

**INFLUENCE OF ATTRIBUTES OF DIRECTORSHIP ON CORPORATE  
GOVERNANCE IN SMALL SCALE TEA COMPANIES IN KIAMBU COUNTY IN  
KENYA**

**BY**

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## DECLARATION

This is my original work and has not been submitted to any other University for examination purpose.

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This research project has been submitted with my approval as the University supervisor

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## **DEDICATION**

I dedicate this research project to my newly wedded wife, Rose Kanana Mwenda, and my parents, the late Zaverio Muthamia and Teresia Muthoni who have encouraged me throughout my academic life.

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## **ABBREVIATIONS AND ACRONYMS**

<b>CEO</b>	- Chief Executive Officer
<b>CMA</b>	- Capital Market Authority
<b>CPA(K)</b>	- Certified Public Accountant of Kenya
<b>FRC</b>	- Financial Reporting Council
<b>KHR</b>	- Kenya Human Rights Commission
<b>KTDA</b>	- Kenya Tea Development Authority
<b>NEMA</b>	- National Environment Management Authority
<b>OECD</b>	- Organization for Economic Co-Operation and Development
<b>SPSS</b>	- Statistical Package for Social Sciences

## **ABSTRACT**

In the recent past, corporate governance has become of great concern especially in running of institutions and companies. The board of directors are mandated to steward these institutions and oversee the work of management. The board is supposed to act as fiduciaries to the companies acting in their best interest. To be able to achieve this competently, directors should possess some key attributes that will enable them perform their duties effectively. This study sought to establish the influence of attributes of directorship on corporate governance in small scale tea factory companies in Kiambu County of Kenya. Data was collected from the directors and factory unit managers using questionnaires that were designed in line with the code of best practices of corporate governance as described by private sector initiative for corporate governance trust (1999).The study established that directors' experience in other boards, possession of professional qualifications and work experience in other industries significantly influenced corporate governance both in as far as contribution to the board and appreciation of internal and external factors affecting governance were concerned. The study however found out that educational level especially since all directors were A level and above and age did not significantly influence corporate governance. The study also established that gender representation in governance as envisaged in the new constitution had not been embraced in the tea factories as all directors were male and recommended inclusion of both genders in the directorship. The findings of the study will greatly impact on policy, theory and practice of corporate governance in Kenya.

# CHAPTER ONE

## INTRODUCTION

### 1.1 Background of the Study

Since the advent of the corporation and the corporation's increasing dominance as the business organization of choice, attention has focused on the inefficiencies inherent in the separation of control from ownership that comes with the corporate structure. The proper constitution and functioning of a board of directors has been the monitoring device commonly used to ensure that the control and management of the firm is carried on for the benefit of the firm's owners (Lusthaus, et al, 2002).

Shareholders with their diversified interests do not necessarily have the professional capacity to run the organization. They appoint directors entrusting them to run the organization fairly, transparently and efficiently to enhance shareholders' value through well-defined objectives and the judicious implementation of strategies and policies. The directors in turn delegate the day-to-day operations of the organization to management who establish a system structures for the efficient operation of the organization. The directors and management are therefore agents of the shareholders (Lishenga, 2011).

Small scale tea factories in Kenya are spread across fourteen counties namely, Meru, TharakaNithi, Embu, Kirinyaga, Nyeri, Murang'a, Kiambu, Kisii, Nyamira, Kericho, Bomet, Nandi, Vihiga and Trans Zoia, There are five small scale tea factories in Kiambu county namely, Mataara, Gachege, Theta, Kambaa and Kagwe. These factories are managed by KTDA on day to day and have elected a board of six directors to give policy direction. (KTDA, 2012)

### **1.1.1 Corporate Governance**

Corporate governance is the system by which organizations are directed and controlled and it sets the relationships between company directors, shareholders and other stakeholder's as it addresses the powers of directors and of controlling shareholders over minority interest, the rights of employees, rights of creditors and other stakeholders (Kariuki, 2011). Private Sector Corporate Governance Trust (1999) define corporate governance as the manner in which the power of a corporation is exercised in the stewardship of the corporation's total portfolio of assets and resources with the objective of maintaining and increasing shareholder value and satisfaction of other stakeholders in the context of its corporate mission.

Corporate governance is concerned with creating a balance between economic and social goals and 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 interests of individuals, corporations and society (Baker, et al, 2007). Investors have become more discerning and insist on high standards of corporate governance in companies in which they invest and shareholders are more demanding that they receive maximum value for their investment.

Private Sector Corporate Governance Trust (1999) states that good governance is founded upon the attitudes, ethics and values of society regarding: accountability of power based on the fundamental belief that power should be exercised to promote human well being, democratic values in respect of the sharing of power, representation and participation, the sense of right and wrong, what is fair and just, work ethics, technology and continuing social responsibility, and efficient and effective use of resources for the production of goods and services.

The World Bank and the Organization for Economic Co-Operation and Development (OECD) have established the global corporate governance forum to; build a consensus in favour of appropriate policy, regulatory and corporate reforms, coordinate and disseminate corporate governance activities, provide corporate development and human capacity building in the associated fields of corporate governance.

During the October 1997 commonwealth heads of government meeting in Edinburgh it was resolved that capacity should be established in all commonwealth countries to create or reinforce corporations to promote good corporate governance. The commonwealth association for corporate governance was subsequently established which developed the principles for corporate governance in the common wealth. These were adopted at the November 1999 commonwealth heads of government meeting in Durban, South Africa.

The Africa capital markets forum is undertaking a study on the state of corporate governance in Africa. The King's committee report and code of practice for corporate governance in South Africa established in 1994 continues to stimulate corporate governance in Africa. Ghana, Uganda and South Africa have put in place national institutional mechanisms to promote good governance. In October 1999 the corporate sector in Kenya organized by private sector initiative for corporate governance formally adopted a national code of best practice for corporate governance.

### **1.1.2 Attributes of Directorship**

Board of directors, one of the internal stakeholders, plays a key role in corporate governance. Its members (directors) are elected normally by the subscribers (shareholders) of the firm (generally at an annual general meeting or AGM) to govern the firm and look after the subscribers' interests. The board has the ultimate decision-making authority and has the responsibility of endorsing the organization's strategy, developing directional policy, appointing, supervising and remunerating senior executives, and ensuring accountability of the organization to its investors and authorities. With its legal authority to hire fire and compensate top management, directors safeguard invested capital. Regular board meetings allow potential problems to be identified discussed and avoided (Bhagat and Black, 1999).

Director attributes include members' qualification as independent, as well as consideration of each member's skills and experience in the context of the needs of the company. Directors should possess the highest personal and professional ethics, integrity and values, and be committed to representing the best interests of the stockholders.

Besides, companies require directors to be averse with practical, mature business judgment; experience in analyzing corporate financial statements; experience and effectiveness working closely with a team of senior professionals; and an understanding of organizational structure and accountability, delegation of authority, compensation practices and the dynamics of competitive businesses. The size and composition of the Board should be appropriate for effective deliberation of issues relevant to the Company's business and related interests. Prospective directors should have many years of experience on other boards to ensure effectiveness (Bourke, 2006).

Though all its members might not be engaged in the company's day-to-day operations, the entire board is held liable (under the doctrine of collective responsibility) for the consequences of the firm's policies, actions, and failures to act. Members of the board usually include senior-most executives ('inside directors' or 'executive directors') as well as experts or respected persons chosen from the shareholders (called 'outside directors' or 'non-executive directors') (Baker, et al. 2007).

### **1.1.3 Small Scale Tea Sector in Kenya**

Tea was first introduced to Kenya in 1903 from India by a European settler GWL Caine and is currently the best foreign exchange earner in Kenya. Kenya is the third largest producer and the leading exporter of Tea in the world (23%). In Kenya, tea is cultivated by both large scale and small scale farmers. Small scale farmers play a vital role in the cultivation of tea in Kenya; it is estimated that small scale farmers contribute up to 60% of the total crop in the country whereas large scale tea estates contribute 40%. The tea sector employs 3 million people – directly and indirectly – about 8% of the population (KHRC, 2008). Tea earnings in 2009/2010 financial year reached an unprecedented KSh38.2 billion, up from KSh25.4 billion posted the previous year. For the first time in the history of tea growing in Kenya, in 2011, farmers earned an average of KSh43.02 per kilo of green leaf delivered, making them among the highest paid small scale tea farmers in the world(KTDA, 2011)

Since 1993, changes in tea commerce have moved towards reducing government control in KTDA and privatizing smallholder tea. The first step in liberalizing the smallholder tea trade exempted KTDA from the State Corporations Act, making the tea authority management no longer answerable to the government.

The second step repealed Legal Notice 42 of 1964, which changed Section 191 of the Tea Act, and replaced it with Legal Notice No. 109 of 1997, placing the KTDA board under the control of elected farmer representatives. Other changes made focused on privatization include tea smallholders owning factories by buying KTDA equity and shares; tea factory companies would be governed and managed by elected factory company directors; and KTDA's role was redefined as an agent for collecting green leaf, processing tea and marketing.

#### **1.1.4 KTDA Managed Factories in Kiambu County**

Tea was first grown in Kenya in Limuru, Kiambu county by Mr. G.W.L Caine in 1903 from India on experimental purposes (Gikang'a, 2008). Commercial cultivation began in 1924 and remained the exclusive preoccupation of the colonialists until 1956 when African growers were allowed to start planting tea. The first small scale tea factory in the county was Mataara which was commissioned on 8<sup>th</sup> October 1964 by then president of Kenya. It was followed by Kambaa in 1971, Theta 1981, Kagwe 1984 and Gachege 2003.(K.T.D.A). Since then tea cultivation in the county has developed tremendously both in the small scale and plantations. The five factories accounted for 9.36% of the total Greenleaf payment to small scale farmers nationally in the year 2010/11 which was Kshs 3.79 Billion out of a total payout of 40.52 Billion paid to all KTDA factories (KTDA statistics 2011).

According to the KTDA Ltd operations manual handbook (2000), the organisation manages the factories at a fee of 2.5 % of the sales proceeds. The organisation seconds senior management staff to the factories whereas other members of staff are recruited at the factory level. The factories undertake leaf collection from growers, manufacture and offers extension services.



## **1.2 Research Problem**

Owing to the nature of their job, directors' attributes play an immense role on Company performance. The board of directors should have sound business judgment and acumen, integrity, breath of vision, independence of thought, ability to work harmoniously within a team. They should be innovative, have entrepreneurial skills, learning abilities and willingness to learn, high ethical standards, commitment and devotion to duty and an helicopter view of the corporation among others. (Bourke, 2006). Given the separation of ownership and management, corporate governance is an important determinant in the survival or collapse of corporate bodies. Financial scandals around the world such as Global Financial Crisis and the incessant collapse of major corporate institutions in the USA, South East Asia, Europe and Nigeria such as Adelphia, Enron, World Com, Commerce Bank and XL Holidays have raised doubts on the efficacy of existing corporate governance practices in promoting transparency and accountability (Kajola, 2008). Kenya is not spared; before its collapse, Uchumi Supermarket was characterized by perfunctory expansion of branches and heavy borrowings which were not channeled into their intended purposes (Mwaura, 2007).

Major changes to the policy framework for liberalizing the tea industry were published in Sessional Paper No. 2 of 1999, debated in parliament and gazetted as "The Tea (Amendment) Act, 1999 in January 2000. The Sessional Paper focused on strengthening TBK to control and regulate the industry and on restructuring and privatizing KTDA to give farmers more say in tea collecting, processing and marketing through their tea factories. Under this change, KTDA continued to carry out management and development for the smallholder while registered tea growers in the area were able to own factories through shareholding. The shareholders in each factory elect members to form the board of directors to run the factory.

The factory board is responsible for procuring goods and services for the factory, recruiting factory employees, formulating annual budgets and monitoring expenditures, collecting leaf and paying farmers, governing and making policy for factory companies.

While several studies have been done in Kenya on corporate governance, to the best of my knowledge, none has focused on the influence of directorship attributes on corporate governance. Kariuki (2011) did a study on relationship between corporate governance and growth of organizations and found that corporate communication, leadership and internal systems of control are related with growth of companies. Ngugi (2007) did a study on the relationship between corporate governance structures and the performance of insurance companies in Kenya. He found that effectiveness of a board depends on the optimal mix of inside and outside directors; optimal board composition lead to better performance as inside directors are more familiar with the firm's activities and outside directors act as monitors to top management especially.

Gitari (2008) did a study on corporate governance and financial performance of state corporations and established that good corporate governance practices ensure profitability and long term sustainability of the corporations. Mwangi (2010) conducted a study on the effects of corporate governance on the performance of microfinance institution and found that a positive relationship between performance and audit committee, board composition and corporate social responsibility.

