changes whose reported reason is to pursue other interests, take a position outside the firm, policy differences and those changes for which no reason is given.

Retirement

This happens when the CEO attains a certain age as stipulated by the company Act. Another factor related to succession plan is where a CEO leaves after serving a certain period of time. Related to the succession are other factors such as illness where a CEO cannot carry out normal activates due to ill health. Death also affects tenure of the CEO although this is beyond human control. A study done by Exame Magazine (2002) found that 28% of CEO turnover was due to retirement, 47% was due to mergers, acquisition, and 24% attributed to dismissal and resignation.

2.6.1 Share price movement around CEO Turnover

It is commonly assumed that a CEO is removed due to poor performance; hence, a positive share price response is expected. However, a study by Warner et al (1988),

documents no significant market responses to announcement of CEO turnovers. The study on the contrary confirmed an increase in variance at the day of the announcement. An interesting observation from cumulative abnormal returns for all event windows in their study is that voluntary resignations and forced layoffs experience negative and positive share price movements respectively.

Husdon et al (1988) found similar results that cumulative average returns around turnovers moved significantly for the period the study was done between 1989 to1994. The study found positive and significant stock price movements for forced layoffs and negative and significant stock price movements for voluntary resignations. The share price movement is positive when an outside succession follows a forced layoff while an inside succession leads to negative share price movement (Parrino and Trapani, 1996).

2.7 Possible effects of difference in ownership structure

There are various attributes of equity ownership structure that can have an important influence on the incidence of CEO turnover.

2.7.1 Managerial ownership

According to Denis et al (1997), equity ownership insulates management in two ways:

- Managerial ownership is likely to be correlated with the power of the top executive, either through the voting control associated with equity ownership or through the voting control associated with equity ownership and other conducive to managerial entrenchment such as status of the firms founder, employment of fewer professional

managers, greater inside board representation and other non quantifiable measures of power.

- Managerial ownership may exhibit the external corporate control market and in so doing reduce the effectiveness of internal monitoring efforts.

Hirshleifer and Thakor (1994) suggest that takeover bids convey adverse information passed by the bidder about managerial performance and that the board of directors aggregates this information with its own information. Thus, an active control market makes even a board that is aligned with the shareholder interest more effective. Denis and Serrano (1996) suggest that external control activity facilitates internal monitoring efforts by increasing monitoring by active investors during the course of and following takeover contest.

If managerial ownership of equity reduces the effectiveness of internal monitoring mechanism, we expect top executive turnover to be less likely in poorly performing firms with high ownership. However, empirical studies done finds no evidence that large top executive shareholding reduce the probability of turnover than do a control sample of diffusely held firms.

2.7.2 Block holder and institutional ownership

The presence of block holders or Institutions that own non-trivial amounts of firms' equity or both may reduce the degree of entrenchment associated with a given managerial ownership (Denis et al, 1997). The evidence on the effects of block holders and institutional ownership on a firm's value is mixed. Mikkleson and Ruback (1985) document positive abnormal returns following the announcement of acquisition of 5% or

greater stake in one firm by another. However, this abnormal return is eventually dissipated if the target firm is not taken over or if the acquired shares are not sold on the market.

Consistent with greater monitoring by institutional investors, Brickley et al (1988) find there is empirical evidence that a positive relationship exists between institutional holdings and the percentage of votes cast against the management-sponsored anti-takeovers amendments. Thus large shareholding by parties not affiliated with management reduces the degree of managerial entrenchment associated with a given level of managerial ownership.

2.8 Kenyan perspective

A study by Jebet (2001) in corporate governance found that share ownership of companies is not widely dispersed except in one company where shareholders were able to elect their representatives to the board of directors by virtue of their voting rights. These majority shareholders were able to monitor management and ensure they act in their best interest through their representation on the board. The study found however it was difficult for minority shareholders to elect their own representative to the boards.

All the companies sampled had a separate leadership structure in that different individuals held the position of chairman of the board and that of the chief executive or managing director. This supports the provisions by the CMA however the independence of boards could not be established, as there was no indicator as to which of the directors were executive and which were non-executive. This study however did not address the ownership structure of the firms and how it influences the chief executives turnover.

CHAPTER THREE

3.0 RESEARCH METHODOLOGY

3.1 Research design

The study investigated whether any significant relationship between Ownership Structure and Chief Executive Turnover existed. The study undertook an empirical approach to examine this relationship and focused on firms quoted on the Nairobi Stock Exchange in the period of one year in 2003, using the register of corporations, directors and executive register. In this study, the CEO was defined as the firm's top executive or chairperson of the board.

