# EFFECT OF CORPORATE GOVERNANCE ON FIRM PERFORMANCE FOR AUDIT FIRMS IN NAIROBI CITY COUNTY

**BY**

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**A RESEARCH PROJECT SUBMITTED IN PARTIAL FULFILMENT OF THE REQUIREMENT FOR THE AWARD OF THE DEGREE OF MASTER OF BUSINESS ADMINISTRATION SCHOOL OF BUSINESS UNIVERSITY OF NAIROBI**

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# DECLARATION

This research project is my own original work and has never been submitted for a degree in any other university.

Signed:______________________Date: _______________

**Githongo Faith Wangari**

**D61/6179/2017**

This research project has been submitted for examination with my approval as a University supervisor.

Signed:____________________Date: _________________

**Professor Evans Aosa**

# DEDICATION

I dedicate this project to my mother Susan Muthoni Githongo, siblings Patrick Njiraini and Grace Wanjiku and all my friends whose prayers and encouragement helped me through the difficult moments as I undertook this research project.

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I thank the almighty and ever living God for having granted me life and strength to accomplish this work. Special thanks also go to my Supervisor, Professor Aosa, for invaluable guidance and patience throughout the period of this research project.

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# ABSTRACT

The research was conducted in order to investigate the relationship between corporate governance and firm performance of audit firm industries in Nairobi City County. The study aimed at establishing how the board size, frequency of holding meetings, board composition and board independence affect the audit firm's financial performance in Nairobi City County. The study has utilized a cross-sectional survey research design of audit firms operating within Nairobi City County since this research design is used to establish the relationship between two or more variables. In this study, there was one dependent variable namely firm performance and four independent variables board size, frequency of holding meetings, board composition, and board independence. The population of interest was all the 394 audit firms operating within Nairobi County, but the study covered 15% of the target population of 59 firms, and this was selected as our sample using random sampling technique and data was analyzed using the SPSS statistical package. From the study, we note that the independent variables all are positively correlated with financial performance. The independent variables contributed up to 32% of audit firms' performance, implying that other factors other than the ones analyzed contributed the remaining 68% of the financial performance of the audit firms. The current study found out that board size had a correlation coefficient of 0.455, frequency of board meetings was found to be 0.483, composition of the board members was found to be 0.519 and board independence was found to be 0.563, indicating a positive influence on the performance of audit firms. Board size, frequency of board meetings, board composition and independence of board members all were established to be the main determinant of the audit firm's performance. The larger the board size members the better the performance since large board members will bring in expertise and variety of strategies to improve the performance of the firms. Therefore, the study recommends that audit firms should have a sizeable number of board members so as to help improve on its performance. The study further recommends that, firms should have a regular board meeting to enable internalizing the strategies aimed at improving the operations of the company hence improved performance. The study was mainly limited by the cost to collect data due to movements from one firm to another and the fact that the study was based on a sample size thus as certain section preferred for the study. Further study should be carried out to include one on one interviews so as to compare the results from the interviews data with the current ones of the closed ended questionnaires. Both secondary data and primary data should be explored in the subject under study to make sure that the topic of corporate governance is well covered. The study recommends further studies to be done on the other sectors other than audit firms on the corporate governance and firm performance. Sectors such as banking, telecommunications, manufacturing, retail, transport, agricultural among other should be explored.

# CHAPTER 1: INTRODUCTION

## 1.1 Background of the Study

Corporate governance has become very prevalent for business operations globally. Corporate governance has gained prominence in developing economies due to corruption scandals for organisations affecting the economy of the countries. The system advocates for better company performance by protecting the company rights, protecting the investor interests, encouraging development and maximizing shareholders wealth. If executed properly corporate governance principles can transform the company's performance into realization of company mission and vision. Management should be well informed of the fundamental principles of underlying the corporate governance ideology. Good corporate governance practices advocate for shareholders and stakeholders interest pursuit rather than management's own interest at for front. Good corporate governance practices have been known to lead to overall increase in organisational performance. The study thus sought find out how corporate governance has influenced organisations firm performance.

Various theories have been advanced in an attempt to spice up the whole concept of corporate governance. Some of the outstanding theories in the field of corporate governance include but not limited to; agency theory, stakeholders theory and stewardship theory. Alchian and Demsetz were the first proponents of agency theorem as cited in (Opanga, 2013). The proponents pointed out that company's management and ownership is different. The owners of the firm appoints agents in this case management to run the company. The logic behind is that the shareholders expects the management to be selfless and produce intended productivity.

Should management pursue their self interests then there arises an agency conflict which leads to wrangles in the company hence dismal of the management (Karanja & Wagana, 2017).Stewardship theory on the other hand contrasts the agency theory which is grounded on the self-interest acts by rejecting the self-interest idea and advocates for people working towards making the organisation perform better than the rivals. A steward is a person whose interest is to see the needs and interests of others are met without being coerced. The company executives' work extra hard to cement their managerial positions and stand out among the rest of management teams in the market. Stakeholder theory advocates that business should be run for the benefit of both owners and stakeholders, not only for financial motives.

The context of the study was the audit firms in Nairobi County which have been domineered by the big three auditing firms such as Deloitte, KPMG, and PWC (Price Waterhouse Coopers). Majority of audit firms in Kenya are medium-sized and small in size compared to the big three audit international firms (Thuku, 2017).

### 1.1.1 Corporate Governance

Corporate governance according to Sir Cadbury (1952) as quoted in (Ntim, 2018) denotes a mechanism on how companies and government institutions are being directed and controlled. Corporate governance is a set of rules and regulations in which companies are being controlled and managed (Jacoby, 2018). It outlines the way in which companies should be run so as to attain fully its mission and vision. Corporate governance spells out the regulatory framework in which board of directors and management should operate while sticking on the lanes of shareholders and stakeholders' value maximization principles.

According to Narwal and Jindal (2015) excellent corporate governance comprises of transparency principle, accountability principle, responsibility principle, independence principle and fairness principle which has direct effect on corporate performance. If the aforementioned corporate principles are adhered to, then there will not only be enhanced profitability but also company's performance will be increased immensely. Therefore, managers should up their game to avoid plunging into poor corporate governance structure that plays a fertile playground for indiscipline.

Corporate governance cuts across the external and internal management mechanisms. One of internal mechanisms by which shareholders ensures that their value creation is adhered to is through appointment of the board members to run the organisation on their behalf. The chosen board members constitute some of the shareholders with high stakes of shares in the company. The reason behind the election of such board members is to ensure that management are on toes in safeguarding value of company is heightened failure to which their investment will be at risk (Anandasayanan & Thirunavukkarasu, 2018).In line with corporate governance concept many studies that have been carried out unanimously attributes that it has immensely contributed to increased firm efficiency hence better performances. Corporate governance provides a better supervisory mechanism to ensure that shareholders wealth maximization principle is attained (Honghui, 2017). Supervisory if well executed will ensure that the enforced laws and policies are adhered to. In addition it will help the management make decisions which caters for rights of the shareholders and other stakeholders.