Matengo (2008) studied the relationship between corporate governance practices and performance the case of banking industries in Kenya and found that good corporate governance will lead to lower firm risk and subsequently to a lower cost of capital.

This study will, therefore, fill-in this knowledge gap by answering the following research question; how does director's individual attributes affect the corporate governance in small scale KTDA managed tea factories in Kiambu County?

### **1.3 Research objective**

The study seeks to determine how attributes of directorship influence corporate governance in small scale tea sector in Kiambu County, Kenya

### **1.4 Value of the Study**

This study will be of significance to various stakeholders due to its informational value. To begin with, investors (farmers) this study will highlight the corporate governance at KTDA and relate this with the directors' attributes. When the findings here-in are implemented, the tea farmers would benefit from proper stewardship of their wealth. The farmers would be able to adjust the requirement of directorship at KTDA in line with the study's findings.

Secondly, the government formulates policies that might affect the governance companies, thus, their sustainability. This study by instituting to find out the influence of directorship attributes in corporate governance. The findings will, therefore, enlighten the government against and its regulatory bodies such as Capital Market Authority (CMA) against formulating policies that might stifle good governance mechanism.

Lastly, the results of this study would also be invaluable to researchers and scholars, as it would form a basis for further research. The students and academics would use this study as a basis for discussions on the corporate governance practices and the attributes of directorship.

## **CHAPTER TWO**

### **LITERATURE REVIEW**

#### **2.1 Introduction**

This chapter presents the various theories and literature that has been done on the subject matter: board members attributes and corporate governance. The chapter is thus structured into concept of corporate governance, history of corporate governance, corporate governance and performance of corporations and attributes of directorship.

#### **2.2 Concept of Corporate Governance**

Corporate governance refers to how a corporation is governed (National Association of Corporate Directors, 2006). It is the process and structure used to direct and manage the business affairs of the company towards enhancing business prosperity and corporate accountability with the ultimate objective of realizing long-term shareholder value, whilst taking into account the interest of other stakeholders.

Corporate governance arises owing to the separation between ownership and control due to the asymmetric interests of managers and owners regarding firms' behaviour. The separation usually materializes in difficulties to enforce corporate control by the owners; agency costs/problems in the principal-agent framework (Ang *et al.*, 2000). Under such framework, corporate decisions and agency costs are explained in terms of the asymmetries of interests of the stakeholders in the firm (Daily *et al.*, 2003).

In this agency relationship, insiders (managers) have an information advantage. Owners therefore face moral dilemmas because they cannot accurately evaluate and determine the value of decisions made. Thus, the agent takes advantage of the lack of observability of his actions to engage in activities to enhance his personal goals.

To mitigate these agent-shareholder conflicts, formal contracts are thus negotiated. Agency theory suggests that the separation of corporate ownership and control potentially leads to self-interested actions by managers (Jensen and Meckling, 1976).

Agency problems raise the issue of whether directors should be employees of or affiliated with the firm (inside directors) or outsiders. On the one hand, inside directors are more familiar with the firm's activities and they can act as monitors to top management especially if they perceive the opportunity to advance into positions held by incompetent executives. On the other hand, outside directors may act as “professional referees” to ensure that competition among insiders stimulates actions consistent with shareholder value maximization (Fama, 1980). John and Senbet (1998), argue that boards of directors are more independent as the proportion of their outside directors increases.

### **2.3 Historical Developments in Corporate Governance**

Governance is a word that barely existed before 1990s. Now it is in common use not just in companies but also in charities, universities, local authorities and National Health Trusts. It has become shorthand for the way an organisation is run, with particular emphasis on its accountability, integrity and risk management (Wong, 2008). The “revolution” started in the early 1990s with the Cadbury Report on the financial aspects of corporate governance, to which was attached a code of best practice. Aimed at listed companies and looking especially at standards of corporate behaviour and ethics, the “Cadbury Code” was gradually adopted by the City and the Stock Exchange as a benchmark of good boardroom practice (Jones, 2001).

In 1995, the Greenbury Report added a set of principles on the remuneration of executive directors, and in 1998 the Hampel Report brought the two together and produced the first Combined Code. In 1999, the Turnbull Report concentrated on risk management and internal controls. Since 2001 drive towards corporate governance was higher, particularly due to the high-profile collapses of a number of large corporations, most of which involved accounting fraud. Corporate scandals of various forms have maintained public and political interest in the regulation of corporate governance with leading examples being Enron Corporation and MCI Inc. Their demise is associated with the U.S. federal government passing the Sarbanes-Oxley Act in 2002, intending to restore public confidence in corporate governance (Jones, 2001).

In 2002, Derek Higgs, an investment banker, was tasked to look again at corporate governance and build on the previous reports to produce a single, comprehensive code. Shortly afterwards, the full consequences of the Enron and Worldcom scandals were realised, leading to new unease (Shah, 2008). The Higgs Report came out in 2003, but was greeted with horror by some leading companies, with claims that it placed an unrealistic burden on non-executives and marginalised the role of the chairman (Johnson, Daily and Ellstrand, 1996).

The task of taking Higgs's draft forward was passed to the Financial Reporting Council (FRC), a body established by government and comprising members from industry, commerce and the professions. The FRC consulted further and produced a revised Code that followed most of Higgs's recommendations but softened a few of the more contentious points, and so gained general acceptance (Shah, 2008).

At the same time Sir Robert Smith, chairman of the Weir Group, was leading a review of the role of audit committees and his recommendations were incorporated into the new Code. The 2003 Code was updated with minor amendments in June 2006, with the new version applying to financial years beginning on or after November 1, 2006 (Jones, 2001).

## **2.4 Attributes of Directorship**

For there to be an optimal board composition, it must achieve the best mix of director skills and experience which depends on the director's personal attributes. Bourke (2006) stated that every board should agree on a clear statement of desired personal attributes of all board members to provide guidance to the nominating and governance committee as they search for director candidates. According to Trautman (2011), each director should possess core personal attributes such as: high standards of ethical behaviour; availability; outstanding achievement in the individual's personal and professional life; possession of strong interpersonal and communication skills; independence; and soundness of judgment. Strong personal attributes of a director is critical to ensuring that the board work effectively as a team while drawing on each director's skills and qualities.

Broad business experience, including considerable prior high-level decision-making and a demonstrated track record of problem solving is an obvious set of primary skills desired for every director (Trautman, 2011). Corporation can be best served by a board that demonstrates a diversity of background, experience, and functional skills. Every board should also set forth a statement of desired experience attributes for each director candidate (Useem, 2003).

According to Trautman (2011), these might include such characteristics as: general business experience (possess a general understanding of elements related to the success of a company like in the current business environment); specific industry knowledge (possess a reasonable knowledge about the businesses); financial acumen (should have a good understanding of business finance and financial statements); educational and professional background (should possess a complementary set of skills within a framework of total board knowledge base); and, diversity of background and viewpoint (bring to the board an appropriate level of diversity).

With respect to board members, diversity includes not only gender and ethnicity, but also a diversity of industry and functional experience. It is difficult to generalize which are the most critical skills since the board must first identify requisite critical skills and experience followed by conducting an audit of skills and career experience that currently exist on the board. Any missing skills or experience form the foundation for identifying candidates for the board (Trautman, 2011).

In addition to relevant industry experience and functional skills required for a balanced board, boards need individuals that can provide strategic and visionary guidance to support management while protecting shareholder interests. Other skills in high demand include the ability to establish the "tone at the top," set clear expectations, and monitor company performance/results while focusing on the long term (Roberts, McNulty and Stiles, 2005). Other attractive personal traits include the ability to build consensus and provide objective/independent assessments of complicated issues facing the board.



The skills most difficult to identify, and subsequently attract, are often related to personal traits of strategic thinking and guidance, intellectual rigor, and the ability to distil complex issues into workable action plans (Payne, Benson and Finegold, 2008). Regardless of the board's form, structure or process, for the corporate governance system to work, directors must possess two fundamental qualities – integrity and diplomacy. Integrity, judgment and the conviction to do the right thing are vital, particularly when navigating complex and uncertain territory (Cadbury, 2002).

Diplomacy is also essential – no matter how brilliant and brave a director may be, the director will not be effective if he or she cannot communicate, persuade and bring others along or perhaps, where appropriate, judge the pace of change, and know when to stake reputation on the issue and resign if necessary. This also involves the need to plan an active strategy in relation to difficult issues like weak governments, corrupt business environments and controlling shareholders with their own agendas for either family or the state (Payne, Benson and Finegold, 2008). According to Ames (2008), determining what a director's scope of action should be, how to garner support from shareholders, where to build alliances in the community and how to rally other directors behind any reform effort – this constitutes the day-to-day work of directors in most companies and quintessence of diplomacy. Working well with others is a major requirement of productive directors; and the ability to ask the right penetrating questions at the right time, without being disagreeable, is a must (Trautman, 2011). Independence is evidenced by the ability to represent the total corporate interests of the company (as opposed to representing the interests of a group (Johnson, et al 1996).

Corporate governance has progressively become legalized in many countries in response to company failure such as Worldcom, Enron, Adelphia Communications in USA; and, the 2008-2009 financial crisis. Most notable of the regulatory developments during is the insistence that certain board committees (audit, compensation and nominating and governance committees) be composed entirely of independent directors (Fairfax, 2002). A demonstrated soundness of judgment and effectiveness, as evidenced by a proactive and results oriented approach to problem solving; and the ability to make independent, analytical inquiries of factual patterns is desired. Also helpful is an interest in and familiarity with management theory and best business practices (Golden and Zajac, 2001).

A common personal quality required by every board nominating committee is a focus on personal integrity. High standards of ethical behaviour are an absolute must. The potential cost to the enterprise and other directors are just too high to assume likely risks. The risk of litigation for lapses of personal integrity is a major reason why boards tend to find directors who are already well-known to at least one sitting director when looking for replacements (Felton and Watson, 2002). Fairfax (2002) noted that the propensity appears motivated by the desire to mitigate perceived risks by sitting directors. The risk, to both reputation and personal net worth, is likely reduced by recruitment of a new “already-known” director.

The growing turbulence in business environment has brought significant increases to the time demands placed on directors. Serving on a board these days requires a significant time commitment, even under normal circumstances. Because of increased time demands resulting from greater requirements falling on members of boards’ committees, every director find it difficult, if not impossible to have the schedule flexibility allowing for more than concurrent service on just a few boards (Fairfax, 2002).

Therefore, as a proxy for the willingness and ability to devote the time required to perform board's activities adequately, the number of other boards on which an individual serves as a director is considered. Many companies have decided that directors should not serve on the boards of more than two or three other companies (Stuart, 2010). Stuart states that during times of corporate crisis every waking moment of a director's time might be required.

This will ensure that members exhibit personal commitment and diligence and take the necessary time, make the necessary effort to fulfil director responsibilities, including understanding strategic, financial and operational issues facing the organization, asking questions and following up as needed, engaging personally with the organization, whether through financial support, advocacy, networking, personal service, or other personal support activities, and staying current on sound governance principles and working to apply them to the organization (Ames, 2008).

Company shareholdings held by management and other employees of the entity is useful in reducing agency conflicts and aligning the interests of management with shareholders (Cafferty, 2004). Besides, ownership by persons independent of the company increases monitoring of management activity, particularly that of the financial reporting process, thereby, reducing the likelihood of bad corporate governance (Cascio, 2004).

It is, thus, theorized that as insider ownership increases, the need for monitoring decreases as a result of the insiders' interests being more closely aligned with that of other owners/shareholders (Jensen and Meckling, 1976). Similar to Jensen and Meckling's theory on insider ownership (1976), it is considered that as the level of shareholdings held by outsider's increase, monitoring of management also increases.

Outsiders with substantial holdings in a company, such as institutional investors, tend to focus more attention on the entities financial condition and the disclosures produced in the accounting statements. Outside directors, thus, have greater incentive to monitor management. Anderson, Mansi and Reeb (2004) suggested that professional directors and directors with equity stakes are associated with greater monitoring.

The *2011 Spencer Stuart U.S. Board Index* compared boardroom trends of S&P 500 companies over a ten year period. One of the key finding, related to board composition, was that 73% of the boards set a mandatory retirement age for directors of which 83% set a mandatory retirement age of 72 or higher.

## **2.5 Corporate Governance and Performance of Corporations**

Good governance generates investor goodwill and confidence; poorly governed firms are expected to be less profitable. Claessens et al (2003) also posit that better corporate framework benefits firms through greater access to financing, lower cost of capital, better performance and more favourable treatment of all stakeholders. They argue that weak corporate governance does not only lead to poor firm performance and risky financing patterns, but are also conducive for macroeconomic crises like the 1997 East Asia crisis (Donaldson, 2003).

Bebchuk, Cohen and Ferrell (2004) have shown that well governed firms have higher firm performance. The main characteristic of corporate governance identified in the study include board size, board composition, and whether the CEO is also the board chairman. There is a view that larger boards are better for corporate performance because they have a range of expertise to help make better decisions, and are harder for a powerful CEO to dominate.