3.2 Population and sample

The population sample for this study comprised of firms quoted at the Nairobi Stock Exchange as at 31 December 2003. Any firm, which was not actively traded and did not file returns, was excluded from the study. The remaining Companies formed the sample for the study.

3.3 Sources of data

The study used secondary data. Data regarding Ownership structure was obtained from the Nairobi Stock Exchange (NSE).Since all firms listed on NSE to file returns showing their ownership structure.

Data regarding Chief Executive Turnover was obtained from annual reports and the NSE handbook. Other relevant data was collected mainly from existing records of the firms such as published financial statements, management accounts, executive register, register

of corporations, Nairobi stock exchange publications, local news papers, and marketing intelligence.

3.4 Period of study

The period of study was the year 2003. The Variable in all the firms sampled compared in cross sectional manner and the study.

3.5 Method of data analysis

The study was set out to establish whether there was any relationship between ownership structure and Chief Executive Turnover of the companies quoted on the NSE.

Hypothesis

The hypothesis for the study was stated as follows:

Null hypothesis (H_O): There is no significant relationship between Ownership Structure and Chief Executive Turnover rate.

Alternative hypothesis (H_A): There is significant relationship between Ownership Structure and Chief Executive Turnover rate.

The study excluded top executive changes that were due to an acquisition of a firm. In addition, the study eliminated those management changes that were part of normal succession process. According to Denis et al (1997) non-routine top executive changes are defined as all top executive changes except those related to death or illness and those classified as normal retirements. Management change is classified as normal retirement if the stated reason for management change is retirement or normal succession.

The study matched ownership structure and board composition with each of the firm used in the study. Ownership of officers and directors included those shares owned by individuals related to a member of top management team and trusts for which management has voting authority.

The outside block holder was taken as the one that had block not owned by an individual related to a member of the top management team, was not a trust for which managers had some voting authority, was not an employee pension or stock option plan, and was not any other block shares over which a member of top management team had a voting % of the firm shares.

3.5.1 Logit model

Logit log-linear Analysis procedure analyses the relationship between dependent (response) variables and independent or (explanatory) variables. The dependent variables are always categorical, while the independent variable can be categorical. Other independent variables cell covariates can be continuous but they are applied on a case-by–case basis.

Multilinear logit model equation represents the association between a dependent variable, which represents the probability of a particular choice being made, and one or more independent variables (X`s) that reflect attributed of choices and the choice maker. Unlike the linear regression model, the coefficients in choice models are multiplicative on the response.

The choice model equation is made to model as accurately as possible the relationships in the true population in as simple an equation as possible. The regression model is known as a priori not to capture all the structure in the real data and is known to be wrong to some degree. The model represents a convenient way to explain relationships or predict future events given known inputs or value of independent variables (X`s). The indicator variable in the choice model can take a value of 0 or 1. The betas in a logit model are called model coefficients. The coefficient with the variable X_1, β_1 indicates the change in the mean of the probability distribution of 1, the probability that a choice is made per unit increases in the multiplicative exponent of x_1

Basic requirement of logit model

- The response variable must be binomial or result into one of the two outcomes.
- A set of predictors (independent variables) thought to affect the outcome of the binomial outcome.

Inputs of logit regression model.

A binomial outcome variable Y measured on each experiment unit (e.g. 0,1), binomial proportions measured on groups of individuals e.g. (0.45, 0.55) or repeated measurements data, where an experiment has been observed or measured repeated trials (e.g. 0.33, 0.67).

Sample of observation on binomial outcome y for vector of explanatory variable x_1 these can be grouped or individual x`s

Characteristic of the model

- Logistic models can be used to model fundamentally different response variables that are truly binomial such as 0,1 and proportions of data, which are continuous within the interval (0,1). Binomial data are individual level observations on a binomial outcome, where as proportions data could be obtained from grouped data (multiple experimental units observed on the binary outcome variable) or panel data (multiple observations on the same experimental unit over time.)
- Logistic regression model makes use of the logistic transformation given by Log {p/ (1-p)} where p is binomial probability of success. The logistic transformation employed as the response variable in the logistic regression model ensures that the model cannot predict outside the range of (0,1)
- Graphical plots of logistic regression data are only useful for grouped or panel since the predicted response lies in the interval (0, 1) where as the binomial outcome takes 1 or 0 discretely.
- Outliers in the logistic regression are determined by observing too many 0`s or 1`s when the model predicts an extremely low probability of observing this outcome.
- Similar to linear regression, the probability of observing a 0 or 1 is influenced by an exogenous set of predictor variables or x`s.
- Standard statistics such as parameter estimates, standard errors and t- statistics are provided in the modeling of binary outcome data via logistic regression model.