Honghui (2017) opined that a well constituted corporate governance structure with a sizeable board of directors is effective in driving the maximization of shareholders wealth and monitoring the management. Board members should be diversified to avoid bias and also help in the formulation of varied strategies since different board members will have different approaches to a given situation as compared to uniform board members who agrees on one decision and executes it (Thomas & Strom-Gottfried, 2018). The emphasis on corporate governance according to Honghui (2017) is pegged on the powers held by the board of directors and other executive members since they are involved directly in decision-making exercise. The owners of the company have powers to terminate underperforming board members during the annual general meeting (AGM) which contrasts the traditional approach where shareholders had no powers of influencing the decisions executive managers. Which method works best is still a stalemate to most policy analysists hence the need for conclusive studies to underpin the corporate governance issue and provide the data necessary to support the current mode of organisational management.

### 1.1.2 Audit firm industry in Nairobi

According to Githae (2004), the traditional field of accounting is rapidly changing. It is not confined to just accounts or auditing strictly, but it has metamorphosed embracing various disciplines relevant to the world of business, charting what one may describe as new frontiers, especially in information technology since the world is becoming a global village.

In Kenya, accounting and auditing firms have been domineered by the big three auditing firms such as Delloitte, KPMG, and PWC (Price Waterhouse coopers) whose background is internationally recognised. The three firms command the big market share in Kenya and other countries with most listed firms in Stock Exchange taking preference on the three big audit firms. Among the publicly trading firms in Kenya like insurance companies, banks, telecommunication companies, public sector institutions, real estate companies, consumer food production industries among other private entities use the auditing services of the big three firms in Kenya. The three audit firms in Kenya their partners are highly qualified. Majority of audit firms in Kenya are medium sized and small in size compared to the big three audit international firms (Thuku, 2017). As a result, most of the reputable organisations usually outsource the service of the big three audit firms in Kenya. The main reason being the small audit firms lacks enough resources to conduct the conclusive and comprehensive books of financial statements of the big firms in Kenya. On of the requirements as far audit guidelines are concerned is that the firms should have enough financial muscles and necessary resources to carry out duties as required by the guiding principles.

According to the Kenya business directory, there were 181 registered auditing firms in 2007, and to date, the number has risen to 394 firms as at 2018, depicting the growth of auditing sector in Kenya. This formed the population of study for the research from which we shall select a sample to conduct the research.

## 1.2 Research Problem

Companies that employ corporate governance core principles such accountability, fairness, trustworthy and transparency usually performs exemplary well than other companies (Antonio et al., 2019). As result, such companies can attract more potential investors who will help them raise more capital for business operations such as expansion, settle creditors, and invest in other viable investment projects for creation of more value to the shareholders. Corporate governance is characterized by, well laid down objectives of the company, strategic plans that are profound, risk-mitigating plans, employees' wellbeing via fair treatment and remuneration, customers focus, company culture, transparency both internally and externally, continuous evaluations and adhering to corporate social responsibilities attributes just to mention but a few. Companies who fails to embrace corporate governance principles will have it difficult to execute their long-term plans as manifested in the vision statement due to financial difficulties as the company will perform dismally in the market of its operations. This has been mainly driven by agency problem, which has been on the rise in many organisations across the globe. To address agency problem, many firms have embarked on embracing corporate governance practices to improve the company's general performance. This too is the case in the audit firms in Nairobi, Kenya which forms the context of the study that is made up of individuals who inject share capital into the company and appoint a chief executive officer to run the daily activities of the organisation

Many scholars have conducted numerous studies in regards to corporate governance importance towards organisational health. Primary focus has been on strategic realignment to match the current wave of competition fuelled by advent technological advancements. For instance, Grace et al. (2018) on their study concerning corporate governance and performance of financial institutions in Kenya concluded that if good corporate goverancne should be utilised, then organisational performance will be fruitful. Outa & Waweru (2016) on the other hand found out that firms who complies with the corporate governance index guidelines performs exemplary and are financially fit hence increased firm value. Their findings revealed that corporate goverance guidelines positively correlates with firm perfromance.

A study was done in Kenya by Opanga(2013) invetsigating effect of corporate governance parameters such board committee number, frequency of board meetings, passed resolutions number in AGM and independence of board of directors on financial perfromance of insuarance companies registered on NSE. The study findings revealed a positive correlation between the four parameters with insurance firms of Kenya's performance. On the other hand, Kigotho (2014) found out also that corporate governance attributes such board size and composition of the board influence the financial performance of firms Quoted on NSE. The findings revealed that other factors held constant, an increase in a unit of board size leads to a decrease in financial performance of firms of quoted companies while a unit increase in board composition will lead to an increased firm performance of quoted firms.

In line with the earlier studies mentioned above, most of them have focused on the firms listed in the securities exchange. Therefore, the research filled the gap by looking at the auditing firms who undertake the audit of firms that are listed on NSE. The researcher aimed to find out, what is the nature of the relationship between the corporate governance and firm performance audit firms in Nairobi County? How does corporate governance impact on firm performance?

## 1.3 Research Objectives

The research study aimed to meet the following objectives:

i. To investigate the impact of the board size on firm performance for firms in the audit industry.
ii. To find out the effect of frequency of holding meetings on performance of audit firms.
iii. To assess the effect of board composition on the firm performance of audit firms.
iv. To investigate the impact that independence of the board has on the performance of audit industry.

## 1.4 Value of the Study

Audit firms, their management, and partnership will benefit from the study as they will understand excellent corporate governance characteristics and principles and the impact that they have on firm performance. This will help them know how corporate governance elements such as the board size, board independence, frequency of holding meetings, and board composition present as strengths or weaknesses of the firm so that they might improve on their weaknesses and focus on their strengths, especially with the ever-changing business environment.

Potential entrants into the audit firm industry will be better informed on the corporate governance principles that they need to focus on and how this will lead to improve performance as a startup. This will be especially helpful to startups focusing on small and medium-sized enterprise as it will assist them to quickly break-even and work towards growth, profits, increasing client value addition and overall positive societal impact.

The academicians and researchers who will wish to do further research on the topic of corporate governance and further develop more knowledge on corporate governance as and the impact it has on performance of the firm. This study will help them to do further research on other similar and relevant areas.

# CHAPTER TWO: LITERATURE REVIEW

## 2.1 Introduction

The following section covers the review on theories relevant to the study. It also provides the empirical studies that has been done in the past concerning corporate governance and financial performance of firms. Finally, the section highlights the knowledge gap based on the past studies.

## 2.2 Theoretical Foundation

Various scholars have developed theories concerning corporate governance and its effect on performance of firms. Agency theory, stewardship theory and stakeholders theory was adopted for this study.