Bhagat and Black (2002), found no solid evidence on the relationship between board size and performance, although there are hints of an inverse correlation between the two. Brown and Caylor (2004) find that firms with independent board of directors have higher return on equity, higher profit margins and larger dividends yields.

They seem to suggest that an independent board of directors is associated with other measures of performance, other than Tobin's Q. Piesse et al (2003) study family owned concerns in Taiwan in a longitudinal study of 228 firms and find that "board independence from the founding family and board members' financial interests have a positive impact on performance".

MacAvoy and Millstein (1999) use a different proxy for independence – CalPERS grading of board procedures. They find that their proxy for independence is positively related to accounting based measures of performance. Baysinger and Butler (1985) also found a long term relationship between the independent board of directors (in 1970) and return on equity (in 1980). Millstein and MacAvoy (1998) find a statistically significant relationship between active, independent boards and superior firm performance.

Yermack (1996) reports a significant negative correlation between proportion of independent directors and contemporaneous Tobin's q. Furthermore, Rosenstein and Wyatt (1997) argue that insiders are more effective because they have superior knowledge of the firm and its industry than outside directors, and they are just as diligent as outside directors, given their legal responsibilities and their own interests in the firm.

## **CHAPTER THREE**

### **RESEARCH METHODOLOGY**

#### **3.1 Introduction**

This chapter illustrates the methods that were employed by this study in achieving its objectives. It is structured into: research design, population of the study, data collection techniques and data analysis.

#### **3.2 Research Design**

The study adopted a survey research design. The survey design was chosen since the study covered the entire KTDA managed tea factories in Kiambu County. Survey research design is a non-experimental and descriptive research method useful in collecting data on phenomena that cannot be directly observed and assessing attitudes and characteristics of a wide range of subjects/phenomena (Babbie, 1990).

Mugenda and Mugenda (2003) noted that survey design is able to give results that are holistic of the population and are useful in describing the characteristics of a population. This method is, thus, preferred as it will illuminate how attributes of directorship influence corporate governance.

#### **3.3 Population**

The population of this study was the directorship of KTDA managed tea factories in Kiambu County and the respective factory unit managers. Currently, there are five KTDA managed tea factories in Kiambu County: Kambaa, Kagwe, Theta, Gachege and Mataara Tea Factories. According to KTDA code of corporate governance the board of directors of each tea factories consist of six directors and a board secretary who is the tea factory unit manager.

Given the few number of directors per factory, the study was a census of the directors within the five tea factories. To obtain data on the corporate governance practices by each respective company, the directors filled in a questionnaire that had been designed in line with code of best practices corporate governance as described by private sector initiative for corporate governance (1999).

**Table 4.1: Study Population and Census**

Directors	Directors	Company Secretary	Census
Kambaa Tea Factory	6	1	7
Kagwe Tea Factory	6	1	7
Theta Tea Factory	7	1	8
Gachege Tea Factory	6	1	7
Mataara Tea Factory	6	1	7
Total	31	5	36

**Source: KTDA (2011)**

### **3.4 Data Collection**

Emphasis was given to primary data sources. Primary data was collected through questionnaires. Questionnaires were preferred as their responses are gathered in a standardized way making them more objective than interviews, are relatively quick to collect information and potentially information can be collected from a large portion of population or sample (O'Connor, 2011). The standardized answers made it simple to compile and analyze the data gathered (Babbie, 2006). Babbie adds that questionnaires have advantages over some other types of instruments in that they are cheap, do not require as much effort from the questioner as verbal or telephone surveys.

The questionnaire were semi-structured; that is, open and close-ended questions. Open-ended questions were used to encourage the respondent to give an in-depth and felt response. Closed-ended questions were used to conserve time and facilitate easier analysis as they are in immediate usable form. Some of the close-ended questions had a 5-Point Likert scale, along which the respondents were required to rank given factors. The drop and pick method was used to administer the questionnaire. The researcher made telephone calls to the respondents reminding them to fill-in and submit the questionnaires.

### **3.5 Data Analysis**

The data gathered was coded, numbered and classified under different variables for easy identification and entries made into Statistical Package for Social Sciences (SPSS Version 17). Since the data collected was both quantitative and qualitative, descriptive statistics and content analysis were used in analysis respectively. Qualitative data was analyzed based on the content matter of the responses by grouping common themes or patterns into coherent categories to explain the findings.

Quantitative data was analyzed using descriptive statistics which involved the use of absolute and relative (percentages) frequencies, measures of central tendency and dispersion (mean and standard deviation respectively). The study also conducted principal component factor analysis on the factors so as to reduce the factors to the most significant factors. Chi-square test was used to test the significance of association between the variables of interest (board attributes and corporate governance). These tests were conducted at 95% level of confidence ( $\alpha=0.05$ ). Quantitative data was presented in tables and graphs (pie charts and bar graphs) while the explanation to the same and qualitative data was presented in prose.



## **CHAPTER FOUR**

### **ANALYSIS AND INTERPRETATION OF RESULTS**

#### **4.1 Introduction**

This chapter presents the data that was found on the influence of attributes of directorship on corporate governance in small-scale tea factory companies in Kiambu County. The research was conducted on the 5 tea factories within the County, from which 6 directors were sampled from each factory making a population size of 30 respondents. However, 25 respondents filled and returned making a response rate of 83.3%. Mugenda and Mugenda (2003) prescribed significant response rate for statistical analysis at a minimal value of 50%. This commendable response rate was made possible after the researcher personally administered the questionnaire and made further visits to remind the respondents to fill-in the questionnaires.

This study made use of frequencies (absolute and relative) on single response questions. However, on multiple response questions, the study used Likert scale in collecting and analyzing where a scale of 5 points were used in computing the means and standard deviations there-to computed. These were presented in tables, graphs and charts as appropriate with explanations being given in prose. Findings from open-ended questions were also presented in prose.

#### 4.2 Demographic Information – Directors’ Attributes

The study sought to establish the general information of the respondents so as to establish the representation of the study’s findings and suitability of the same. This section is grouped into the tea factory representation, gender of respondents, work experience and professional qualification.

**Table 4.2: Representation of Tea Factories**

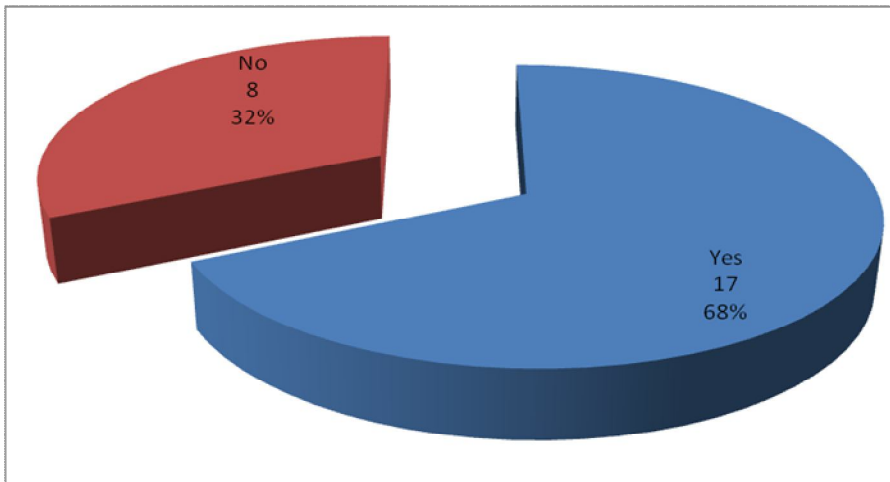
<b>Factory</b>	<b>Frequency</b>	<b>Percentage</b>
Gachege Factory	6	24.0
Kagwe Factory	2	8.0
Kambaa Factory	6	24.0
Mataara Factory	6	24.0
Theta Factory	5	20.0
<b>Total</b>	<b>25</b>	<b>100.0</b>

The study sought to establish the representation of tea factories from the data gathered. Table 4.2 shows that 72% of the respondents were from Gachege, Kambaa and Mataara Tea factories in equal numbers, 20% were from Theta Tea Factory while 8% were from Kagwe Tea Factory. This indicates that Kagwe Factory were least represented pointing to low response rate from the company as the factories were equally sampled.

**Table 4.3: Academic Qualification of Respondent**

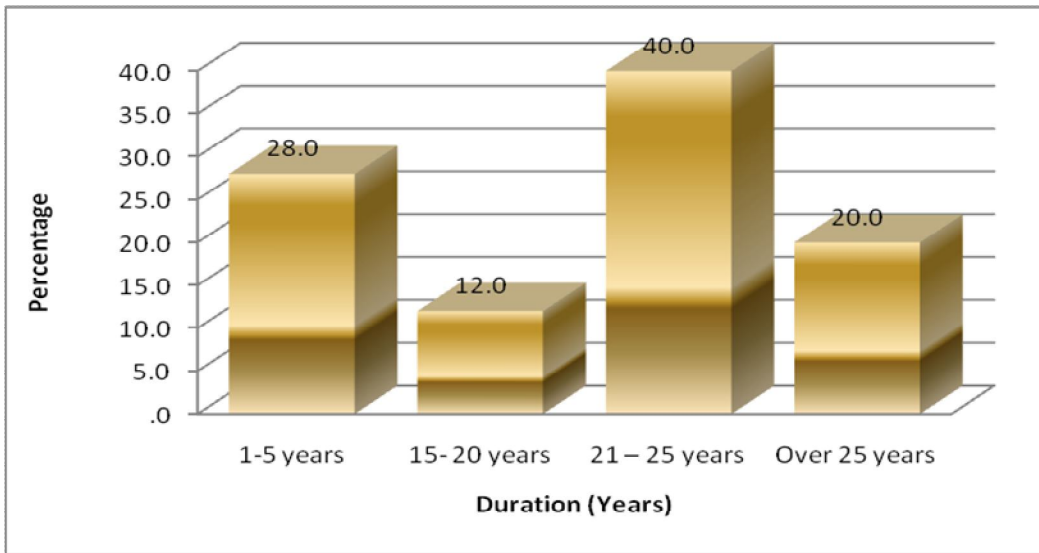
<b>Level</b>	<b>Frequency</b>	<b>Percentage</b>
O or A Level	13	52.0
Tertiary or College/Diploma	5	20.0
Graduate level	6	24.0
Postgraduate level	1	4.0
<b>Total</b>	<b>25</b>	<b>100.0</b>

The study established that all the directors were male. This is indicative of the gender disparity in directorship of the tea factories in Kiambu County where all the directors were male. On representation of the respondents along the academic qualifications, the data gathered was presented in Table 4.3. From the Table, 52% of the respondents had O or A Level as their highest academic qualification; 24.0% and 20% of the respondents were bachelors and college/diploma holders. The findings, thus, indicate that majority of the respondents were A-level certificate holders.



**Figure 4.1: Possession of Other Professional Qualification**

The respondents were required to indicate whether they had any other professional qualification besides academic ones. The findings indicate that 68% had other professional qualifications while 38% didn't. This indicates that majority of the respondents had other professional qualification which gave them an edge in directorship contention; consequently instrumental in discharge of their duties in the board room. These directors were: surveyors, accountants, agricultural officers, agronomists, CPA(K)s, economists, environmental management/NEMA lead experts, former KTDA managerial employees, retired school principals and teachers.



**Figure 4.2: Work Experience**

To the question on the work experiences of the respondents, the findings are presented in Figure 4.2. The Figure shows that 40% of the respondents had 21 to 25 years experience; 28% of the respondents had worked for at most 5 years; 20% had worked for over 25 years; and, 12% had worked for 15 to 20 years. From the findings, it can be deduced that majority of the directors had worked for at least 21 years. This collaborates the work and professional experience required of directorship in the tea factories in Kiambu County.

**Table 4.4: Experience on Industries Other Than Tea Industry**

Response	Frequency	Percent
Yes	19	76.0
No	6	24.0
<b>Total</b>	<b>25</b>	<b>100.0</b>

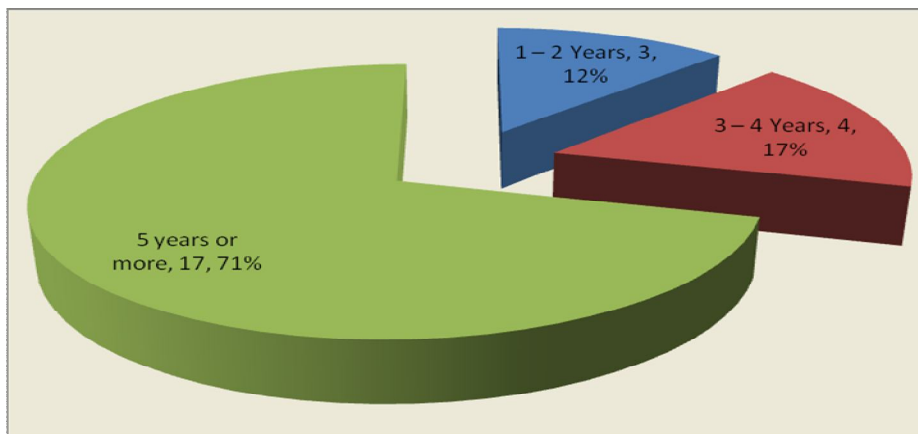
The study sought to establish whether the directors had experience in other industries other than Tea Industry. Table 4.4 shows that 76% of the respondents were affirmative while 24% replied to the contrary.