Testing the model.

In logit model there is a statistic similar to R-squared in regression called the pseudo coefficient of determination. This model conveys similar information as R-squared.

$P^2 = 1\text{-}L(\beta`)$ or $P^2 = 1\text{-}L(\beta`)$ where $0 \leq P^2 \geq 1$

A likelihood ratio test similar to the F-test in regression will be used to test the model. The null hypothesis will be restated as all coefficients equal to zero that is $\beta_1 = \beta_2 = \beta k = 0$

The test statistics is $-L(0) - L(\beta)$ is x^2 distributed with k degree of freedom. This will be tested at 95% level of confidence.

The t-statistics is similar to a likelihood ratio test, except it is for a single variable in the model. The t-statistics in theory will give asymptotic results. This means as the sample size approaches infinity; the estimated model coefficients are distributed as t –statistics.

The Logit model has been used by Weisbach (1988) in his study on the Outside and CEO turnover. Other scholars such as Byrd and Hickman (1991), used this model in their respective studies. Denis et al (1997), in their study on ownership structure and CEO turnover used logit model to establish the relationship between Ownership structure and CEO turnover.

The model is stated as follows

$$P(turnover)=\beta_0+\beta_1 FMASR+\beta_2 OWNOD+\beta_3 DUM\text{-}OUTBH+\beta_4 DUM\text{-}OBDM+\beta_5 OWNIN+\beta_6 DUM\text{-}FIH+\beta_7 TRCEO+\beta_8 LogBKVAT+e$$

Where

Independent Variables:

FMASR is the probability of turnover to the firm's market returns (MASR) over the previous calendar year (RETLAG). This is computed as the sample of firm's return computed annually regardless of when during the year the turnover took place.

OWNOD refers to the Ownership of officers and directors. These are shares owned by individuals related to a member of the top management team, trusts for which managers have some voting authority. This is measured as a proportion of shares held by top management and directors of the company to the total shares outstanding.

DUM-OUTBH is a Dummy that takes on the value one if a firm has outside block holder. Outside block holder is defined as those holders of at least 5% of firm's shares that are not related to the top management team and do not own shares over which managers have some voting authority (Denis et al, 1997). The study based this variable on outside block holders, which held at least 1% of firm's shares in the companies listed on the NSE

DUM-OBDM refers to the proportion of the number of outside board members as a proportion of the total board members. It is a Dummy variable that takes a value of one if

the fraction of outside board members is ≥0.6. Recent studies have suggested that internal monitoring is improved by having a higher fraction of independent outside directors.

OWNI denotes Ownership of institution. This was tested as the number of shares held by institutions as a proportion of total shares of the firm

TRCEO is the tenure of top executive. There are other variables that may be related to effectiveness of internal control systems. To test for the tenure of top executive, (TRCEO) the study examined the number of years the top executive has held the position five years before the period of the study.

DUM-FIH is the presence of foreign institutional holding in the firm. The study used the proportion of shares held by foreign institution as a proportion of total shares held by the firm.

LOG BKVA is the log of book value of total assets of the firm. It proxies for the possible size effects on the probability of CEO turnover as large firms may tend to have better monitoring mechanism of the top executive officers compared to small ones.

Dependent variable

P (turnover) is the probability of turnover, a dummy variable that takes on the value of one if turnover, takes place.

This study will use the Logit model analysis using the STAT statistical package. A likelihood test similar to the F- test in regression will be done. A t-test will be done which is similar to likelihood ratio test.

CHAPTER FOUR

4.0 EMPIRICAL RESULTS

4.1 Relationship between CEO turnover and other variables

The correlation matrix in Table 4.1 below shows that chief executive officer (CEO) turnover is negatively correlated with the tenure for the CEO, foreign investor holding ownership, size effect of the firm, institutional investors' ownership, and ownership of managers and directors of the firm. This means that these variables and the CEO turnover tend to move in the opposite direction. However, CEO turnover is positively correlated with the proportion of the outside board membership, firm's market return that traces the share price movement and outside block-holding ownership; hence, move in the same direction.