### 2.2.1 Agency Theory

Agency theory is all about the relationship between shareholders and management of the firm. This is because the shareholders (principal) is independent of the business operations and hence appoints the management (agents) to man the operations of the business on their behalf. Alchian and Demsetz were the first proponents of agency theorem as cited in (Opanga, 2013). The proponents pointed out that company's management and ownership is different. The owners of the firm appoints agents in this case management to run the company. The logic behind is that the shareholders expects the management to be selfless and produce intended productivity. Should management pursue their self-interests then there arises an agency conflict which leads to wrangles in the company hence dismal of the management (Karanja & Wagana, 2017). The proponents emphasized that for the better relationship to exist between the agents and principles, the company should perform exemplary by generating more profits.

Agency theory revolves on two significant problems (Nzulwa & Wagana, 2017). The first problem arises when the interest of the shareholders frictions with those of the agents. As a result, the principal ends up spending a lot money to mitigate the risks by hiring oversight committees as watchdogs. This process eats up into company proceeds making value realization a far-fetched dream. Another problem arises when agents decides to venture into riskier projects, which ends up being unfruitful, leading to loss of company returns and invested shareholders money. In such a scenario principal acts though on the management and agents ends up shouldering the whole burden of loss. The real purpose of the agency theory is trying to resolve the puzzle surrounding the relationship between the agents and principals. This will be achieved by pointing out the frictions that leads to the disagreements between owners of the company and the management. The fundamental supposition agency theory involves self-interest (Ongore et al., 2015), where both parties involved that is management and shareholders have their own preferences. The agents may be risk seekers and may venture into diverse investment projects which jeopardises the business returns ability. On the other hand, the principles most of them are risk-neutral and may instruct the management not to venture into riskier projects. As a result, there arises friction between management and the principals since both view risks from a different perspective.

In auditing firms, the agency theory takes a different perspective. The big three audit firms in Kenya are foreign-owned. This makes the ownership and management a distant hence more conflicting issues since the management is not closely monitored. The realized profits are closely monitored by auditing the actions of the agents by the management appointed specialists.

Agents may on the other hand feel more superior in executing the company business since they already know the loopholes to be looked at and this may lead to surplus cash ending up in the hands of the agents instead of the management. Additionally, managers may grow their owned firms to escape the axe of forceful takeover hence growing a security of their own job security.

### 2.2.2 Stewardship Theory

The first proponents of the theory of stewardship were Davis, Schoorman & Donaldson 1997 as quoted in (Martin, & Butler, 2017). Contrasting the agency theory which is grounded on the self-interest acts, the stewardship theory rejects the self-interest and advocates for people working towards making the organisation perform better than the rivals. A steward is a person whose interest is to see the needs and interests of others are met without being coerced. The company executives' work extra hard to cement their managerial positions and stand out among the rest of management teams in the market.

Stewardship theory argues that selfless people are fundamentally rejuvenated in working for others or organisations in pursuit of accomplishing their bestowed responsibilities successfully (Madison et al. 2016). They put the interest of others first and make sure that whatever they do is a success. The theory argues that, people are communally minded and pro-organisational rather than individualistic. Stewardship theory is premised on the grounds that managers integrally seek to do an outstanding job, fetch good revenues to stakeholders and maximize shareholders wealth. Managers do not necessarily do this for their financial interest gains, but they do it from their heart as a calling since it is their duty to improve company revenues.

Unlike the agency theory where board members and management consider themselves as individuals without meaningful attachments to the company, stewardship theory holds that the entire management of the company do not consider themselves as individuals. Instead, the managers consider themselves part and parcel of the firm. They sacrifice their ego and sense of self-worth with the company's reputation (Johson, 2019).Firms which have embraced the stewardship ideology usually places a Chief Executive Officer (CEO) and chairman responsibilities under one executive, with a board comprised of mainly internal members. This is with the assumption that the CEO is trustworthy and selfless for the better performance of the organisation.

In stewardship mode of firm governance, the policies and rules of the company are adhered to without any friction. Firms usually outlines the roles and what they expect from the managers. Expectations here are goal oriented and designed to awaken the managers' self-abilities and their long-term agendas. From such an argument, managers are deemed company eyes who pursues the interest of the company at the expense of their own. The freedom accorded will only be used for the good of the company. There are consequences accompanied by the stewardship theory mode of leadership. The trust is all given to the management of the company and the arrangement is usually between the board members and the CEO. In situations where the CEO is not the chairman of the board, the board presumes a CEO to primarily be a good company custodian not a rich person. On the other hand, having a good CEO who is not a chairman of the board members is never an issue since he will execute his mandate fully by making sure that his actions will speak by itself. In other words, the CEO will require better remuneration to bar him from being tempted in embezzling company revenues for his own interest.

### 2.2.3 Stakeholders Theory

In 1970 Milton Friedman pioneered stockholder theory (Orlitzky, 2015) where he opined that organisations exists solely in creating value to its owners (stockholders). Stockholders theory ignored other parties who are impacted by the business operations. This led to scholars like Edward Freeman questioning Friedman's stockholder theory validity. Stakeholder theory advocates that business should be run for the benefit of both owners and stakeholders not only for financial motives.

Stakeholders are the interested members, therefore, the company's operations. It comprises of owners of the company, management, suppliers, creditors, customers, society and the government. The stakeholders each has his own interest in the company. They require the management who are the custodians to act selfless and generate more revenues which will benefit both the involved members who are in one way or the other are direct or indirect beneficiaries. Stakeholder theory has been critiqued by other scholars as an infringement into stockholders property rights since it advocates for value distribution of the company proceeds regardless of the financial contributions/risks. If firms can constantly forego their own needs at the expense of meeting the stakeholders demands, then firms will not achieve optimal efficiency operation.

## 2.3 Corporate governance in organisations

In the light of recent downfall of major organisations in Kenya such as the Kenya Airways scandal, the fall of Uchumi supermarkets as well as Nakumatt supermarkets to name but a few, it brings to well-lit the importance of corporate governance practices in the day to day operations of an organisation. Corporate governance in an organisation has been shown to increase its accountability and to avoid massive disasters such as corporate frauds from occurring.Corporate governance is the collection of mechanisms, processes and relations by which corporations are controlled and operated (Greg, 2004).Good corporate governance practices in an organisation are governed by various principles such as development off all stakeholders in a sustainable manner, distribution and management wealth in an effective way, engaging in corporate social responsibility, application of the best management practices and maintaining high ethical standards among others. Corporate governance is founded on various pillars such as accountability where management is accountable to the board and the board to its shareholders, fairness with all shareholders being treated with equality, transparency including timely and accurate disclosure of all material aspects and independence to avoid conflicts of interest.