This, further, underscores the overemphasis on experience of the directors in Tea industry as majority of them had work experience, or otherwise, in other industries.

**Table 4.5: Service as a Board Member in Other Companies**

<b>Response</b>	<b>Frequency</b>	<b>Percent</b>
Yes	14	56.0
No	11	44.0
<b>Total</b>	<b>25</b>	<b>100.0</b>

The respondents were required to indicate whether they were board members in other companies apart from board room of their respective tea factories. Table 4.5 shows that 56% of the respondents replied in the affirmative, on the other hand, 44% of the respondents were not serving in the board of other companies. From this finding, majority of the directors had experience in other boards.



**Figure 4.3: Length of Time Serving as Companies' Board of Directors**

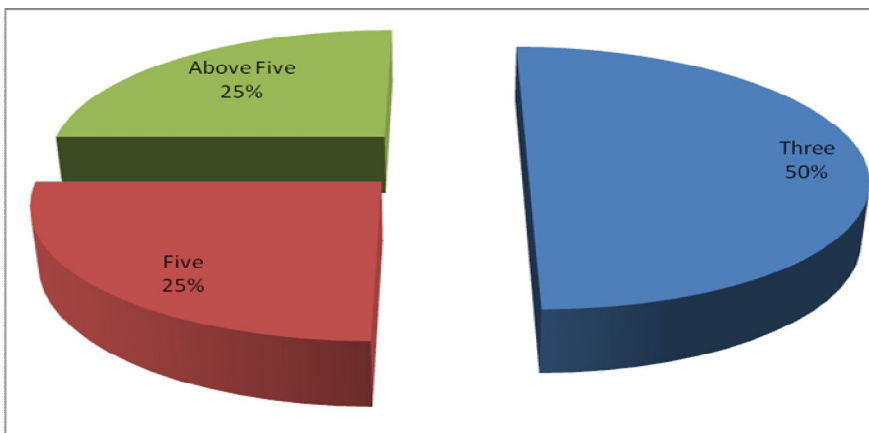
The respondents were asked to indicate for how long they had served as companies' board of directors.

Figure 4.3 indicates that 71% of the respondents had served in the board rooms of companies for atleast 5 years; 17% had served for 3 to 4 years; while, 12% of the respondents had served for 1 to 2 years. This, further, underscores the experience of the directors in corporate boards, hence their acumen in corporate governance issues.

**Table 4.6: Age of Respondents**

Age	Frequency	Percentage
20 years or less	0	0.0
21 -30 years	0	0.0
31- 40 years	5	20.0
above 40 years	20	80.0
<b>Total</b>	<b>25</b>	<b>100.0</b>

To the question on the age of the respondents, Table 4.6 indicates that 80% of the respondents were above 40 years old while 20% were 31 to 40 years old. From the results, majority of the directors in the tea industry were at least 40 years old.



**Figure 4.4: Number of Board Committees**

To the question on whether the directors were also in management, all the respondents replied to the negative. This illustrates that the boards of the tea companies had non-executive directors. The respondents were then asked to indicate the number of board committees within the Tea Factories. Figure 4.4 illustrates that 50% of the respondents stated that they had three board committees; 25% stated that they had five or more board committees. They enumerated the board committees as Tea Cess; Operation and Procurement; Non-Executive Oversight; and, Firewood Land Development Committees.

### 4.3 Directors' Competence

This section looks at the competence of individual directors in governance of their respective companies. The competence looks at the internal and external analysis and performance in board meetings of the tea factories.

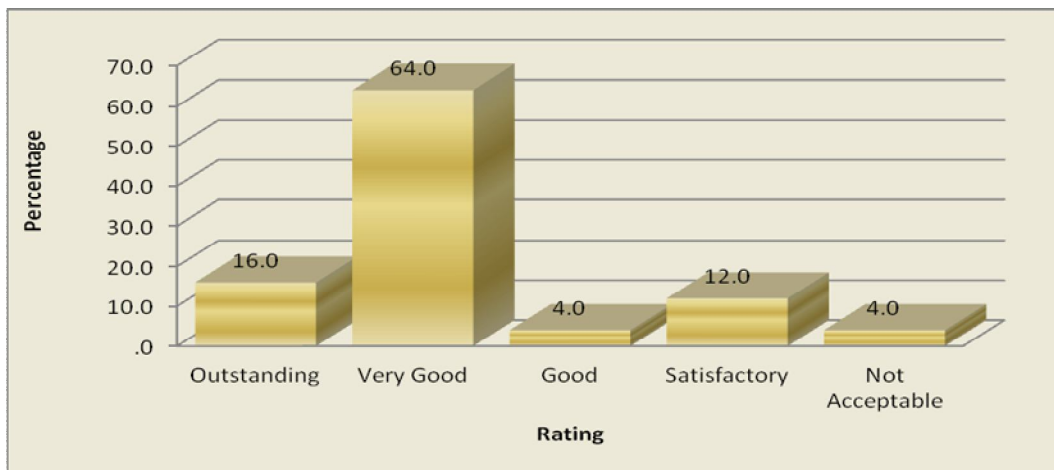
**Table 4.7: Directors' Competence**

<b>Variable</b>	<b>Weak</b>	<b>Adequate</b>	<b>Needs Improvement</b>	<b>Strong</b>	<b>Consistently Good</b>	<b>Mean</b>
Ability to read socio-economic issues facing the tea industry in general and the factory in particular	2	0	7	6	10	3.88
Preparedness to keep a breast of the latest developments in the sector and in their corporate responsibilities	2	3	5	6	9	3.68
Ability to read, analyse and interpret the company's balance sheet, income statement and cash flow statement	4	2	4	5	10	3.6

The study sought to establish the respondents' competence regarding socio-economic issues facing the tea industry and latest developments in the sector .

A 5-point Likert scale ranging from weak (1 point) to consistently good (5 points) was used to aid in analysing the respondents' competence. Weighted mean was calculated where a mean of 3.4 and above signifies aptitude of the respondent (director) regarding the competence measures in question.

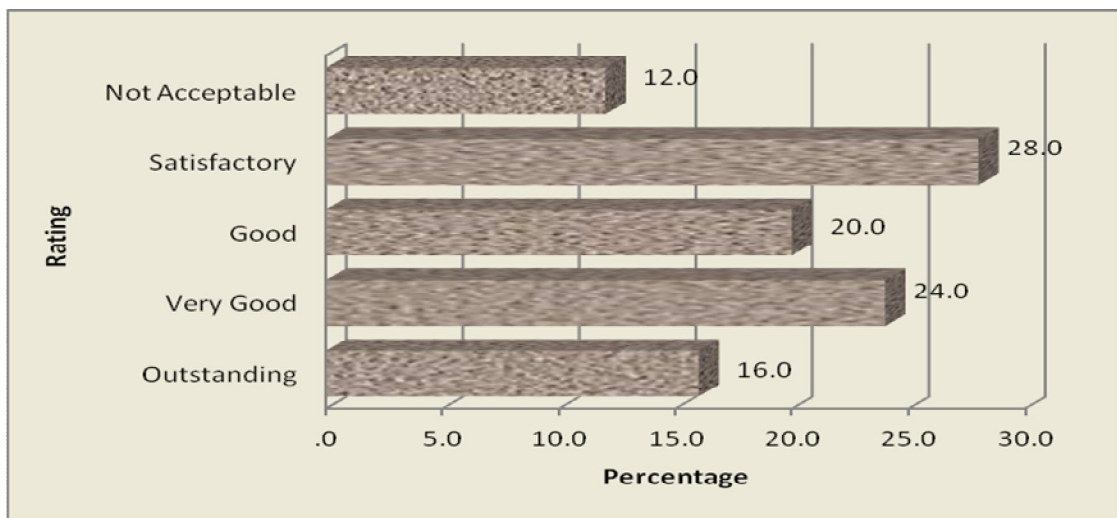
From Table 4.7, ability to read socio-economic issues facing the tea industry in general and the factory in particular had a mean of 3.88; preparedness to keep a breast of the latest developments in the sector and in their corporate responsibilities had a mean of 3.68; while, ability to read, analyse and interpret the company's balance sheet, income statement and cash flow statement had a mean of 3.6. The findings, thus, indicate that the directors had strong skill or ability to read socio-economic issues facing the tea industry and staying a breast of the latest developments in the tea sector and in their corporate responsibilities than their aptitude in read, analyse and interpret the company's balance sheet, income statement and cash flow statement. This could owe to the fact that directorship requires broad scope of skills in environmental analysis and since analysis of financial statements (internal analysis) is a skilled field they employ financial officers.



**Figure 4.5: Attendance of Board meetings and Attention to Affairs of the Company**

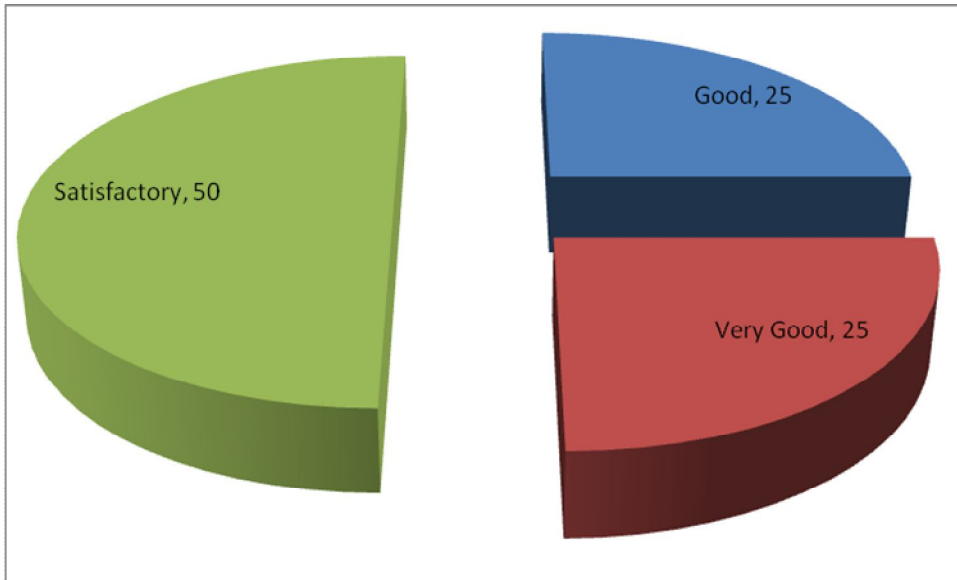


The respondents were asked to rate their performance in the duty of attending Board meetings and devoting sufficient time and attention to affairs of the company. Figure 4.5 shows that 64.0% of the respondents rated their performance as very good; 16% rated the same as outstanding; while, 12% rated the same as satisfactory. This illustrates that majority of the respondents aptly attended Board meetings and devoted sufficient time and attention to affairs of the company.



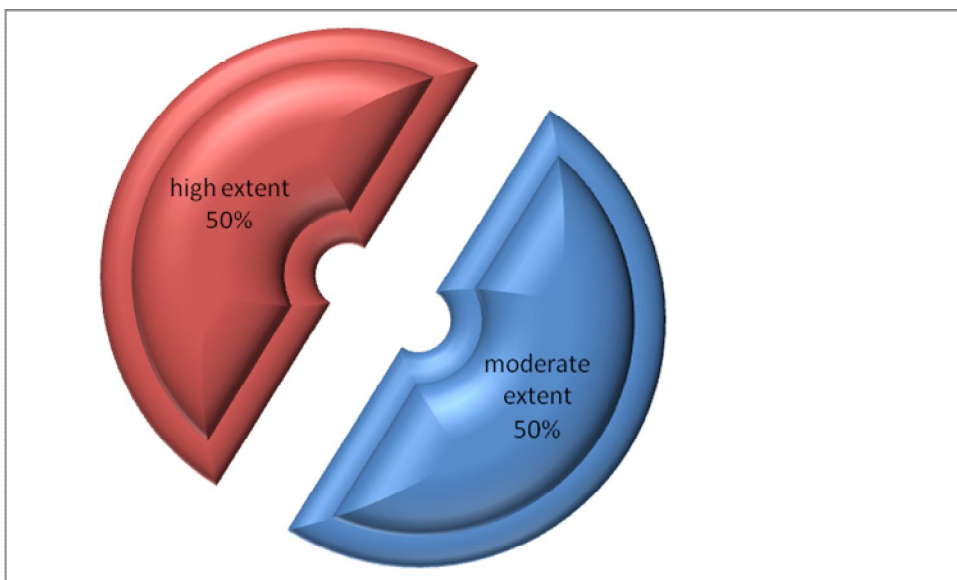
**Figure 4.6: Level of Directors' Participation in Meetings**

The study seeks to establish the level of effective participation the director had in meetings. Figure 4.6 indicates that 28% of the respondents satisfactorily had effective participation in Board meetings; 24% had very good effective participation in Board meetings; 20% had good effective participation in Board meetings; while, 16% had outstanding effective participation in Board meetings. This illustrates that overall, the directors had average effective participation in Board meetings.