Table 4.1 Correlation Matrix

	dumceotover	Tceo	Fih	logbkva	dumbdm	Owni	dumownod	fmars	ob
dumceotover	1.0000								
Tceo	-0.6110	1.0000							
Fih	-0.0196	-0.1518	1.0000						
Logbkva	-0.0231	-0.1212	0.1416	1.0000					
dumbdm	0.1104	-0.2538	-0.0642	0.0278	1.0000				
Owni	-0.0026	0.1602	-0.8089	-0.1583	-0.0650	1.0000			
Dumownod	-0.1104	-0.0584	0.8329	0.1756	-0.1165	-0.6607	1.0000		
Fmars	0.1526	-0.1749	0.0201	0.2889	-0.0245	-0.0968	0.0572	1.0000	
obhown	0.1659	-0.1422	0.2934	-0.0937	-0.0139	0.0165	0.2285	-0.0330	1.

4.2 Diagnostic tests (goodness of fit test)

Before the estimation of the logit model was carried out, it was tested whether the model fits the data correctly using Hosmer-Lemeshow (HL) test statistic. The test groups observations on the basis of predicted probability. The idea underlying the test is to compare fitted expected values to the actual values by group. If those differences are large, the model is rejected as providing an insufficient fit to the data. The HL Chi-square

test results of the models against the null that the models fit the data cannot be rejected decisively and therefore the models fit the data correctly. The results of the test are shown in Table 4.2.

Table 4.2 Goodness of Fit, Test Results

```
Logistic model for dumceotover, goodness-of-fit test
(Table collapsed on quartiles of estimated probabilities)

       number of observations =       47
            number of groups =       10
      Hosmer-Lemeshow chi2(8) =     4.44
                  Prob > chi2 =     0.8152
```

```
Logistic model for dumceotover, goodness-of-fit test
(Table collapsed on quartiles of estimated probabilities)
```

Group	Prob	Obs 1	Exp 1	Obs 0	Exp 0	Total
1	0.0017	0	0.0	5	5.0	5
2	0.0058	0	0.0	5	5.0	5
3	0.0126	0	0.0	5	5.0	5
4	0.0211	0	0.1	4	3.9	4
5	0.0393	0	0.2	5	4.8	5
6	0.0781	1	0.3	4	4.7	5
7	0.2296	1	0.7	3	3.3	4
8	0.4645	2	2.0	3	3.0	5
9	0.7440	2	3.2	3	1.8	5
10	0.9663	4	3.5	0	0.5	4

```
       number of observations =       47
            number of groups =       10
      Hosmer-Lemeshow chi2(8) =     4.44
                  Prob > chi2 =     0.8152
```

Heteroskedasticity in the logit model was corrected using the robust standard errors and multicollinearity is not a serious problem in this model.

4.3 Estimation results

The estimation was carried out using the Maximum Likelihood (ML) method and the estimation results of the logit model specification are presented in section 4.3.1. The ML method was used because of the nonlinear relationship and the ML estimates had desirable asymptotic properties of consistency, normality, and efficiency. The logit link was used because from the HL statistic results, it fitted the data correctly. Interpretation

of the results was done in terms of the odds ratio and the marginal effects as presented in subsections 4.3.2 and 4.3.3, respectively.

4.3.1 Logit estimate results with a constant term

The logit estimates for the model are shown in Table 4.3a.

Table 4.3a Logit Estimate Results with a Constant Term

```
logit dumceotover tceo fih logbkva owni fmars obhown dumbdm dumownod, robust

Logit estimates                                   Number of obs   =         47
                                                  Wald chi2(8)    =      18.73
                                                  Prob > chi2     =     0.0164
Log likelihood = -12.335884                       Pseudo R2       =     0.4929
------------------------------------------------------------------------------
             |               Robust
 dumceotover |      Coef.   Std. Err.      z    P>|z|     [95% Conf. Interval]
-------------+----------------------------------------------------------------
        tceo |  -1.175756   .3639932    -3.23   0.001    -1.889169   -.462342
         fih |   .0235634   .0346831     0.68   0.497    -.0444142   .0915409
       logbkva |  -.5077414   .5312115    -0.96   0.339    -1.548897   .5334139
        owni |  -.0167174   .0386083    -0.43   0.665    -.0923883   .0589534
       fmars |   .6719963   .9021112     0.74   0.456    -1.096109   2.440102
      obhown |   .0465603   .0363338     1.28   0.200    -.0246527   .1177733
      dumbdm |  -.2064812   1.159039    -0.18   0.859    -2.478157   2.065194
    dumownod |  -3.877738   2.571993    -1.51   0.132    -8.918753   1.163276
       _cons |   3.266571   4.901564     0.67   0.505    -6.340319   12.87346
------------------------------------------------------------------------------
```

The estimation results from Table 4.3a show that the coefficient of tenure for CEO is negative and significant at 1% significance level as indicated by the z-statistic and the corresponding p>|z| values; while that of managers and directors ownership though negative is insignificant at 5% significance level. The coefficient of the outside block-holder ownership is positive and insignificant at 5% level of significance. All the other remaining variables are also insignificant at 5% level of significance.