## 2.4 Organizational Performance

Organisational performance involves analysing the company performance against the set objectives and goals of the organisation. It therefore compares the real results compared to intended output. According to (Hashem et al., 2015), it has always been of interest to management as well as researchers to estimate the performance of the organization with some researchers coming up with definitions and various measures of organizational performance. He conducted a study where he intended at getting an improved understanding of the definition and modelling of performance in organizational studies.Holt et al., (2017) noted that organizational performance encompasses three specific areas of firm outcomes including financial performance, product market performance and shareholder return**.** Financial performance is measured in terms of profits, return on assets and return on investment (Mwangi & Murigu, 2015). The product market performance is measured using such measures as sales and market share while the shareholder return is measured using shareholder value and economic value added**.** Understanding the metrics that influence organizational performance is important especially from a current economic crises perspective because it enables the identification of metrics to focus on to improve the organizational performance (Ekwueme et al., 2013).

## 2.5 Corporate governance and organization performance

Voluminous studies have been done trying to unmask the real effect of corporate governance on overall performance organisations. For example, Moche, 2014 opined that good corporate governance contributes to sustainable economic development by enhancing the performance of companies and increasing their access to outside capital. A company which applies the core principles of good corporate governance; fairness, accountability, responsibility and transparency (VComply, 2018), performs exemplary than her rivals. The improved performance acts as a bait to more potential investors who will inject more finances that can be used to expand the company operations hence generate more profits and command a wide market share. Hence, firms are encouraged to embrace good governance criteria so as to fasten their performance in pursuit of satisfying the interest of the shareholders as well stakeholders.

In order to ensure that companies comply with good corporate governance, Bakare et al, 2014 were in the opinion that, the regulatory agencies should put forward the regulatory frameworks to aid companies' operations. Those companies whose operations are contrary to the regulations set should face sanctions and penalties. In so doing, every company will strive towards the evasion of such sanctions and penalties and in the process growth of the industries in the company will sprout out fast hence economic development.

## 2.6 Empirical Studies and Research Gaps

Numerous researches up to date have been done in an attempt examine the relationship between corporate governance and organisational performance. Lishenga and Mbaka (2015) carried out a study to examine the relationship which exists between compliance with corporate governance disclosure code and performance of firms in Kenya firms. The study was analytical in nature involving firm value, and the corporate governance rating of quoted companies in the Nairobi Securities Exchange (NSE) market. The findings of the study revealed that Kenyan firms whose 50% board of directors are external is highly preferred contrary to those whose 50% directors are internally appointed. According to the overall findings of the study, firms' higher profitability is not as a result of better corporate governance. Rather, better corporate governance predicts lower cost of external capital due to investors preference in well managed companies. Finally, their study found a strong relationship between better corporate governance practices and firms' performance.

Opanga (2013) did a study in Kenya to investigate the effect of corporate governance parameters such board committee number, frequency of board meetings, passed resolutions number in AGM and board of directors on financial performance of insurance companies registered on NSE. The study findings revealed a positive correlation between the four parameters with insurance firms of Kenya's performance.A study was also conducted by Grace et al. (2018) concerning corporate governance and performance of financial institutions in Kenya using a cross-sectional survey research design concluded that if good corporate governance should be utilised, then organisational performance will be fruitful. The study independent variables included board skills, board independence, board committee, board size and board diversity while the responsive variable was organisational performance. The variables were found to positively correlate with organisational performance however, board committee had a negative relationship with organisational performance.

Outa & Waweru (2016) did a study to find out how compliance with corporate governance guidelines compliance affects firm's financial performance using a panel data analysis technique. They found out that firms who complies with the corporate governance index guidelines performs exemplary and are financially fit hence increased firm value. Their findings revealed that corporate governance guidelines positively correlate with firm performance.

Additionally, Kigotho (2014) carried out a study in an attempt to find out the effect of corporate governance on performance of companies listed at Nairobi Securities Exchange in Kenya.  He found out that corporate governance attributes such board size and composition of the board influence the financial performance of firms Quoted on NSE. The findings revealed that other factors held constant, an increase in a unit of board size leads to a decrease in financial performance of firms of quoted companies while a unit increase in board composition will lead to an increased firm performance of quoted firms.

# CHAPTER THREE: RESEARCH METHODOLOGY

## 3.1 Introduction

This chapter unveils the various stages involved in obtaining the required data. It involves research design, target population, and sample size chosen for the study. It also highlights data collection procedures, data analysis and presentation procedures.

## 3.2 Research Design

Flick (2018) described research design as a blue print or an action plan used by researchers in an attempt to solve research questions accurately, objectively, and at minimal cost possible. On the other hand, Honghui, 2017 argues that a research design aims at cultivating the aptitude of the study in hypothesising an operative strategy in order to be able to diseminate on various techniques available and required tasks for the completion of the study while at the same time ensuring that the procedures used are satisfactory acquire accurate, objective and detailed responses to the objectives of the study.

The study adopted a cross-sectional research design since this type of design is essential in establishing relationships between two or more variables in a given study. This design is also good because it allowed the researcher to utilize both quantitative and qualitative in obtaining the necessary data for the study. Since the study focused majorly on the current state of affairs in the field of study, this research design was beneficial as no data will be manipulated to fit the objectives of the study.

## 3.3 Population

Target population of research study refers an entire set of elements from which the study intends to draw an inference (King et al., 2018). On the other hand, Yang and

Miller (2014) defined a study population as sum total units of elements from which the study intends to draw the conclusion. According to Bell et al. (2018) a population study is whole set of elements under study with same characteristics. The population of study was the audit firm operating within Nairobi City County. The population of audit firms according to the Kenya business directory is 394 audit firms operating within Nairobi City County.

## 3.4 Sample of the Study

The process of picking out the individuals who will participate in a study is sampling (Githuku et.al, 2016). This process should be a representative of the whole target population. The representative is therefore a sub group of the entire population. This research adopted the random sampling technique.

The research adopted Olive & Abel, 2010 sampling size formula which advocates 10-15% being adequate sample size being an ideal for a study using crossection research design. Out of the population size of 394, 59(15%) audit firms were taken as sample size for the study.

## 3.5 Data Collection

The choice of tools to be utilised should be linked to the study objectives (Kumar, 2019). Primary is the major source of data used in research. Primary data involves raw data obtained from the field of study while secondary data is the already available information from which inference will be drawn (Mugenda & Mugenda, 2013).This study used both primary and secondary data to obtain the necessary data to be analysed so as to arrive at the study objectively intensively. While structured questionnaires framed on A Likert scale helped to obtain field data. The study targeted members of the board, supervisors, and superior managers of the audit firms under study. The targeted personnel are the immediate personnel involved in arriving at company decisions and they are in the better position to answers questions concerning the company affairs.

## 3.6 Data Analysis

Data analysis is the process of obtaining responses, edit it to ensure completeness and consistency, code it then finds answers through analysis using descriptive statistics. The data was analysed by grouping responses into various categories. Descriptive statistics was analysed with the help of SPSS.

Multiple regression analysis was utilised in analysing and determining the type of relationship which exists between one or more independent variables and dependent variable. The size of board members, frequency of board meetings and composition of board members and their level of independence are the independent variables while performance of the firm forms the dependent variable of the study. Data was displayed in form of tables.

