

**THE RELATIONSHIP BETWEEN CHIEF EXECUTIVE OFFICER TURNOVER
AND FIRM PERFORMANCE, FOR COMPANIES QUOTED AT THE NAIROBI
SECURITIES EXCHANGE**

By

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DECLARATION

I declare that this is my own original work and to the best of my knowledge it has not been submitted for a degree award in any other University or institution of higher learning.

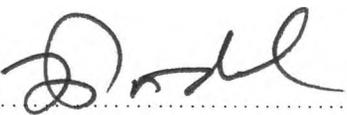
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This research proposal has been submitted for moderation with my approval as University Supervisor

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DEDICATION

I dedicate this study to my husband Timothy, son Ted and Daughter Shanice for the support, understanding and encouragement that they have provided during all the years of my studies.

ACKNOWLEDGEMENTS

It has been an exciting study period at the University of Nairobi and I feel privileged to have had the opportunity to carry out this study as a demonstration of knowledge gained. With these acknowledgments, it would be important to remember those who directly or indirectly, have played a role in the realization of this research project.

First, I am indebted to the all-powerful GOD for all the blessings he showered on me and for being with me throughout the study. I am deeply obliged to my supervisor Dr. Aduda for his exemplary guidance and support without whose help, this project would not have been a success.

I also take this opportunity to express my deep gratitude Caroline whose support has seen me through all the project period and my mum for her financial support during the masters course.

Finally but not the least, I would like to thank the NSE for the provision of the data which enabled me to complete the project.

ABSTRACT

The Chief Executive Officer of an organisation is its most senior general manager (Andrews, 1987). The likelihood of CEO turnover following poor performance is found to be influenced by board structure and ownership structure of the firm. In the case of board structure, it has been widely acknowledged that board with small size, high independence, and separate role of CEO and chairman was better in performing its monitoring duty. The study sought to establish the relationship between CEO turnover and firm performance, evidence from firms quoted in the NSE.

The study adopted a descriptive cross-sectional research design, which was used since the problem was defined specifically and the researcher had certain issue that was described by the respondents about the problem. The population of this study was all the companies listed at NSE, there are 61 companies that are currently listed in the NSE. The sample size was 17 companies listed at NSE which had CEO change in the last few years. Secondary data was collected for this study. The relationship between CEO turnover and firm performance will be tested by logit model.

The study revealed that that there exists a positive relationship between CEO turnover and firm performance, this is an indication that CEO turnover/change can be used to enhance the performance of the firm with poor performance. Poor firm performance is found to greatly influence a board of directors' decision for CEO turnover which include accounting performance, stocks performance, CEO personality, composition of the board of directors, mergers and acquisitions, organizational factors, and auditing. The study also found that the level of turnovers was higher in companies with low corporate performance. The study found that the state of performance prior to the turnovers explained only a small percentage of the variants. They indicated that the relation between variables following a turnover was still weak.

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LIST OF ABBREVIATIONS

CEO Chief Executive Officer

CMA Capital Markets Authority

EMH Efficient Market Hypothesis

NSE Nairobi Securities Exchange

ROA Return on Assets

SPSS Statistical Package for Social Science

CHAPTER ONE:

INTRODUCTION

1.1 Background of the Study

Some organizations outperform others. Explanations as to why this is the case have been attributed to a number of factors, including the alignment of the firm's strategy to its structures, as well as to the influence of the organization's leadership (Davidson, Worrell and Cheng, 1990). Previous studies show that CEO turnover is associated with prior (Puffer and Weintrop, 1991) and future (Huson et al., 2004) performance, board composition (Weisbach, 1988, Perry, 1999), CEO stock ownership (Denis et al., 1997), equity compensation (Balsam and Miharjo, 2007), and availability of replacements (Parrino, 1997). The association between the probability of CEO turnover and firm performance implies that there is a mechanism providing motivation for the CEO to align his interests to those of shareholders. The relationship is generally found to be negative (Brunello *et al.*, 2003, and Easterwood and Raheja, 2007).

The Chief Executive Officer of an organisation is its most senior general manager (Andrews, 1987). In its simplest form, general management is the management of a total enterprise, and may be defined as the conducting of informed, efficient, planned and purposeful activity. Andrews (1987) argues that the Chief Executive Officer must demonstrate competence as organisation leader, as personal leader and as architect of the organization's purpose. The Chief Executive Officer (CEO) of an organisation thus plays a critical role in the strategy, design, performance and corporate culture of the organisation (Rhim, Peluchette and Song,

2006), and corporate chiefs have the power to bring about organizational change (Swartz and Menon, 1985).