The likelihood ratio test that tests the null hypothesis that all coefficients except the intercept are zero is decisively rejected at 5% level of significance as shown by the Wald Chi-square statistic (prob>chi2=0.0164 is less than 0.05). The pseudo R2 that measures the goodness of fit indicate that the model fits the data very well as indicated by the

pseudo R2 = 0.4929. The robust standard errors indicate that the model was corrected for the likely problems of heteroskedasticity and the coefficient estimates are robust and unbiased. These Maximum, Likelihood estimates from the logit model specification estimates was interpreted in terms of the odds ratio and the marginal effects as illustrated in subsections 4.3.2 and 4.3.3, respectively. This is because no single approach to interpretation can fully describe the relationship between a variable and the outcome probability.

4.3.2 Logit estimate results without a constant term (odds ratio)

The logit estimates without the constant term for the model are shown in Table 4.3b.

Table 4.3b Exponentiated logit estimates without a constant term (odds ratio)

```
logit dumceotover tceo fih logbkva owni fmars obhown dumbdm dumownod, or robust

Logit estimates                                   Number of obs   =         47
                                                  Wald chi2(8)    =      18.73
                                                  Prob > chi2     =     0.0164
Log likelihood = -12.335884                       Pseudo R2       =     0.4929
------------------------------------------------------------------------------
             |               Robust
dumceotover | Odds Ratio   Std. Err.      z    P>|z|     [95% Conf. Interval]
-------------+----------------------------------------------------------------
        tceo |   .3085857   .1123231    -3.23   0.001     .1511974    .6298069
         fih |   1.023843    .03551     0.68   0.497     .9565577    1.095862
     logbkva |   .6018534   .3197114    -0.96   0.339     .2124823    1.704742
        owni |   .9834215   .0379682    -0.43   0.665     .9117511    1.060726
       fmars |   1.958142   1.766462     0.74   0.456     .3341688   11.47421
      obhown |   1.047661   .0380655     1.28   0.200     .9756487    1.124989
      dumbdm |   .8134416   .9428108    -0.18   0.859     .0838977    7.88683
    dumownod |   .0206976    .053234    -1.51   0.132     .0001339    3.2004
------------------------------------------------------------------------------
```

The logit model estimates was also interpreted in terms of the odds ratio. For a unit change in each independent variable, we expect the logit to change by the odds ratio, holding all other independent variables constant. Note from the table that the odds ratio is a multiplicative coefficient, which means that positive effects are greater than one, while negative effects are between 0 and 1. Magnitudes of positive and negative effects should be compared, by taking the inverse of the negative effect (or vice versa). For example, a

positive factor change of 2 has the same magnitude as a negative factor change of 0.5=1/2. Thus, a coefficient of 0.1 indicates a stronger change than a coefficient of 2.

From the table, for additional tenure of CEO, the odds[1] of CEO turnover are decreased by a factor of 0.31, holding all other variables constant. Or equivalently, for additional CEO tenure, the odds of CEO turnover are decreased 69%, holding all other variables constant. Similarly, for additional managers and director's ownership, the odds of CEO turnover are decreased by a factor of 0.02, holding all other variables constant. Or equivalently, for additional managers and director's ownership, the odds of CEO turnover are decreased 98%, holding all other variables constant. Finally, for an increase in outside block-holder ownership, the odds of CEO turnover have increased by a factor of 1.05, holding all other variables constant. Equivalently, an increase in outside block-holder ownership increases the odds of CEO turnover by an extra 5%, holding all other variables constant. The other remaining variables are insignificant. Note that effects of the tenure of CEO and managers and directors ownership are stronger than the effect of the outside block-holder ownership, on the CEO turnover.

4.3.3 Marginal effects from logit estimate results

The marginal effects output that measures the effects a partial change in each independent variable on the probability of CEO turnover occurring holding all other variables constant are shown in Table 4.4.

[1]The odds indicate how often something (e.g. y = 1) happens relative to how often it does not happen (e.g. y = 0).