The multiple regression model to be used was follows;

$Y= \alpha + \beta_1X_1+ \beta_2X_2+ \beta_3X_3 + \varepsilon$

Where;

Y= Performance of audit firms (ROA)

$\alpha$ = Constant Term (company's total assets)

$\beta_1$ = better coefficients

$X_1$ = Size of board members

$X_2$ = frequency of meetings

$X_3$ = composition of board members

$\varepsilon$ = An error term which will cater for other variables not covered in the study

To ensure ethical consideration is adhered to as required in research, respondents were advised not to write their names on the research questionnaire. This helped to conceal their identity especially for the sensitive information given. Study findings were only to be used for academic purpose.

# CHAPTER FOUR:

# DATA ANALYSIS, RESULTS, AND INTERPRETATION

## 4.1 Introduction

The chapter addresses data collected analysis in the establishment of the impact that corporate governance has on performance of audit firms in Nairobi City County. The findings from descriptive statistics, inferential statistics, regression, and correlation analyses were presented in forms of tables, as indicated in the next chapter sections.

## 4.2 Demographic Information

The target population was 59 audit firms operating within Nairobi City County. However, the response rate was 68% of the sample selected therefore the number of respondents for the study was 40 audit firms in Nairobi City County. Five respondents from each company were select in answering the questionnaires totalling to 200 respondents. Out of 200, only 198 were filled and returned, recording a 99% response rate, which is ideal for the study.

Background information concerning respondents such as gender, number of years worked in the organization, and the position held will be addressed in this section.

**Gender Response Rate**

The study pursued the respondent s' gender distribution, and the following was the result as shown in table 4.1.

**Table 4.1 Gender Response Rate**

| Gender | Frequency | Percent % |
|---|---|---|
| Male | 118 | 59.6 |
| Female | 80 | 40.4 |
| **Total** | **198** | **100.0** |

**Source, Author (2019)**

The males formed a majority of respondents by 59.6%, while female respondents constituted of 40.4%, as shown in Table 4.1 above. From the findings, audit firms in Nairobi City County had a staff mix of both genders somewhat; hence, biases were avoidable in the current study.

**Number of Years Worked in respective Companies**

The study respondents were requested to indicate the number of years they have been working for their respective organizations. The findings were as shown in table 4.2 below.

**Table 4.2 The Number of Years Worked in respective Companies.**

| Number of years worked | Frequency | Percent % |
|---|---|---|
| Below 5 yrs | 5 | 2.5 |
| 5-10 yrs | 35 | 17.7 |
| 10-15 yrs | 44 | 22.2 |
| 15-20 years | 54 | 27.3 |
| Over 20 yrs | 60 | 30.3 |
| **Total** | **198** | **100.0** |

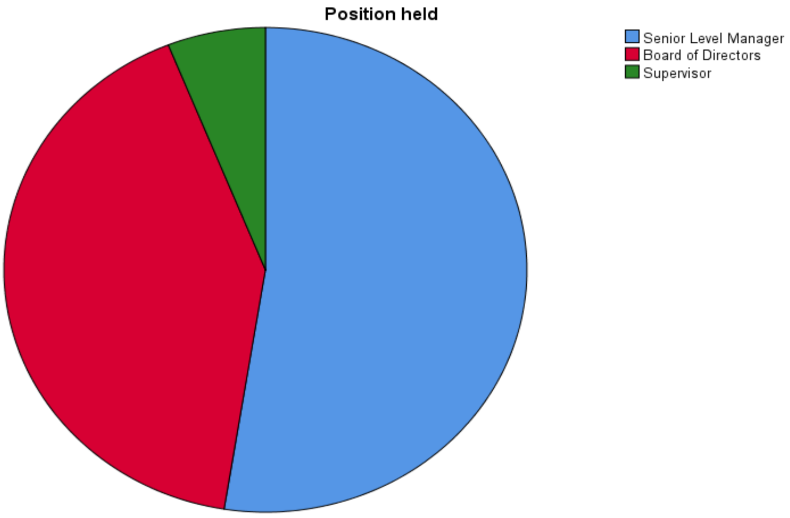
**Source, Author (2019)**

From the study findings majority of the respondents have been working in the organization for more than 20 years, as indicated by 30.3 %, followed by those who have worked between 15-20 years at 27.3%. 22.2 % had worked between 10-15 years, 17.7% constituted those who have worked between 5-10 years, while below five years were a few representing 2.5% of the respondents. The result is a crystal indication of respondents with intensive experience in their field of work; hence can be relied upon in providing real data to achieve the study objectives.

**Position Held**.

Further, the respondents were asked to indicate their respective positions in their respective companies. The result was tabulated as shown in figure 4.1 below

**Figure 4.1 Position Held**




**Source, Field (2019)**

The results revealed that most of the respondents were the senior level managers followed by the board of directors and, finally, the supervisors who formed the minority of the response rate.

**4.3 Reliability Test**

| Cronbach's Alpha | No of Items |
|---|---|
| .937 | 30 |

**Source, Author (2019)**

The reliability test for the study instruments was found to have an alpha coefficient of 0.937 surpassing the thumb rule Cronbach's of 0.7; hence, the instruments were reliable to provide accurate data even if tests were run over and over again using the same instruments.

## 4.4 Board Size and Firm Performance of Audit Firms

**Table 4.3 Board Size and Firm Performance of Audit Firms**

| Item | Minimum | Maximum | Mean | Std. Deviation |
|---|---|---|---|---|
| 1.The bigger the size of board members the better the performance | 4 | 5 | 4.67 | 0.473 |
| 2. The small the board size the better performance | 1 | 5 | 2.05 | 1.176 |
| 3. A bigger size of board members is prone to more conflicts making decision making exercise difficult | 3 | 5 | 4.65 | 0.490 |
| 4. The larger board size provides diverse views on addressing current issues affecting firm performance | 3 | 5 | 4.66 | 0.485 |
| 5. Large board size means more expertise in management of the firm | 4 | 5 | 4.66 | 0.476 |
| 6. A larger size of board members provides a better oversight of company operations | 3 | 5 | 4.66 | 0.487 |
| **Mean of mean** | | | **4.225** | **0.597** |

**Source, Author (2019)**

From the descriptive statistics in table 4.3 above, the mean score for the board size and audit firm performance is at high level. The mean score was found to be 4.225 while the standard deviation was 0.597. This implies that a bigger board size greatly influences the performance of audit firms as shown by items 1,3,4,5 and 6 while the smaller board size as indicated by item 2, had an insignificant influence on performance.