**Figure 4.7: Board's Independence**

The board secretaries were required to assess the board's overall independence. Figure 4.7 indicates that 50% rated the boards' independence as satisfactory; 25% rated the same as good or very good. This depicts that the corporate boards of the tea factories were independent.



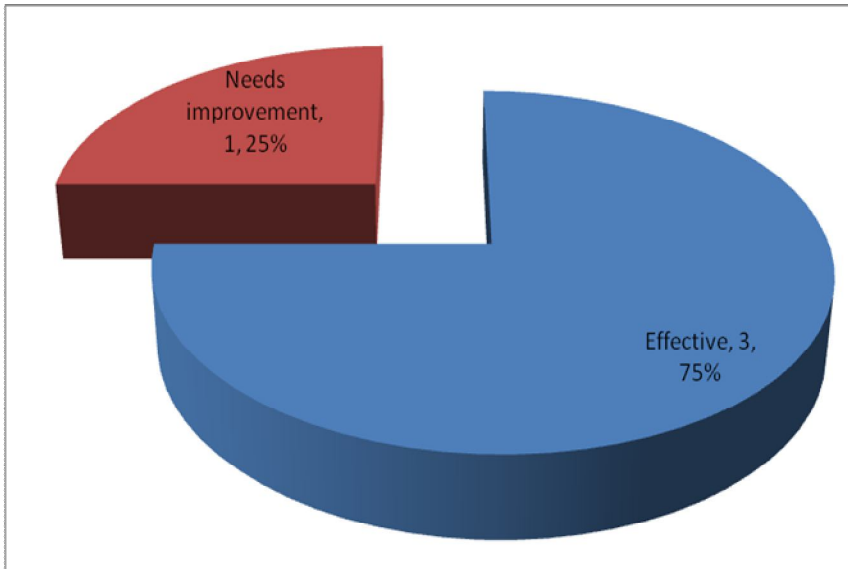
**Figure 4.8: Mix of Skills of the board and Performance of Duties**

The secretaries were further asked to state the extent to which the mix of skills of the board members allows the board to effectively perform its assigned responsibilities. Figure 4.8 shows that 50% of the board secretaries considered the mix of skills of the board members as allowing effective discharge of boards' assigned responsibilities to either a moderate extent or high extent.

**Table 4.8: Adequacy Of Board Meetings To Properly Discharge Duties**

<b>Response</b>	<b>Frequency</b>	<b>Percent</b>
Very Inadequate	1	25.0
Adequate	2	50.0
Very Adequate	1	25.0
<b>Total</b>	<b>4</b>	<b>100.0</b>

The study asked the board secretaries' opinions on the adequacy of the annual Board meetings to properly discharge its duties during the year. From Table 4.8, 50% of the respondents stated that board meetings were adequate while an equal percentage (25%) stated that the same was either very inadequate or very adequate. All the secretaries however, stated that all the board members attend most of the board meetings.



**Figure 4.9: Skills-Experience Mix and Performance**

To the question on whether the board members skills and experience is effective in analysing and critically evaluating information presented to the board, given the tea industry’s business and risk environment, 75% of the board secretaries stated that the skill mix was effective while 25% felt that the same needs improvement. On whether the appropriate internal stakeholders (management and/or shareholders) are well informed on a sufficiently timely basis regarding the Board’s deliberations, all the boards’ secretaries were affirmative.

#### **4.4 Corporate Governance and Directors Attributes**

This section compares the directors’ attributes with the corporate governance of the respective tea factories. In order to achieve this, the study adopted a 5-point Likert scale in collecting data and analyzing the same by determining the weighted mean from the responses. From the scale, 5 points was allocated to consistently very good; good = 4 points; adequate = 3 points; needs improvement = 2 points; and, weak = 1 point.

**Table 4.9: Corporate Governance and Directors Attributes**

<b>Variables</b>	<b>Weak</b>	<b>Needs Improvement</b>	<b>Adequate</b>	<b>Good</b>	<b>Consistently Very Good</b>	<b>Mean</b>	<b>STDEV</b>
Contribution to the Board: strengths, abilities, experience and judgment	0	3	4	13	5	3.8	0.894
Availability and willingness to attend meetings and actively participate in the work of the collective agency	0	2	1	11	11	4.24	0.862
Understanding the financial structure of the business	2	2	5	3	13	3.92	1.324
Understanding of the business as a whole	1	3	8	5	8	3.64	1.162
Level of understanding of the relevant sector	0	5	5	15	0	3.4	0.800
Communication with fellow Board members, CEO and shareholders	0	1	1	18	5	4.08	0.627
Level of understanding of the market, the customer and quality focus	0	3	10	6	6	3.6	0.980
Confidence and courage of thinking, speaking and acting	2	1	4	16	2	3.6	0.980
Ability to constructively debate in a reasoned manner	0	4	5	6	10	3.88	1.107
Willingness to take an independent viewpoint	0	5	6	3	11	3.8	1.200
Willingness to give extra time with Chairman/CEO on relevant matters between meetings	1	3	4	5	12	3.96	1.216
Knowledge of Company's key officers, managers and facilities	1	3	5	13	3	3.56	0.983
Level of understanding of the Boards obligations to staff, the media and the community with respect to Board policy	2	1	4	14	4	3.68	1.048
Understanding the relationships between other key players in the sector	1	5	7	9	3	3.32	1.048
Contribution to the strategic planning process	1	4	6	14	0	3.32	0.882
Ability to contribute at a strategic level in Board debate	1	3	4	4	13	4.0	1.233
Understanding of the role of the Board (governance versus management)	0	2	7	13	3	3.68	0.786
Acceptance of collective responsibility and Board room confidentiality	3	2	1	14	5	3.64	1.229
Level of understanding with regard to the legal and ethical responsibilities of the Board	0	5	5	12	3	3.52	0.943

From Table 4.9, availability and willingness to attend meetings and actively participate in the work of the collective agency had a mean of 4.24; communication with fellow Board members, CEO and shareholders had a mean of 4.08; ability to contribute at a strategic level in Board debate had a mean of 4.0; willingness to give extra time with Chairman/CEO on relevant matters between meetings had a mean of 3.96; understanding the financial structure of the business had a mean of 3.92; ability to constructively debate in a reasoned manner had a mean of 3.88; both the contribution to the Board: strengths, abilities, experience and judgment and willingness to take an independent viewpoint had a mean of 3.8. However, understanding the relationships between other key players in the sector and contribution to the strategic planning process had mean 3.32.

This indicates that most of the board members scored highly in their availability and willingness to attend meetings and actively participate in the work of the collective agency. Besides, the board members performed fairly in communication with fellow Board members, CEO and shareholders; ability to contribute at a strategic level in Board debate; willingness to give extra time with Chairman/CEO on relevant matters between meetings; understanding the financial structure of the business; ability to constructively debate in a reasoned manner; contribution to the Board: strengths, abilities, experience and judgment; and, willingness to take an independent viewpoint.

The study required the secretaries to indicate the extent of their agreement on a number of statements on the corporate governance of the factories. A 5-point Likert scale was used in data and analyzing the same: 1 point = weak; 2 points = needs improvement; 3 points = adequate; 4 points = consistently good; and, 5 points = strong.

**Table 4.10: Overall Corporate Governance**

<b>Variables</b>	<b>Weak</b>	<b>Needs improvement</b>	<b>Adequate</b>	<b>Consistently good</b>	<b>Strong</b>	<b>Mean</b>
Does the board have the appropriate composition (i.e. size) and committees corresponding to its oversight duties and the development of the Factory's strategy?	0	0	1	1	2	4.25
Does the board have the right mix of skills and experience to optimize performance and strategy?	0	2	1	1	0	2.75
Are roles and responsibilities of the board and individual directors clearly defined in the board charter?	0	2	1	0	1	3
Are matters reserved for the board clearly defined?	1	1	1	0	1	2.75
Does the board work constructively as a team through collegial, productive working relationships that foster trust and respect?	0	0	2	1	1	3.75
Do the board discussions enhance the quality of management decision-making?	0	1	1	1	1	3.5
Does the board engage constructively with management to stimulate its thinking and performance?	0	1	1	1	1	3.5
Is the Factory's orientation program effective in supplying useful information to new directors about the board and Factory?	0	1	1	0	2	3.75
Is the board given continuing programmes to keep all Directors up to date with the latest developments in the market industry and regulatory environment?	0	1	1	1	1	3.5
Does the board consist of a good balance of independent directors?	0	0	3	0	1	3.5
Have potential areas of conflicts that may impair independence of the independent directors been resolved?	0	3	0	1	0	2.5
Are board meetings held with appropriate frequency?	0	1	0	1	2	4
Is information on the agenda items provided well in advance of board meetings, with sufficient time for preparation?	1	0	0	2	1	3.5
Is financial information adequately provided to help directors understand the important issues and trends in the business prior to board meetings?	1	0	2	0	1	3
Is information on subject matter adequately and sufficiently supplied for good decision-making, i.e. is the information presented in a concise manner, highlighting key issues and	0	1	1	0	2	3.75

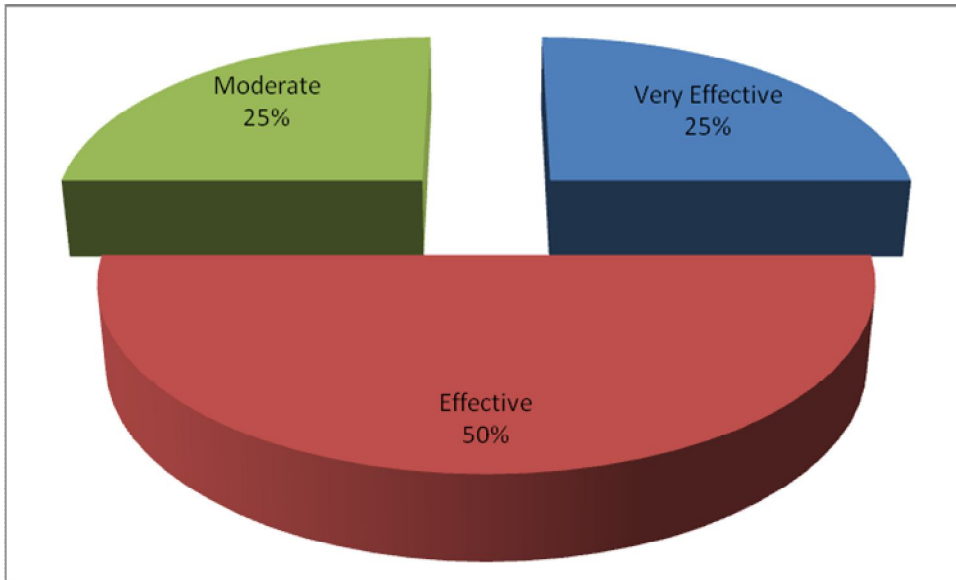
risk areas with relevant details for further analysis, allowing directors to understand and evaluate agenda items of the board meetings and to take effective decisions?						
Is there adequate time allocated between board discussions and management presentations?	0	1	1	1	1	3.5
Are board meetings carried out in an open communication environment with meaningful participation and timely and constructive resolution of issues?	0	1	1	0	2	3.75
Do directors have sufficient access to management and/or the board chairman?	1	0	1	0	2	3.5
Do you feel that the board understands its role, authority, and priorities?	0	2	1	0	1	3
Does the board understand the Factory's values, mission, and strategic and business plans, and reflect this understanding on key issues throughout the year?	0	2	1	0	1	3
How effective is the board in setting and reviewing the Factory's strategic plan?	0	2	1	0	1	3
Has the board identified the relevant tools, i.e. key performance indicators, to monitor executive and senior management's performance?	0	3	0	0	1	2.75
Has the board adequately identified and managed risks that could have a significant impact on the Factory?	0	2	1	0	1	3
Has the board established a succession plan that considers the appointment, training and fixing of the CEO's and senior management's remuneration?	2	1	1	0	0	1.75
Has the board considered its role in protecting shareholders' interests?	0	1	2	0	1	3.25
How would you rate the board's deliberation of the Factory's investor relations program in its decision-making process?	0	2	0	1	1	3.25
Has the board reviewed the Factory's system of internal control and considered its adequacy and integrity?	1	1	1	0	1	2.75
Is the chairman building healthy boardroom dynamics and dealing effectively with dissent and working constructively towards consensus?	1	0	1	0	2	3.5
Does the chairman oversee an effective decision-making process and ensure crucial alternatives are considered?	0	1	1	0	2	3.75
Does the chairman aim to ensure the board's workload is properly managed and, where appropriate, allocated to delegated committees with specific terms of reference approved by the board?	0	0	1	1	2	4.25

The findings presented in Table 4.10 shows that the 'board having appropriate composition (i.e. size) and committees corresponding to its oversight duties and the development of the



Factory's strategy' had a mean of 4.25; 'the chairman aiming to ensure the board's workload is properly managed and, where appropriate, allocated to delegated committees with specific terms of reference approved by the board had a mean of 4.25; 'board meetings held with appropriate frequency' had a mean of 4.0; 'the chairman overseeing an effective decision-making process and ensuring crucial alternatives are considered'; 'board meetings being carried out in an open communication environment with meaningful participation and timely and constructive resolution of issues'; information on subject matter being adequately and sufficiently supplied for good decision-making'; the Factory's orientation program being effective in supplying useful information to new directors about the board and Factory'; the board working constructively as a team through collegial, productive working relationships that foster trust and respect' had means of 3.75.