Table 4.4 Marginal effects output

```
. mfx compute
Marginal effects after logit
      y  = Pr(dumceotover) (predict)
         =  .05247858
------------------------------------------------------------------------------
variable |      dy/dx    Std. Err.      z    P>|z|     [    95% C.I.   ]       X
---------+--------------------------------------------------------------------
    tceo |    -.058464      .03988    -1.47   0.143    -.13662   .019692   3.08511
     fih |    .0011717      .00191     0.61   0.539   -.002568   .004911   29.8453
 logbkva |   -.0252472      .02963    -0.85   0.394   -.083319   .032824   6.45745
    owni |   -.0008313      .00162    -0.51   0.607   -.004003    .00234   45.3467
   fmars |    .0334147      .04606     0.73   0.468   -.056864   .123694   .367143
  obhown |    .0023152      .00224     1.03   0.302   -.002084   .006714   48.2115
  dumbdm*|   -.0104632      .05681    -0.18   0.854   -.121814   .100888   .595745
dumownod*|   -.2043802      .16456    -1.24   0.214   -.526907   .118146   .404255
------------------------------------------------------------------------------
(*) dy/dx is for discrete change of dummy variable from 0 to 1
```

The marginal effects output that measures the effects a partial change in each independent variable on the probability of CEO turnover occurring holding all other variables constant. This marginal effect is measured by the formula

Marginal effect variable $x_k = \frac{\Pr(ceoturnover = 1|X)}{\partial x_k}$,

Where x_k = independent variable from i=1, 2 ...k. and X = a matrix of the independent variables.

According to the marginal effects output in Table 4.4, some results are consistent with the theoretical expectations while others are not. The respective interpretations are as follows:

$\frac{\partial(dumceotover)}{\partial(tceo)} = -0.058$. This means that a percentage increase in the tenure for a CEO reduces the probability of the CEO turnover on average by –5.8 %, other factors held constant. This is insignificant at 5% and is consistent with the theoretical expectations.

$\frac{\partial(dumceotover)}{\partial(obhown)} = 0.0023$. This indicates that a percentage increase in the outside block-holder ownership increases the probability of the CEO turnover on average by 0.23%, other factors held constant. This is insignificant at 5% and is consistent with the theoretical expectations, although at a high level of significance. This finding is consistent with the study done by Weisbach (1988), which found out that top executive turnover is positively related to the presence of outside block holder.

$\frac{\partial(dumceotover)}{\partial(dumownod)} = -0.204$. This implies that a percentage increases in the managers and director's ownership reduces the probability of the CEO turnover on average by –20.4%, other factors held constant. This is insignificant at 5% and is consistent with the theoretical expectations. This finding is consistent with the study by Megison (1988), which found that when managerial shareholding increases, managers are effectively entrenched in office and it is difficult to discipline them, thus increase in managers' shareholding reduces the probability of turnover and is consistent with ownership structure hypothesis.

$\frac{\partial(dumceotover)}{\partial(fih)} = 0.0012$. This implies that a percentage increase in the foreign investor holding of the firm increases the probability of the CEO turnover on average by 0.12%, other factors held constant. This is insignificant and is consistent with the theoretical expectations. This variable was not used in earlier studies done in developed markets and is not significant even in Kenya which is an emerging market where foreign investor holding is present.

$\frac{\partial(dumceotover)}{\partial(\log bkva)} = -0.025$. This implies that a percentage increase in the size of the firm reduces the probability of the CEO turnover on average by –2.5%, other factors held constant. This is insignificant at 5% and is consistent with the theoretical expectations. This variable has been used to control the effect of size to ensure this has no effect on the findings

$\frac{\partial(dumceotover)}{\partial(owni)} = -0.0008$. This implies that a percentage increase in the institutional ownership and activism reduces the probability of the CEO turnover on average by -0.08%, other factors held constant. This is insignificant and is inconsistent with the theoretical expectations. This is because of lack of large minority shareholders and is consistent with the outside monitoring hypothesis. This finding is contrary to the study by Brickely et al (1988), which found that large shareholding by parties not affiliated with management reduces the degree of managerial entrenchment associated with a given level of managerial ownership.

$\frac{\partial(dumceotover)}{\partial(fmars)} = 0.033$. This implies that a percentage increase in the firm's market return increases the probability of the CEO turnover on average by 3.3%, other factors held constant. This is insignificant and is consistent with the theoretical expectations, especially when outside succession of the CEO follows a resignation.