## 4.5 Frequency of Board Meetings and Firm Performance

**Table 4.4 Frequency of Board Meetings and Firm Performance of Audit Firms**

| | | Minimum | Maximum | Mean | Std. Deviation |
|---|---|---|---|---|---|
| 1. | All the board meetings have helped the firm improve its operations | 4 | 5 | 4.65 | .478 |
| 2. | Board meetings are chaired by experts with relevant qualifications | 4 | 5 | 4.66 | .476 |
| 3. | There have been regular board meetings apart from those gazetted | 3 | 5 | 4.65 | .490 |
| 4. | There have been other board members attending the meeting as invited by the board committee | 3 | 5 | 4.63 | .494 |
| 5. | There has been a low turnout of board member on meetings held | 1 | 3 | 1.61 | .710 |
| 6. | The board meetings held regularly has led to dismal performance of the firm | 1 | 5 | 4.57 | .722 |
| **Mean of mean** | | | | **4.128** | **0.562** |

**Source, Author (2019)**

According to the criteria, the mean score and standard deviation for the frequency of board meetings had high values as shown in table 4.4 above. The mean score was 4.128 while the standard deviation was 0.562. How often the board meeting is confined greatly impacts on the performance of the audit firms. Majority of the respondents supported items 1,2,3,4 and 6. A few respondents were in the opinion that there has low board turnout during the meetings as shown by the mean of item 5. In overall the respondents agreed that frequency of the board meeting influences the performance of the audit firms shown by the overall mean of 4.128 with a low standard deviation of 0.562.

## 4.6 Composition of Board Meetings and Firm Performance

**Table 4.5 Composition of Board Meetings and Firm Performance**

| | | Minimum | Maximum | Mean | Std. Deviation |
|---|---|---|---|---|---|
| 1. | The board is composed of both gender | 4 | 5 | 4.66 | 0.476 |
| 2. | All stakeholders have been involved in board member appointment | 3 | 5 | 4.63 | 0.495 |
| 3. | Board member appointment is a political process | 1 | 4 | 1.73 | 0.770 |
| 4. | Appointed board members have a mix of skills required in stewardship of the organisational welfare | 4 | 5 | 4.62 | 0.486 |
| 5. | All board members have relevant experience required in stewardship of the company | 3 | 5 | 4.60 | 0.501 |
| 6. | Board members both are accredited by relevant bodies | 3 | 5 | 4.63 | 0.504 |
| 7. | Board member is composed of both members of from shareholder side and independent members | 4 | 5 | 4.62 | 0.488 |
| **Mean of mean** | | | | **4. 213** | **0.53** |

**Source, Author (2019)**

The descriptive statistics shows that, the mean value was high in reference to composition of board meetings on the performance of audit firms. The average mean value is 4.213 and standard deviation is 0.53. The mean values for both items except item 3 was above 4.5 meaning that the majority of the respondents strongly agreed that board composition influences the performance of audit firms. However, they were against the opinion that board members appointment was politically influenced. All board members were elected free of any internal or external influence.

## 4.7 Board Independence and Firm Performance

**Table 4.6 Board independence and firm performance**

| | Minimum | Maximum | Mean | Std. Deviation |
|---|---|---|---|---|
| 1. Number of executive board directors is higher than that of nonexecutive | 3 | 5 | 4.58 | .535 |
| 2. The board is more independent with more increased number outside directors | 3 | 5 | 4.55 | .575 |
| 3. Executive directors have deeper understanding of company affairs hence better oversight role on company operations | 3 | 5 | 4.62 | .497 |
| 4. Existence of independent board committee enhances financial performance of the organization | 2 | 5 | 4.44 | .633 |
| **Mean of mean** | | | **4.548** | **0.56** |

**Source, Author (2019)**

From the mean values on the independence of board meeting was high implying that most respondents were in agreement with the items 1,2,3 and 4 concerning the performance of audit firms. The average mean value is 4.548 while the standard deviation was 0.56. The result affirms that the more the independent the board members are the better the performance of the audit firms.

**Table 4.7 Summary of Descriptive Statistics**

| | Min | Max | Mean | Std. Dev. | Skewness | | Kurtosis | |
|---|---|---|---|---|---|---|---|---|
| | Statistic | Statistic | Statistic | Statistic | Statistic | Std. Error | Statistic | Std. Error |
| Board Size | 4 | 5 | 4.22 | 0.444 | -0.393 | 0.173 | -1.000 | 0.344 |
| Board Meeting Frequency | 3 | 5 | 4.13 | 0.412 | -0.486 | 0.173 | -1.358 | 0.344 |
| Board Composition | 4 | 5 | 4.21 | 0.372 | -0.440 | 0.173 | -1.231 | 0.344 |
| Board Independence | 4 | 5 | 4.55 | 0.419 | -0.253 | 0.173 | -1.444 | 0.344 |
| Firm Performance | 4 | 5 | 4.55 | 0.302 | -0.569 | 0.173 | -0.166 | 0.344 |

**Source, Author (2019)**

According to the criterion, the mean for board size is 4.22 while the standard deviation is 0.444. The mean relating to frequency of board meeting is 4.12 with a standard deviation of 0.412 while the mean for board composition is 4.55 with a standard deviation of 0.372, and finally the mean for independence of board meeting is 4.55 with a standard deviation of 0.419. The mean is a measure of central tendency of the data and from the result above, the mean values are above 4 which shows that respondents agreed to the items of each questionnaires hence the alternative hypothesis will be adopted. On the other hand, the standard deviation indicates the deviation of data from the mean. All the standard deviation figures were less than 1 implying that, there was a slight deviation of data values from the mean hence data was centrally distributed.

## 4.8 Correlation and Regression analysis

**Table 4.8 Correlation Analysis**

| | | Board Size | Board Meeting Frequency | Board Composition | Board Independence | Firm Performance |
|---|---|---|---|---|---|---|
| Board Size | Pearson Correlation | 1 | | | | |
| | Sig. (2-tailed) | | | | | |
| Board Meeting Frequency | Pearson Correlation | .813** | 1 | | | |
| | Sig. (2-tailed) | .000 | | | | |
| Board Composition | Pearson Correlation | .812** | .8320** | 1 | | |
| | Sig. (2-tailed) | .000 | .000 | | | |
| Board Independence | Pearson Correlation | . 686** | .773** | .782** | 1 | |
| | Sig. (2-tailed) | .000 | .000 | .000 | | |
| Firm Performance | Pearson Correlation | .455** | .483** | .519** | .563** | 1 |
| | Sig. (2-tailed) | .000 | .000 | .000 | .000 | |

Correlation is significant at the 0.05 level (2-tailed).

**Source, Author (2019)**

The degree of the relationship between an independent variable with the dependent variable was tested by the use of Pearson's moment of the correlation coefficient. The strength of the relationship ranges from (+) strong positive correlation to (-) strong negative correlation. Grounded on the output result from correlation analysis that was calculated, Board size, Board Meeting Frequency, Board Composition, and Board Independence had a strong significant positive correlation with the audit Firm Performance. All the independent variables had a 2-tailed sig. of 0.000 which is less than 0.005 that is recommended hence confirmation of the existence of a robust statistical significance relationship with firm performance.