However, the study established a mean of 2.5 on whether 'the board has established a succession plan that considers the appointment, training and fixing of the CEO's and senior management's remuneration' while whether potential areas of conflicts that may impair independence of the independent directors have been resolved had a mean of 1.75.



**Figure 4.10: Board’s Overall Effectiveness**

The boards’ secretaries were asked to assess the board’s overall effectiveness in ensuring proper corporate governance of the factories, given their answers above. Figure 4.10 indicates that 50% of the respondents felt that the boards were effective overall; 25% rated the boards as moderately effective and very effective. The secretaries were further asked to indicate what needs to be done to enhance the board’s effectiveness in corporate governance of the factory. The responses indicates that there is need for continuous refresher courses/training and broad mix of skills in the board so as to have them more equipped to handle all the tasks a board is required to perform. The findings suggested that the board should interact with the managment on more issues and allow more time for the implementation of set policies.

#### **4.4.1 Factor Analysis**

The study conducted principal component of the influence of attributes of directorship on corporate governance. This was aimed at reducing the factors to the most significant factors as presented below

**Table 4.11: Communalities**

<b>Factors</b>	<b>Initial</b>	<b>Extraction</b>
Contribution to the Board: strengths, abilities, experience and judgment	1.000	.612
Availability and willingness to attend meetings and actively participate in the work of the collective agency	1.000	.643
Understanding the financial structure of the business	1.000	.891
Understanding of the business as a whole	1.000	.845
Level of understanding of the relevant sector	1.000	.759
Communication with fellow Board members, CEO and shareholders	1.000	.779
Level of understanding of the market, the customer and quality focus	1.000	.662
Confidence and courage of thinking, speaking and acting	1.000	.707
Ability to constructively debate in a reasoned manner	1.000	.837
Willingness to take an independent viewpoint	1.000	.751
Willingness to give extra time with Chairman/CEO on relevant matters between meetings	1.000	.765
Knowledge of Company's key officers, managers and facilities	1.000	.821
Level of understanding of the Boards obligations to staff, the media and the community with respect to Board policy	1.000	.896
Understanding the relationships between other key players in the sector	1.000	.713
Contribution to the strategic planning process	1.000	.777
Ability to contribute at a strategic level in Board debate	1.000	.893
Understanding of the role of the Board (governance versus management)	1.000	.729
Acceptance of collective responsibility and Board room confidentiality	1.000	.883
Level of understanding with regard to the legal and ethical responsibilities of the Board	1.000	.859

**Extraction Method:** Principal Component Analysis

Table 4.11 presents the communalities result which test the proportion of each variable's variance that can be explained by the retained factors, that is, the proportion of variance that each item has in common with other factors. The results reveal that most of the factors had much in common with the others; highest being 0.896 and the lowest 0.612.

From the findings, ‘level of understanding of the Boards obligations to staff, the media and the community with respect to Board policy’ had 89.6% communality or shared relationship with other factors followed by ‘ability to contribute at a strategic level in Board debate’ (89.3%) and ‘understanding the financial structure of the business’ (89.1%). However, ‘availability and willingness to attend meetings and actively participate in the work of the collective agency’ and ‘contribution to the Board: strengths, abilities, experience and judgment’ shared considerably lesser in common with other factors given communalities of 64.3% and 61.2% after extraction; the variance in the two is not well represented in the common retained factors.

**Table 4.12: Total Variance Explained**

Component	Initial Eigenvalues			Extraction Sums of Squared Loadings		
	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %
1	14.371	69.587	69.587	12.660	66.634	66.634
2	2.063	9.988	79.574	2.164	11.390	78.024
3	.968	4.686	84.261			
4	.701	3.396	87.657			
5	.563	2.727	90.384			
6	.498	2.411	92.796			
7	.447	2.165	94.961			
8	.264	1.278	96.239			
9	.207	1.002	97.241			
10	.163	.788	98.029			
11	.123	.597	98.626			
12	.118	.572	99.198			
13	.068	.329	99.527			
14	.047	.226	99.752			
15	.029	.140	99.892			
16	.021	.103	99.996			
17	.001	.004	100.000			
18	.000	.000	100.000			
19	.000	.000	100.000			

**Extraction Method:** Principal Component Analysis

In Table 4.12, Principle Component Analysis was used, which allows for the extraction of components that have an Eigen value greater than 1. The principal component analysis was used and two factors/components extracted. From the table, the two components explain 78.024% of the total variation. While the first component contributed the highest variation of 66.634%, the second component contributed 11.390% of the total variation.

**Table 4.13: Rotated Component Matrix**

Variables	Component	
	Component 1	Component 2
Contribution to the Board: strengths, abilities, experience and judgment	.566	.541
Availability and willingness to attend meetings and actively participate in the work of the collective agency		.694
Understanding the financial structure of the business		.838
Understanding of the business as a whole		.918
Level of understanding of the relevant sector		.820
Communication with fellow Board members, CEO and shareholders	.842	
Level of understanding of the market, the customer and quality focus		.802
Confidence and courage of thinking, speaking and acting	.796	
Ability to constructively debate in a reasoned manner	.671	.622
Willingness to take an independent viewpoint	.581	.644
Willingness to give extra time with Chairman/CEO on relevant matters between meetings	.763	
Knowledge of Company's key officers, managers and facilities	.836	
Level of understanding of the Boards obligations to staff, the media and the community with respect to Board policy	.897	
Understanding the relationships between other key players in the sector	.710	
Contribution to the strategic planning process	.648	.597
Ability to contribute at a strategic level in Board debate	.758	.565
Understanding of the role of the Board (governance versus management)	.638	.567
Acceptance of collective responsibility and Board room confidentiality	.884	
Level of understanding with regard to the legal and ethical responsibilities of the Board	.803	

**Extraction Method:** Principal Component Analysis. Rotation Method: Varimax with Kaiser Normalization"

a. Rotation converged in 3 iterations.

The rotated component matrix was rotated using Varimax (Variance Maximization) with Kaiser Normalization. For the purposes of disambiguation, the study only considered factor loadings that were  $\pm 0.5$ . This owes to the fact that, factor loading above 0.5 have more in common with other factors within the group (Field, 2005) The above results shows the identification of what variables fall under each of the 2 extracted components (factors). Each of the 19 variables was looked at and placed to one of the two components depending on the percentage of variability (it explained the total variability of each factor). A variable is said to belong to a component to which it explains more variation than any other components. From the table, the following components were extracted:

<b>Factor One: Contribution to the Board</b>	
Contribution to the Board: strengths, abilities, experience and judgment	.566
Communication with fellow Board members, CEO and shareholders	.842
Confidence and courage of thinking, speaking and acting	.796
Ability to constructively debate in a reasoned manner	.671
Willingness to give extra time with Chairman/CEO on relevant matters between meetings	.763
Knowledge of Company's key officers, managers and facilities	.836
Level of understanding of the Boards obligations to staff, the media and the community with respect to Board policy	.897
Understanding the relationships between other key players in the sector	.710
Contribution to the strategic planning process	.648
Ability to contribute at a strategic level in Board debate	.758
Understanding of the role of the Board (governance versus management)	.638
Acceptance of collective responsibility and Board room confidentiality	.884
Level of understanding with regard to the legal and ethical responsibilities of the Board	.803
<b>Factor Two: Knowledge of Internal and External Factors affecting Governance</b>	
Availability and willingness to attend meetings and actively participate in the work of the collective agency	.694
Understanding the financial structure of the business	.838
Understanding of the business as a whole	.918
Level of understanding of the relevant sector	.820
Level of understanding of the market, the customer and quality focus	.802
Willingness to take an independent viewpoint	.644

From the Table above, looking at what the two factors extracted have in common, the first factor or component concerned the board members' contribution to the board while the second concerned the members knowledge of internal and external factors affecting governance. Thus, the two factors were: contribution to the board and knowledge of internal and external factors affecting governance. To the question on the board members who are not in the management of the Tea Factories, the study established that except for the company secretary who is also the manager (C.E.O) of the Tea Factory, all the board members were non executive.

#### **4.5 Relationship Between Directors' Attributes and Corporate Governance**

The study used cross tabulation and subsequent chi-square to test the relationship between directors attributes and corporate governance and the significance there-of. The corporate governance indicators were scaled-down to two factors (contribution to the board and knowledge of factors affecting governance) using factor analysis which was used for the purposes of this testing. Grouping the original factors into the two groups, corporate governance indices were calculated for each group using data transformation component of SPSS. The two factors keys were as following 1 = weak; 2 = needs improvement; 3 = adequate; 4 = good; and, 5 = consistently very good.

**Table 4.14: Education Level and Corporate Governance**

<b>Factor</b>	<b>Contribution to the Board</b>					<b>Knowledge of Internal and External Factors</b>			
	<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>
<b>Education level</b>									
O or A Level	7.7%	15.4%	23.1%	23.1%	30.8%	23.1%	23.1%	30.8%	23.1%
College/Diploma	0%	20.0%	20.0%	0%	60.0%	20.0%	20.0%	40.0%	20.0%
Graduate level	0%	0%	0%	33.3%	66.7%	0%	0%	33.3%	66.7%
Postgraduate	0%	0%	0%	100.0%	0%	0%	0%	100.0%	0%
<b>Total</b>	<b>4.0%</b>	<b>12.0%</b>	<b>16.0%</b>	<b>24.0%</b>	<b>44.0%</b>	<b>16.0%</b>	<b>16.0%</b>	<b>36.0%</b>	<b>32.0%</b>

The study further sought to establish the association between education level of the directors and corporate governance. Table 4.15 shows a chi-square test value of 9.509 ( $p = 0.659$ ) on their contribution to the board and 7.546 ( $p=0.580$ ) on their knowledge of internal and external factors affecting governance. This depicts an insignificant relationship between the education level and corporate governance.

**Table 4.15: Chi-Square - Education Level and Corporate Governance**

Test	Contribution to the Board			Knowledge of Internal and External Factors affecting Governance		
	Value	df	Asymp. Sig. (2-sided)	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	9.509a	12	.659	7.546b	9	.580
Likelihood Ratio	12.224	12	.428	9.159	9	.423
Linear-by-Linear Association	2.805	1	.094	3.375	1	.066
N of Valid Cases	25			25		

a. 19 cells (95.0%) have expected count less than 5. The minimum expected count is .04.

b. 16 cells (100.0%) have expected count less than 5. The minimum expected count is .16.

**Table 4.16: Professional Qualification and Corporate Governance**

Response	Contribution to the Board					Knowledge of Internal and External Factors affecting Governance			
	1	2	3	4	5	2	3	4	5
Yes	5.9%	0%	0%	29.4%	64.7%	0%	0%	52.9%	47.1%
No	0%	37.5%	50.0%	12.5%	0%	50.0%	50.0%	0%	0%
<b>Total</b>	<b>4.0%</b>	<b>12.0%</b>	<b>16.0%</b>	<b>24.0%</b>	<b>44.0%</b>	<b>16.0%</b>	<b>16.0%</b>	<b>36.0%</b>	<b>32.0%</b>

Table 4.17 presents the findings on the relationship between the professional qualification of the respondent and corporate governance. The study established a p value of less than 0.001 on, both, their contribution to the board and knowledge of internal and external factors affecting governance. This point to a relationship between professional qualification and corporate governance.