$\frac{\partial(dumceotover)}{\partial(dumbdm)} = -0.0105$. This implies that a percentage increase in the outside board membership reduces the probability of the CEO turnover on average by –1.05%, other

factors held constant. This is highly insignificant and is consistent with the theoretical expectations, particularly if the board members are given incentive compensations. These findings are similar to the study by Perry (1988), which found that CEO turnover is influenced by payment of incentive compensation to directors.

The increased presence of high number of independent directors increases the CEO turnover. According to Fama and Jasen (1983), outside directors tend to be more effective monitors of managers than inside directors.

CHAPTER FIVE

5.0 CONCLUSIONS AND POLICY RECOMMENDATIONS

5.1 Conclusions

This paper used logit model specification approach to examine factors that influence the CEO turnover. This is important because a CEO determines the operation, financing and investing decisions of a company and hence its performance and profitability. The CEO and other managers of the company also identify the risk and return characteristics and pursue policies that are aimed at maximizing the return while minimizing the risk of the company in order to increase the value of the firm.

Using a cross section of 47 companies listed on the NSE, we find that first; a percentage increase in the tenure for a CEO reduces the probability of the CEO turnover on average by –5.8%, other factors held constant. This is insignificant at 5% and is consistent with the theoretical expectations that the length of tenure leads to entrenchment of the CEO in office.

Second, a percentage increase in the outside block-holder ownership increases the probability of a CEO turnover on average by 0.23%, other factors held constant. This is insignificant at 5% and is consistent with the theoretical expectations, with the presence of outside block holders acts as monitors of the performance of the CEO in a firm.

Third, a percentage increase in the managers and directors ownership reduces the probability of a CEO turnover on average by –2.04%, other factors held constant. This is insignificant at 5% and is consistent with the theoretical expectations that as the

proportion of shares held by manager's increases, it becomes difficult to remove a CEO from office as this increases the say the manager has on the decisions on the firm. Other factors such as foreign investor holding of the firm and firm's market return increases the probability of a CEO turnover on average, other factors held constant. The increase is insignificant and is consistent with the theoretical expectations.

However, the size of the firm and the outside board membership reduces the probability of the CEO turnover on average, other factors held constant. This is highly insignificant and is consistent with the theoretical expectations. The institutional ownership and activism, reduces the probability of the CEO turnover on average, other factors held constant and is insignificant though is inconsistent with the theoretical expectations. This is because of lack of large minority shareholders and is consistent with the outside monitoring hypothesis.

5.2 Policy implications

This study analysed the factors that affect CEO turnover. Testing the predictions based on the 47 companies listed on the NSE, the study makes the following findings and derives relevant policies based on the findings in order to improve investment performance:

First, an increase in the tenure for a CEO significantly reduces the probability of the CEO turnover, other factors held constant.

Second, an increase in the outside block-holder ownership increases the probability of the CEO turnover, other factors held constant. This is, however, insignificant.

Third, an increase in the managers and directors ownership reduces the probability of the CEO turnover, other factors held constant, though this is insignificant.

Finally, the policy implications arising from this research relate to the question of whether financial and management consultants, shareholders, regulators and managers, can improve the corporate governance of firms in order to improve investment performance of the firms, maximize shareholders' value while minimizing moral hazard and principal-agent problems between the management and shareholders on one hand and the management and the regulators on the other hand. Since it has been observed that the CEO turnover is influenced by the tenure for a CEO, outside block-holder ownership and managers and directors ownership, it is therefore possible to conceive company performance on the stock market depending on the CEO turnover.

Above all, this research will contribute to the existing knowledge in the area of firm ownership structure and the CEO turnover. It is also useful to academic researchers who wish to conduct a related research in this area under different policy environments.

5.3 Limitations of the study

The main limitation was the unavailability of consistent data on a large number of firms. This is because there is no continuous daily data on variables such as family ownership of companies and the limited available data is mined. However, we used only the available data was used avoiding unavailable information such as family ownership of companies. However, this did not significantly affect the accuracy of the results. This could not be avoided. The available data enabled a conclusive achievement of the study objectives.

5.4 Suggested areas of further research

There is need for further research to capture a larger number of firms over a period. Furthermore, in future, research should be directed to examine CEO turnover under different policy regimes. This will give a clear picture of whether policy changes such as entry of foreign investors and change in the trading system have an effect on the CEO turnover.