Further Person’s correlation coefficient (r) in a range of 0.00-1.00(Mugenda & Mugenda, 2009) was used to determine the degree of the relationship between independent variables and the dependent variable. From the study findings, board size had r=0.455, indicating a moderate correlation with the audit firm performance. The frequency of board meetings had an r=0.483 indicating a moderate but strong positive correlation with audit firm performance. On the other hand, Board composition and board independence all showed an r value higher than 0.50 of r=0.519 and r=0.563, respectively exhibiting a strong high correlation with audit firm performance. The findings also led to the rejection of all the null hypotheses; hence, alternative hypotheses were adopted for the study meaning that board size, frequency of board meeting, the composition of the board meeting, and independence of the board all exhibited a strong statistical significance relationship with the audit firm performance.

**Table 4.9 Regression Model Summary**

**Model Summary**

| Model | R | R Square | Adjusted R Square | Std. Error of the Estimate |
|---|---|---|---|---|
| 1 | .578[a] | .334 | .320 | .249 |

a. Predictors: (Constant), Board Independence, Board Size, Board Meeting Frequency, Board Composition

b. Dependent Variable: Firm Performance

**Source, Author (2019)**

From the study findings the correlation coefficient of the model R=0.578 indicating the existence of the relationship between variables under the study. The adjusted R squared was 0.320 implying that the regression model explained 32% of the corporate governance's influence on audit firm performance.

**Table 4.10 ANOVA**

**ANOVA[a]**

| Model | | Sum of Squares | df | Mean Square | F | Sig. |
|---|---|---|---|---|---|---|
| 1 | Regression | .475 | 4 | .119 | 4.028 | .004[b] |
| | Residual | 5.687 | 193 | .029 | | |
| | Total | 6.162 | 197 | | | |

a. Dependent Variable: Firm Performance

b. Predictors: (Constant), Board Independence, Board Size, Board Meeting Frequency, Board Composition

**Source, Author (2019)**

From the tabulated results in table 10 above, the F-statistic was found to be 4.028 at a significance of 5%; hence, the statistic was found to significant. On the other hand, the P-value arrived at was 0.004 which is less than 0.05 implying the significance of the overall model was high.

**Table 4.11 Regression Coefficients**

**Coefficients**

| Model | | Unstandardized Coefficients | | Standardized Coefficients | | |
|---|---|---|---|---|---|---|
| | | B | Std. Error | Beta | T | Sig. |
| 1 | (Constant) | 2.531 | .210 | | 12.064 | .000 |
| | Board Size | .038 | .075 | .056 | .508 | .612 |
| | Board Meeting Frequency | -.038 | .093 | -.051 | -.407 | .684 |
| | Board Composition | .156 | .103 | .192 | 1.516 | .131 |
| | Board Independence | .299 | .073 | .415 | 4.094 | .000 |

**Source, Author (2019)**

**Regression model**

$Y= 2.53 + 0.038X_1-0.038X_2+0.156X_3+0.299X_4+0.210$

From the tabulated results above in table 4.9, any single unit increase in board size will result into 0.038 or 3.8% increase in performance of audit firms. Also, any unit increase in frequency of board meeting will lead to a decline in audit firm performance by 0.038, while any unit increase in board composition will lead to an increase in audit firm performance by 0.156 or 15.6%. Finally, a unit increase in the independence of board members will lead to an increase in audit firm performance by 29.9% of 0.299.

The coefficient of the standardized beta on board size was found to be 0.056 implying that board size had a small effect on the performance of audit firms in Kenya. On the other hand, the standardized better coefficient for the frequency of board meetings was -0.051 meaning that the frequency of body meetings had a strong influence on the performance of audit firms. Further, the composition of the board meeting had a standardized beta coefficient of 0.192, implying that the composition of the board members a slight influence on the performance of audit firms. Finally, the standardized beta coefficient of board independence was found to be 0.415, indicating that board independence had little impact on performance.

## 4.9 Interpretation of the Study Findings.

From the tabulated regression analysis of the study findings, the performance of the audit firms largely depends on the corporate governance variables under study. The analysed independent variables include board size, frequency of board meetings, board composition and independence of board members explained the effect of corporate governance on audit firms as shown by the adjusted R square value of 32%. The independent variables contributed up to 32% of audit firms performance, implying that other factors other than the ones analyzed contributed the remaining 68% of the financial performance of the audit firms.

The current study found out that board size had a correlation coefficient of 0.455, depicting a positive influence of board size on audit firm's performance. The correlation coefficient of frequency of board meetings was found to be 0.483, indicating that frequency of board meetings had a positive influence on audit firm performance. On the other hand, correlation coefficient of composition of the board members was found to be 0.519 meaning that an increase in composition of board members will lead to an increase in the performance of audit firms. Finally, the coefficient of board independence was found to be 0.563, indicating a positive influence of board independence on the performance of audit firms. The findings of the current study conquer with the findings of Atieno (2018), who found out corporate governance affects financial performance of companies listed in Nairobi Securities Exchange.

# CHAPTER FIVE

# SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

## 5.1 Introduction

The chapter summarizes the study findings, draws conclusions of the study, gives a recommendation for policy formulation, highlights the limitations of the study and further recommends topics for further study.

## 5.2 Summary of findngs

The overall objective of the study was aimed at examining the effect of corporate governance of the performance of audit firms in Kenya. The study findings revealed existence of a positive relationship between corporate governance and the performance of audit firms. Corporate governance is tasked with improvement of the company's profitability so as to increase shareholders wealth. Many firms have restructured their mechanisms of corporate governance as a result of financial crisis so as to improve company performance.

The findings of the study revealed that there was a positive relationship between the size of board members and audit firm's performance. A growth in the board size will lead to an increase in the firm performance. Board Meeting Frequency exhibited a negative relationship with the audit firm performance. Perhaps it is because of the expenses incurred in sustaining the board meeting allowances. The board composition was also found to have a positive relationship with the performance of audit firms. Firms whose board comprise of both genders, free of political influenced appointments will tend to have a positive impact on the performance.

Finally, the study findings revealed a positive relationship between board independence and performance of audit firms. Board members should have freedom in doing their mandated activities without being manipulated. The board is more independent with a more increased number outside directors and existence of independent board committee enhances the financial performance of the organisation influences the audit firm's performance.

The strength of the model was tested by use of the ANOVA. Based on the regression analysis, the study drew a conclusion that all the independent variables which included board size, frequency of board meetings, composition of the board members and the independence of board member poised a positive effect on the audit firm's performance. The variables accounted for 32% on the audit firms' performance and the remaining 68% was as a result of other factors not tackled by the study. The regression model hence was significant to explain the effect of the variables under study on the performance of audit firms.