**Table 4.17: Chi-Square - Professional Qualification and Corporate Governance**

Test	Contribution to the Board			Knowledge of Internal and External Factors affecting Governance		
	Value	Df	Asymp. Sig.	Value	Df	Asymp. Sig.
Pearson Chi-Square	21.170a	4	.000	25.000b	3	.000
Likelihood Ratio	25.937	4	.000	31.343	3	.000
Linear-by-Linear	10.784	1	.001	18.530	1	.000
N of Valid Cases	25			25		

a. 9 cells (90.0%) have expected count less than 5. The minimum expected count is .32.

b. 6 cells (75.0%) have expected count less than 5. The minimum expected count is 1.28.

**Table 4.18: Work Experience and Corporate Governance**

Duration	Contribution to the Board					Knowledge of Internal and External Factors			
	1	2	3	4	5	2	3	4	5
1-5 years	0%	14.3%	42.9%	42.9%	0%	14.3%	57.1%	28.6%	0%
15- 20 years	0%	33.3%	0%	66.7%	0%	33.3%	0%	33.3%	33.3%
21 – 25 years	10.0%	0%	10.0%	0%	80.0%	10.0%	0%	50.0%	40.0%
Over 25 years	0%	20.0%	0%	20.0%	60.0%	20.0%	0%	20.0%	60.0%
Total	4.0%	12.0%	16.0%	24.0%	44.0%	16.0%	16.0%	36.0%	32.0%

The relationship between work experience and corporate governance of the tea factories is presented in Table 4.19. The study established a chi-square significance of 0.036 on their contribution to the board and 0.071 on their knowledge of internal and external factors affecting governance. This depicts a significant relationship between the directors' work experience and their contribution to the corporate boards but does not significantly reflect on their knowledge of internal and external factors affecting governance.

**Table 4.19: Chi-Square - Work Experience and Corporate Governance**

Test	Contribution to the Board			Knowledge of Internal and External Factors affecting Governance		
	Value	df	Sig. (2-sided)	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	22.178a	12	.036	15.817b	9	.071
Likelihood Ratio	28.845	12	.004	17.601	9	.040
Linear-by-Linear	3.153	1	.076	4.501	1	.034
N of Valid Cases	25			25		

a. 20 cells (100.0%) have expected count less than 5. The minimum expected count is .12.

b. 16 cells (100.0%) have expected count less than 5. The minimum expected count is .48.

**Table 4.20: Experience in Other Industries and Corporate Governance**

Response	Contribution to the Board					Knowledge of Internal and External Factors affecting Governance			
	1	2	3	4	5	2	3	4	5
Yes	5.3%	0%	10.5%	26.3%	57.9%	5.3%	10.5%	42.1%	42.1%
No	0%	50.0%	33.3%	16.7%	0%	50.0%	33.3%	16.7%	0%
Total	4.0%	12.0%	16.0%	24.0%	44.0%	16.0%	16.0%	36.0%	32.0%

Table 4.21 on the relationship between experience of the directors in other industries other than tea industry and corporate governance presents chi-square significance of at 0.005 on their contribution to the board and 0.015 on their knowledge of internal and external factors affecting governance. This shows that both experience of the directors in other industries other than tea industry influences both their contribution to the board and knowledge of internal and external factors affecting governance.

**Table 4.21: Chi-Square - Experience in Other Industries and Corporate Governance**

Test	Contribution to the Board			Knowledge of Internal and External Factors affecting Governance		
	Value	df	Asymp. Sig. (2-sided)	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	14.949a	4	.005	10.532b	3	.015
Likelihood Ratio	16.602	4	.002	11.231	3	.011
Linear-by-Linear Association	8.305	1	.004	9.534	1	.002
N of Valid Cases	25			25		

a. 9 cells (90.0%) have expected count less than 5. The minimum expected count is .24.

b. 6 cells (75.0%) have expected count less than 5. The minimum expected count is .96.

**Table 4.22: Directorship in Other Boards and Corporate Governance**

Response	Contribution to the Board					Knowledge of Internal and External Factors affecting Governance			
	1	2	3	4	5	2	3	4	5
Yes	0%	0%	14.3%	14.3%	71.4%	0%	14.3%	28.6%	57.1%
No	9.1%	27.3%	18.2%	36.4%	9.1%	36.4%	18.2%	45.5%	0%
Total	4.0%	12.0%	16.0%	24.0%	44.0%	16.0%	16.0%	36.0%	32.0%

On the relationship between the directors' service to other corporate boards and corporate governance, the results are presented in Table 4.23. A Chi-square test significance of 0.019 was established on their contribution to the boards and 0.008 on their knowledge of internal and external factors affecting governance. Thus, directors who serve in other boards other than the tea factories have much more aptitude in both their contribution to the board and knowledge of internal and external factors affecting governance.

**Table 4.23: Chi-Square - Directorship in Other Boards and Corporate Governance**

Test	Contribution to the Board			Knowledge of Internal and External Factors affecting Governance		
	Value	df	Asymp. Sig. (2-sided)	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	11.841a	4	.019	11.923b	3	.008
Likelihood Ratio	14.411	4	.006	16.386	3	.001
Linear-by-Linear Association	9.042	1	.003	9.669	1	.002
N of Valid Cases	25			25		

a. 9 cells (90.0%) have expected count less than 5. The minimum expected count is .44.

b. 7 cells (87.5%) have expected count less than 5. The minimum expected count is 1.76.

**Table 4.24: Directors' Age and Corporate Governance**

Age	Contribution to the Board					Knowledge of Internal and External Factors affecting Governance			
	1	2	3	4	5	2	3	4	5
31- 40 years	0%	40.0%	20.0%	40.0%	0%	40.0%	20.0%	40.0%	0%
above 40 years	5.0%	5.0%	15.0%	20.0%	55.0%	10.0%	15.0%	35.0%	40.0%
Total	4.0%	12.0%	16.0%	24.0%	44.0%	16.0%	16.0%	36.0%	32.0%

The study further sought to establish the directors' age and corporate governance. Table 4.25 shows a chi-square test significance of  $p = 0.099$  on their contribution to the board and 0.227 on their knowledge of internal and external factors affecting governance. This depicts an insignificant relationship between the directors age and corporate governance..

**Table 4.25: Chi-Square - Directors' Age and Corporate Governance**

Test	Contribution to the Board			Knowledge of Internal and External Factors affecting Governance		
	Value	df	Asymp. Sig. (2-sided)	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	7.813a	4	.099	4.340b	3	.227
Likelihood Ratio	9.064	4	.060	5.442	3	.142
Linear-by-Linear Association	3.542	1	.060	3.868	1	.049
N of Valid Cases	25			25		

- a. 9 cells (90.0%) have expected count less than 5. The minimum expected count is .20.
- b. 6 cells (75.0%) have expected count less than 5. The minimum expected count is .80.

#### 4.6 Discussion of Findings

The study established that the directors had worked within the Tea and other industries or sectors in various designations such as teaching, surveying, accounting, economists, and agronomists among others. The study established a relationship between the professional qualification and work experience and corporate governance or contribution to the corporate boards. The findings collaborates Bourke's (2006) assertion that companies should embrace the best mix of director skills and experience which depends on the director's personal attributes. Trautman (2011) finding also indicated that each director should possess core personal attributes which among other things include outstanding achievement in the individual's personal and professional life.

Moreover, Trautman (2011) findings on directors' attributes aver that broad business experience, including considerable prior high-level decision-making and a demonstrated track record of problem solving is a set of primary skills desired for every director. However, the study established insignificantly relationship between directors' work experience and their knowledge of internal and external factors affecting companies' governance. According to Trautman (2011), a company's nominations committee' requirement/criteria should include possession of general understanding of elements related to the success of a company from general understanding of current business environment; specific industry knowledge (possess a reasonable knowledge about the businesses); and, financial acumen (should have a good understanding of business finance and financial statements).

The study established that some of the directors had served as directors in other boards. Additionally, a significant association was established between directorship experience in other industries other than tea factory and corporate governance aptitude. This concurs with Roberts, McNulty and Stiles' (2005) findings that corporate boards need individuals that can provide strategic and visionary guidance to support management while protecting shareholder interests and this can be honed from directorship experiences. However, Fairfax (2002) states that increased time demands resulting from greater requirements falling on members of boards' committees, every director find it difficult, if not impossible to have the schedule flexibility allowing for more than concurrent service on just a few boards. In contradiction to the study's findings, Stuart (2010) found that many companies require directors not to serve in boards of more than two or three other companies.

The study established that majority of the directors were at least 40 years. Insignificant relationship was established between the directors' age and corporate governance.

This finding is in agreement with Trautman's (2011) who found that diversity of board includes gender (from sex transcending to age category). The *2011 Spencer Stuart U.S. Board Index* evaluating the S&P 500 companies' boards established that 73% of the boards set a mandatory retirement age for directors of which 83% set a mandatory retirement age of 72 or higher.

The study established an insignificant relationship between the education level and corporate governance contrary to the study's findings, Trautman (2011) established that directors should demonstrate a diversity of experience and functional skills. Besides, Useem (2003) established that every board should set forth a statement of desired experience attributes for each director candidate which include educational and professional background (should possess a complementary set of skills within a framework of total board knowledge base). According to Useem though it is difficult to generalize, boards should identify the most critical skills. With this, the board works effectively as a team while drawing on each director's education skills and qualities.

## **CHAPTER FIVE**

### **SUMMARY, CONCLUSIONS AND RECOMMENDATIONS**

#### **5.1 Introduction**

This chapter presents the summary of key findings as per the objectives, conclusions and recommendations there to. The chapter is thus structured into summary of the findings, conclusions, recommendations and areas for further studies

#### **5.2 Summary**

The findings indicated that majority of the directors who were male were A-level certificate holders (52%) though 24% were graduates and had other professional qualifications (68%). These directors had worked in tea industry and others as surveyors, accountants, agricultural officers, agronomists, CPA(K)s, economists, environmental management/NEMA lead experts, former KTDA managerial employees, retired school principals and teachers whereby majority had worked for at least 21 years (60%). Most of the directors also had experience in other industries other than tea (76%), had experience in other boards (56%) and had served in the board rooms of companies for atleast 5 years (71%). Age-wise, majority of the directors in the tea industry were at least 40 years old (80%).

The study also established that all the directors of the Tea factories board were non-executive but for the board secretary who happens to be the Tea Factory chief executive. The findings, further, indicate that the directors had strong skills or ability to read socio-economic issues facing the tea industry and the tea factory (mean of 3.88); staying abreast of the latest developments in the tea sector and in their corporate responsibilities (3.68); and, aptitude in reading, analysing and interpreting the company's balance sheet, income statement and cash flow statement (3.6).

Moreover, majority of the directors aptly attended Board meetings and devoted sufficient time and attention to affairs of the company. Besides, on average the directors had effective participation in Board meetings.

Besides, most of the board members availability and willingness to attend meetings and actively participate in the work of the collective agency was rated very highly (mean of 4.24). Besides, the board members performed fairly in communication with fellow Board members, CEO and shareholders (4.08); ability to contribute at a strategic level in Board debate (4.0); willingness to give extra time with Chairman/CEO on relevant matters between meetings (3.96); understanding the financial structure of the business (3.92); ability to constructively debate in a reasoned manner (3.88); contribution to the Board: strengths, abilities, experience and judgment; and, willingness to take an independent viewpoint (3.80).

### **5.3 Conclusions**

Based on the findings presented in the previous chapter, the study indicates that all directors in Tea factories within Kiambu County were male and in their prime ages (above 40 years). It is concluded that the directors age do not in any way influence their corporate governance. As far as the conclusions go, the study established that directors' work experience significantly affects their contributions to the board of directors but not to the knowledge of internal and external factors affecting governance. The findings show that the directors had worked in both tea industry and other industries with work experience of at least 21 years besides serving in corporate boards for more than 5 years. This attribute enabled the directors acquire strong skills or ability to read socio-economic issues facing not only tea industry but others as well.



Work experience in other industries enables the directors to stay abreast of the latest developments in the tea sector which more often than not is contributed by happenings in other industries such as technology, finance, international markets among others. These directors had worked as accountants, agronomists and teachers which impacted on their aptitude in reading, analysing and interpreting the company's balance sheet, income statement and cash flow statement.

The study concludes that experience of the directors in other boards is related with their corporate governance performance. Experience in other boards impacts on their knowledge on governance issues and contribution to the board which, according to the findings, they do constructively and in a reasoned manner without shying from taking independent viewpoint; thus, adding to the boards' strengths, abilities, experience and judgment. Given that the members were non-executive, they were available to attend meetings and actively participate in the work of the collective agency and usually took extra time with Chairman/CEO on relevant matters between meetings.