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APPENDIX: DATA USED IN THE ANALYSIS

COMPANY	DUMCEOTOVER	TCEO	FIH	LOGBKVA	DUMBDM	OWNI	DUMOWNOD	FMARS	OBHOWN
A.Bauman &co	0	5	53.14	5.58	0	25.17	1	-0.0346	52
Athi River Mining	0	5	5.27	6.20	1	31.546	0	0.7144	18.5
B.A.T	0	3	60.73	6.83	1	31.04	1	1.4447	60
Baburi K ltd	0	2	73.32	6.68	1	21.86	1	0.4166	73.26
Barclays Bank	0	2	68.98	7.99	1	8.82	1	0.8108	68.5
Boc gases	0	0	66.13	6.13	1	21.38	1	0.0288	65.38
Brooke Bond ltd	0	2	88.26	6.68	1	5.2	1	0.3485	88.23
Car and General K*	0	0	1.6200	5.75	1	86.2	0	0.1173	31.7
Carbocid ltd	0	2	4.56	5.70	1	38.24	0	1.4511	22.6
CFC Bank ltd	0	5	6.39	7.22	1	38.2	0	0.1322	45.6
City Trust Ltd	0	5	7.27	8.32	0	69.42	0	1.4038	49.97
CMC Holding	0	5	1.62	6.71	1	62.064	0	0.0898	61.27
Crown Burger	0	5	13.63	5.94	0	55.68	0	0.1073	63.78
Diamond Trust	0	2	48.83	7.94	1	15.54	1	0.1625	22.73
Dunlop	0	5	38.01	5.35	1	39.41	0	-0.0602	38
E.A Cables	1	0	0.05	5.55	1	84.38	0	0.8832	84.38
E.A portland Cement	1	0	75.06	6.87	1	4.48	1	0.2151	27
E.A. Packaging ltd	0	5	75.06	5.32	1	14.88	1	0.0375	75
Eaagads ltd*	0	3	22.17	5.24	0	69.94	1	0.4689	61.74
East african Breweries ltd	0	5	59.55	7.23	0	24.05	1	-0.0370	45.63
Express K ltd	1	0	0.06	5.90	1	21.21	0	0.0294	50.02
Firestone E.A. ltd	0	5	17.30	6.39	0	78.3	0	0.4776	67.44
Housing Finance	0	2	30.49	7.03	1	34.59	0	0.6768	35
ICDC Investment ltd	0	5	0.23	6.46	0	52.99	0	0.1710	23.52
Jubilee insurance	0	5	51.33	6.89	0	41.52	1	0.4749	37.98
K.C.B Bank	1	0	33.15	7.76	0	59.23	0	0.4761	35
Kakuzi ltd	0	5	26.97	6.46	1	69.26	0	-0.7397	26.06
Kapchorua Tea	0	5	29.74	5.78	0	37.71	0	0.7355	20
Kenya Airways	1	3	29.74	4.38	1	37.59	0	0.3229	48
Kenya Oil co ltd	0	3	0.98	6.66	0	87.5	0	-0.4290	84.64
Kenya Power and Ltg	1	0	0.57	7.49	1	66.8	0	1.4411	36.69
Limuru Tea ltd	0	5	0.67	4.62	0	79.916	0	0.0294	51.99
Marshall E.A	1	4	3.42	5.99	1	85.96	0	0.1093	65.57
Mumias sugar	0	1	20.21	6.95	0	49.52	0	0.6768	38.04
Nation media	0	5	45	6.59	0	21.38	1	1.0004	44.73
National Bank of Kenya	0	5	0.00	7.41	1	76.45	1	0.5428	22.5
NIC Bank	0	5	0.70	7.04	1	64.93	0	0.6386	15.86
Pan Africa Insurance	0	3	0.11	6.43	1	79.46	0	-0.4071	46
Rea Vipingo	0	3	58.03	5.76	0	18.72	1	-0.3348	36.47
Sasiani Tea	0	4	0.50	5.91	0	89.06	0	0.2121	41.84
Standard Chartered Bk	1	1	74.32	7.81	0	4.16	1	0.7322	73.81
Standard News Paper	1	0	69.50	5.89	0	23	1	0.8720	69.2
Total keyaltd	0	3	78.29	6.90	1	15.37	1	0.2182	78.29
TPS ltd	0	5	0.11	6.30	1	79.46	0	0.2732	76.66
Uchumi Supermarket	0	2	6.94	6.54	1	30.3	0	0.0959	0.43
Unga Group ltd	1	0	1.74	6.56	1	65.31	0	0.0122	59.93
Williamson Tea ltd	0	5	52.98	6.37	0	14.1	1	0.2472	25