## 5.3 Conclusions

From the study findings, the correlation coefficient value obtained for board size was 0.455 which shows a strong positive relationship hence significant of the relationship. Also the frequency of board meeting had a correlation coefficient of 0.483 implying that the relationship was strong hence a significant relationship between frequency of board meeting and performance audit firms since the p- value was 0.000 ($P < 0.05$).

On the other hand, the correlation coefficient for board composition was found to be 0.519 an indication of strong statistical significance relationship between board composition and the performance of audit firms. Finally, the correlation coefficient of the board independence was found to be 0.563 implying a strong statistical significant relationship between independence of board members with the performance of the audit firms in Nairobi. The p-value for the relationship was found to be 0.000 hence the existence of the relationship between independence of board members with audit firm performance. The study findings reveal that corporate governance had a positive influence on the performance of audit firms. The conclusion was supported by the analysed results of the regression model and correlation coefficients.

The current study concludes with the same findings of Grace et al. (2018) who conclude that board independence, board committee, board size and board diversity all had a positive influence on the performance of financial institutions in Kenya. Also, the study conquers with the conclusion drawn by Kigotho (2014) that corporate governance influenced positively the financial performance of companies listed at Nairobi Securities Exchange in Kenya.

## 5.4 Recommendations

Board size, frequency of board meetings, board composition and independence of board members all were established to be the main determinant of the audit firm's performance. The larger the board size members the better the performance since large board members will bring in expertise and variety of strategies to improve the performance of the firms. Therefore, the study recommends that current audit firms' management and partnerships as well as entrants into the industry should try to have a sizeable number of board members so as to help improve on its performance.

The study further recommends that, current firms and potential entrants should have a regular board meeting to try internalizing the strategies aimed at improving the operations of the company hence improved performance. Likewise, the study recommends that board members should be diversified to include all genders for transparency reasons and also adhere to gender diversity principle. Finally, the study recommends that the board members should be accorded independence meaning that it should be free of any interference from shareholders in terms of selecting the board members. Also, the independence of board members means that they should be left alone and remains accountable to any failure without excuses.

## 5.5 Limitations of the Study

The process of data collection was also costly due to the movements from one organisation to the other in picking the questionnaires. The study employed sampling method which implies that a section of audit firms was preferred for the study. However, the result may differ were it that all the audit firms were involved as respondents for the study.

The study relied on closed ended questionnaires in collecting the data to be analysed so as to help achieve the study objectives. This means that the respondents were restricted on answering the questions based on opinions given by the researcher leaving no room for their own views. All this was necessary due to the time constraint for the whole research process. However, the limited was well utilized and the data obtained was sufficient to draw conclusions from.

## 5.6 Suggestions for further Study

Further research should be conducted on other remaining audit firms in Kenya and results compared with the current study findings to ascertain any deviations on the results arrived in both studies. Also, further study should be carried out to include one on one interviews so as to compare the results from the interviews data with the current ones of the closed ended questionnaires. Both secondary data and primary data should be explored in the subject under study to make sure that the topic of corporate governance is well covered. The study recommends further studies to be done on the other sectors other than audit firms on the corporate governance and firm performance. Sectors like the banking sector, telecommunications sector, manufacturing, retail sector, transport sector, agricultural among other should be explored based on the same topic of corporate governance so as to compare results with the current study.

The study further recommends studies to carried out on challenges facing implementation of corporate governance practices and the resultant effect if corporate governance practices are not well implemented. Corporate governance is wide hence, the current study recommends further studies on the same topic so as to explore more and exhaust all areas in corporate governance.

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# APPENDICES

## APPENDIX 1: RESEARCH QUESTIONNAIRE

This research questionnaire seeks to gather data concerning the effect of corporate governance on organisational performance of audit firms in Nairobi City County. Kindly help fill in the questionnaires by going through each question carefully and then give your sincere responses. This research work is part of the requirement for the award of the degree in Masters of Business administration and will be purely used for academic purposes and treated with utmost confidentiality.

**<u>PART A: BIO DATA</u>**

1 Name of your organisation ………………………………………………

2What is your gender?

a) Male [ ] b) Female [ ]

3. Indicate the number of years you have worked here

(a) Below 5 years [ ] (b) 5-10 years [ ] (c) 10-15 years [ ] (d)15-20 years [ ] (e) Over 20 years [ ]

4. Indicate position hold

a) Senior Level Manager [ ] Board of Directors [ ] Supervisor [ ]

**<u>PART B SIZE CORPORATE GOVERNANCE AND FIRM PERFORMANCE</u>**

The following section seeks your responses on the extent in which you agree with the given statements which are framed on a 5- point Likert Scale of **(1)** Strongly Disagree (SD) **(2).** Disagree (D) **(3)** Neutral (N) **(4)** Agree (A) **(5)** Strongly Agree (SA). Kindly tick where appropriate.

**SECTION A SIZE OF BOARD MEMBERS**

| | 1 | 2 | 3 | 4 | 5 |
|---|---|---|---|---|---|
| The bigger the size of board members the better the performance | | | | | |
| The small the board size the better performance | | | | | |
| A bigger size of board members is prone to more conflicts making decision making exercise difficult | | | | | |
| The larger board size provides diverse views on addressing current issues affecting firm performance | | | | | |
| Large board size means more expertise in management of the firm | | | | | |
| A larger size of board members provides a better oversight of company operations | | | | | |

**SECTION B: FREQUENCY OF BOARD MEETINGS**

| | 1 | 2 | 3 | 4 | 5 |
|---|---|---|---|---|---|
| All the board meetings have helped the firm improve its operations | | | | | |
| Board meetings are chaired by experts with relevant qualifications | | | | | |
| There has been regular board meetings apart form those gazetted | | | | | |
| There have been other board members attending the meeting as invited by the board committee | | | | | |
| There has been a low turnout of board member on meetings held | | | | | |
| The board meetings held regularly has led to dismal performance of the firm | | | | | |

**SECTION C: COMPOSITION OF BOARD MEETINGS**

| | 1 | 2 | 3 | 4 | 5 |
|---|---|---|---|---|---|
| The board is composed of both gender | | | | | |
| All stakeholders have been involved in board member appointment | | | | | |
| Board member appointment is a political process | | | | | |
| Appointed board members have a mix of skills required in stewardship of the organisational welfare | | | | | |
| All board members have relevant experience required in stewardship of the company | | | | | |
| Board members both are accredited by relevant bodies | | | | | |
| Board member is composed of both members of from shareholder side and independent members | | | | | |

**SECTION D. BOARD INDEPENDENCE**

| | 1 | 2 | 3 | 4 | 5 |
|---|---|---|---|---|---|
| Number of executive board directors is higher than that of nonexecutive | | | | | |
| The board is more independent with more increased number outside directors | | | | | |
| Executive directors have deeper understanding of company affairs hence better oversight role on company operations | | | | | |
| Existence of independent board committee enhances financial performance of the organisation | | | | | |

**END OF QUESTIONNAIRE**

Thank you for your cooperation. God Bless you.