#### **5.4 Recommendations**

The study recommends the Tea factories boards should embrace the changes envisioned in the new constitution in as far as gender representation in leadership is concerned. Women should be encouraged to take directorship positions as they too can excel in governing the tea factories as good as, if not better than, their male colleagues. The study also recommends that the boards should put more emphasis on academic qualification of the board members since most of them are A or O-level certificate holders.

The study also suggests that owing to the broad nature of the work expected of the board members, there is need for a broad mix of skills in the Board in order to have them more equipped to handle all the tasks a board is required to perform.

### **5.5 Areas for Further Research**

Further studies can be done in other industries as the data established in tea industry might not necessarily represent the relationship in other industries. The study also suggests that further work can be done by linking director's attributes, consequent corporate governance and financial performance of the companies.

### **5.6 Implication on Policy, Theory and Practice**

This research work will enable the factory companies' policies to focus on the attributes that have been found to have significant contribution to corporate governance when developing the memorandum and articles of the company in as far as requirements for directors are concerned. The study also enlightens all stakeholders on benchmarks of good corporate governance bringing out the need for training and focus on good corporate governance practices. It also brings out attributes that should carry more weights when evaluating corporate governance in factory companies due to their significance levels.

The study will also contribute immensely to the theory of corporate governance and provides scholars with a good foundation for further work in this field. It also gives valuable recommendations to the practice of corporate governance especially on the area of gender representation and directors contribution to the board.

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## APPENDICES

### Appendix I: Research Questionnaire – Board Members

This questionnaire seeks information on the *Attributes of Directorship and Corporate Governance*. All the information you give will be treated with confidentiality and used for academic purposes only and nothing else what so ever.

**Instructions:** (*Please read the instructions given and answer the questions as appropriately as possible*). It is advisable you answer or fill in each section as provided. Make an attempt to answer every question fully and correctly. Do not indicate your name as the information given is confidential.

#### Section A: General Information

1. Name of the tea Factory: .....
2. Gender of respondent  
Male  Female
3. Education level  
O or A Level  Tertiary or College/Diploma   
Graduate level  Postgraduate level
4. Do you have any other professional qualification?  
Yes  No 
  - a. Kindly enumerate:  
.....  
.....
5. What is your work experience?  
Less than 1 year  1-5 years   
6-10 year  10-15 years   
15- 20 years  21 – 25 years   
Over 25 years
6. Have you had experience on other industries other than tea industry  
Yes  No 
  - a. Apart from sitting in this factories corporate board, do you serve as a board member in other companies?  
Yes  No
  - b. For how long have you served as companies' board of directors?  
Less than 1 year  1 – 2 Years   
3 – 4 Years  5 years or more
7. Apart from being the director of the factory, are you also in the management of the factory?  
Yes  No

8. Kindly indicate your age:
- |                  |                          |                |                          |
|------------------|--------------------------|----------------|--------------------------|
| 20 years or less | <input type="checkbox"/> | 21 -30 years   | <input type="checkbox"/> |
| 31- 40 years     | <input type="checkbox"/> | above 40 years | <input type="checkbox"/> |
9. How do you rate your ability to read socio-economic issues facing the tea industry in general and the factory in particular?
- |                   |                          |                   |                          |
|-------------------|--------------------------|-------------------|--------------------------|
| Weak              | <input type="checkbox"/> | Adequate          | <input type="checkbox"/> |
| Strong            | <input type="checkbox"/> | Needs improvement | <input type="checkbox"/> |
| Consistently good | <input type="checkbox"/> |                   |                          |
10. How do you rate your preparedness to keep a breast of the latest developments in the sector and in their corporate responsibilities?
- |                   |                          |                   |                          |
|-------------------|--------------------------|-------------------|--------------------------|
| Weak              | <input type="checkbox"/> | Adequate          | <input type="checkbox"/> |
| Strong            | <input type="checkbox"/> | Needs improvement | <input type="checkbox"/> |
| Consistently good | <input type="checkbox"/> |                   |                          |
11. How do you assess your ability to read, analyse and interpret the company's balance sheet, income statement and cash flow statement?
- |                   |                          |                   |                          |
|-------------------|--------------------------|-------------------|--------------------------|
| Weak              | <input type="checkbox"/> | Adequate          | <input type="checkbox"/> |
| Strong            | <input type="checkbox"/> | Needs improvement | <input type="checkbox"/> |
| Consistently good | <input type="checkbox"/> |                   |                          |
12. Kindly rate your performance in the duty of attending Board meetings and devoting sufficient time and attention to affairs of the company?
- |                |                          |              |                          |
|----------------|--------------------------|--------------|--------------------------|
| Outstanding    | <input type="checkbox"/> | Very Good    | <input type="checkbox"/> |
| Good           | <input type="checkbox"/> | Satisfactory | <input type="checkbox"/> |
| Not Acceptable | <input type="checkbox"/> |              |                          |
13. What level of effective participation does the director have in meetings:
- |                |                          |              |                          |
|----------------|--------------------------|--------------|--------------------------|
| Outstanding    | <input type="checkbox"/> | Very Good    | <input type="checkbox"/> |
| Good           | <input type="checkbox"/> | Satisfactory | <input type="checkbox"/> |
| Not Acceptable | <input type="checkbox"/> |              |                          |

**Section B: Corporate Governance and Directors Attributes**

14. Below are general attribute of a director. Kindly rate yourself in line with the scale provided. Use the scale: 1 = Weak; 2 = Needs improvement; 3 = Adequate; 3 = Good; and, 5 = Consistently Very Good.



	1	2	3	4	5
Contribution to the Board: strengths, abilities, experience and judgment					
Availability and willingness to attend meetings and actively participate in the work of the collective agency					
Understanding the financial structure of the business					
Understanding of the business as a whole					
Level of understanding of the relevant sector					
Communication with fellow Board members, CEO and shareholders					
Level of understanding of the market, the customer and quality focus					
Confidence and courage of thinking, speaking and acting					
Ability to constructively debate in a reasoned manner					
Willingness to take an independent viewpoint					
Willingness to give extra time with Chairman/CEO on relevant matters between meetings					
Knowledge of Company's key officers, managers and facilities					
Level of understanding of the Boards obligations to staff, the media and the community with respect to Board policy					
Understanding the relationships between other key players in the sector					
Contribution to the strategic planning process					
Ability to contribute at a strategic level in Board debate					
Understanding of the role of the Board (governance versus management)					
Acceptance of collective responsibility and Board room confidentiality					
Level of understanding with regard to the legal and ethical responsibilities of the Board					

**THANK YOU FOR PARTICIPATING**

## Appendix II: Questionnaires - Board Secretary

### Section A: General Information

1. Name of the Factory: .....
2. When did the factory start its operations: .....
3. How many board members are not in the management of the factory (non-executive directors) .....
4. In your own estimation, what is the average quantity of tea, in kilogram, that farmers delivered to the factory last year?  
.....
  - a. Please indicate the amount of tea, in kilograms, that the directors delivered to the factory in the previous year:  
Director 1: .....  
Director 2: .....  
Director 3: .....  
Director 4: .....  
Director 5: .....  
Director 6: .....
5. How many board committee exists in your Factory,  
1                    [ ]                    2                    [ ]  
3                    [ ]                    4                    [ ]  
5                    [ ]                    >5                    [ ]
  - a. Kindly enumerate:  
.....  
.....  
.....

### Section B: Board Attribute and Corporate Governance

6. How would you assess the board's overall independence?  

Outstanding	[ ]	Very Good	[ ]
Good	[ ]	Satisfactory	[ ]
Not Acceptable	[ ]		
7. To what extent does the mix of skills of the board members allow the board to effectively perform its assigned responsibilities?  

Not at all	[ ]	To a low extent	[ ]
To a moderate extent	[ ]	To a high extent	[ ]
		To a very high extent	[ ]

8. In your opinion, kindly comment on the adequacy of the annual Board meetings to properly discharge its duties during the year?

Very Inadequate [ ]                      Inadequate [ ]  
 Adequate [ ]                                  Very Adequate [ ]

a. Does all the board members attend most of the meetings?

Yes [ ]                      No [ ]

9. Given the tea industry’s business and risk environment, is the board members skills and experience effective in analyzing and critically evaluating information presented to the board.

Very effective [ ]                      Effective [ ]

Ineffective [ ]                      Needs improvement [ ]

10. Is the appropriate internal stakeholders (management and/or shareholders) well informed on a sufficiently timely basis regarding the Board’s deliberations?

Yes [ ]                      No [ ]

11. To what extent do you agree with the following statements on the corporate governance of the factory you serve in? 1 = Weak; 2 = Needs improvement; 3 = Adequate; 4= Consistently good; and, 5=Strong

<b>Corporate Governance</b>	<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>
Does the board have the appropriate composition (i.e. size) and committees corresponding to its oversight duties and the development of the Factory’s strategy?					
Does the board have the right mix of skills and experience to optimize performance and strategy?					
Are roles and responsibilities of the board and individual directors clearly defined in the board charter?					
Are matters reserved for the board clearly defined?					
Does the board work constructively as a team through collegial, productive working relationships that foster trust and respect?					
Do the board discussions enhance the quality of management decision-making?					
Does the board engage constructively with management to stimulate its thinking and performance?					
Is the Factory’s orientation program effective in supplying useful information to new directors about the board and Factory?					
Is the board given continuing programmes to keep all Directors up to date with the latest developments in the market industry and regulatory environment?					
Does the board consist of a good balance of independent directors?					
Have potential areas of conflicts that may impair independence of the independent directors been resolved?					

Are board meetings held with appropriate frequency?					
Is information on the agenda items provided well in advance of board meetings, with sufficient time for preparation?					
Is financial information adequately provided to help directors understand the important issues and trends in the business prior to board meetings?					
Is information on subject matter adequately and sufficiently supplied for good decision-making, i.e. is the information presented in a concise manner, highlighting key issues and risk areas with relevant details for further analysis, allowing directors to understand and evaluate agenda items of the board meetings and to take effective decisions?					
Is there adequate time allocated between board discussions and management presentations?					
Are board meetings carried out in an open communication environment with meaningful participation and timely and constructive resolution of issues?					
Do directors have sufficient access to management and/or the board chairman?					
Do you feel that the board understands its role, authority, and priorities?					
Does the board understand the Factory's values, mission, and strategic and business plans, and reflect this understanding on key issues throughout the year?					
How effective is the board in setting and reviewing the Factory's strategic plan?					
Has the board identified the relevant tools, i.e. key performance indicators, to monitor executive and senior management's performance?					
Has the board adequately identified and managed risks that could have a significant impact on the Factory?					
Has the board established a succession plan that considers the appointment, training and fixing of the CEO's and senior management's remuneration?					
Has the board considered its role in protecting shareholders' interests?					
How would you rate the board's deliberation of the Factory's investor relations program in its decision-making process?					
Has the board reviewed the Factory's system of internal control and considered its adequacy and integrity?					
Is the chairman building healthy boardroom dynamics and dealing effectively with dissent and working constructively towards consensus?					
Does the chairman oversee an effective decision-making process and ensure crucial alternatives are considered?					
Does the chairman aim to ensure the board's workload is properly managed and, where appropriate, allocated to delegated committees with specific terms of reference approved by the board?					

12. Given, your answers above, how would you assess the board's overall effectiveness in ensuring proper corporate governance of the factory?

Very Effective [ ]      Effective [ ]      Moderate [ ]  
Ineffective [ ]      Very Ineffective [ ]

13. In your opinion, what needs to be done to enhance the board's effectiveness in corporate governance of the factory?

.....  
.....


**THANK YOU FOR YOUR PARTICIPATION**

**Appendix III: KTDA Managed Tea Factories in Kiambu County**

- i. Kambaa Tea Factory;
- ii. Kagwe Tea Factory;
- iii. Theta Tea Factory;
- iv. Gachege Tea Factory; and,
- v. Mataara Tea Factory.

**Source: KTDA, 2011**

## Appendix IV: Introduction Letter



# UNIVERSITY OF NAIROBI

## MOMBASA CAMPUS

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Mombasa, Kenya

DATE: 22<sup>RD</sup> JUNE, 2012


### TO WHOM IT MAY CONCERN

The bearer of this letter, **Muthamia Francis Mwenda** of Registration number **D61/71221/2009** is a Master of Business Administration (MBA) student of the University of Nairobi, Mombasa Campus.

He is required to submit as part of his coursework assessment a research project report. We would like the student to do his project on **Influence of Attributes of Directorship on Corporate Governance in small scale tea Factory Companies in Kiambu County in Kenya**. We would, therefore, appreciate if you assist him by allowing him to collect data within your organization for the research.

The results of the report will be used solely for academic purposes and a copy of the same will be availed to the interviewed organization on request.

Thank you.



**JOB MWANYOTA**  
ASSIST. CO-ORDINATOR, SOB, MOMBASA CAMPUS