However, the likelihood of CEO turnover following poor performance is found to be influenced by board structure and ownership structure of the firm. In the case of board structure, it has been widely acknowledged that board with small size, high independence, and separate role of CEO and chairman was better in performing its monitoring duty. This view has been supported by many empirical studies. Yermack (1996) finds that the probability of CEO turnover following the decline of firm performance decreases as board size increases. Weisbach (1988) and Renneboog (2000) find higher level of board independence increases the chance of CEO turnover following poor firm performance. Renneboog (2000), Goyal and Park (2002), and Hou and Chuang (2008) find that the sensitivity of CEO turnover to firm performance is lower when CEO chairs the board.

In the case of ownership structure, types of controlling owner affect the likelihood of CEO turnover. Kang and Shivdasani (1995) find that when the firms are controlled by banks, likelihood of CEO turnover following poor firm performance increases. However, when the firm has family as a controlling owner, the effects on the likelihood of CEO turnover are mixed. Tsai *et al.* (2006) provides evidence that family is effective in monitoring by showing higher sensitivity of CEO turnover to firm performance for Taiwanese family controlled firms compared with non-family controlled firms. On the contrary, Lausten (2002) and Volpin (2002) find that family control decreases the probability of CEO turnover for Danish and Italian firms, respectively. Volpin (2002) finds lower sensitivity of CEO turnover to firm performance when CEO is part of the controlling family while Brunello *et al.* (2003) show

that the negative relation between CEO turnover and firm performance holds only if the controlling shareholder is not the CEO

1.1.1 CEO turnover

Factors that are found to greatly influence a board of directors' decision for CEO turnover include accounting performance, stocks performance, CEO personality, composition of the board of directors, mergers and acquisitions, organizational factors, and auditing. Kesner and Sebora (1994), it was concluded that turnovers were often treated as dependent variables. The consistent findings were also that the level of turnovers was higher in companies with low corporate performance. Finkelstein and Hambrick (1996) argued that the state of performance prior to the turnovers explained only a small percentage of the variants. They indicated that the relation between variables following a turnover was still weak. This conclusion was also found in many preceding studies (Finkelstein and Hambrick, 1996).

1.1.2 Firm Performance

Firm performance is usually used to determine CEO performance. Kim (1996, cited in Huson *et al.*, 2004) argues that firm performance at any time interval is assumed to be the sum of management's quality. This variable has been used in previous research in analyzing performance and turnover (Shen, 2000). *ROA* was found to have a negative relation with external turnover. There was no specific explanation as to why these researchers used the *ROA* variable. Most likely, it was due to the necessity to select from a vast amount of accounting ratio variables that existed. However, the negative relation that was found in

previous studies seemed to indicate that worsening corporate performance, as reflected in the decreasing return value of company assets, was what led to CEO turnover

Engel *et al.* (2003) and Defond and Hung (2004) looked at earning variables in their research. The objective study conducted by Engel *et al.* (2003) examined the relationship between various measurements of performance and CEO turnover which were influenced by the various properties of accounting systems. Engel *et al.* specifically tested the cross-sectional variation of the importance of accounting information in CEO decisions and related these properties to the performance measurements. Defond and Park (1999) stated that corporations in less-concentrated industries had a wider range of comparing corporations. Engel *et al.* (2003) discovered that CEO turnover happened more often in less-concentrated industries. This finding is consistent with the study done by Defond and Park (1999) which found that directors were able to learn sooner about the capabilities of a CEO in these types of industries and were able to replace a CEO with a poor performance record sooner. Defond and Park (1999) found this to occur only in sample corporations that experienced turnovers. Engel *et al.* (2003) and Defond and Park (1999) found in their studies that there was a negative relation between earnings and turnovers.

1.1.3 CEO Turnover and Firm Performance

Murphy and Zimmerman (1993) researched CEO turnover in the field of accounting. Their study used Agency Theory as the theory underlying the variable relationship of their research, testing, and the documenting and behavior of various financial variables surrounding CEO turnover. While Murphy and Zimmerman's (1993) study found empirical

evidence of financial variables (as an antecedent factor) that led to the change of CEOs, they did not separate out whether the CEOs left voluntarily or were forced to leave. Similarly, in this article, we do not distinguish between voluntary or non-voluntary turnovers.

Research by Smith et al (2008) used variables which they found to be statistically significant in previous research. The variables offered in their paper included total assets – as a proxy for company size – which uses natural log to control the high non-linearity of data, total debt, the variable that showed access to the stock market which uses natural log to mitigate linearity issues; book value of equity, to represent financial investments by stockholders – this variable is also important in securing the financial strength of the company; and debt to equity, which is the general ratio used in the research as proxy for debt level. Significant results were found with p-value lower than 0.05 for all samples, including total assets, total debt, book value of equity, current assets, and current liabilities for companies that survived. Coefficient estimation for current ratio was negative and statistically significant, a result which, according to Smith et al, corresponded with findings of studies done by Altman et al (1977) and Hill et al. (1996).

Agency Theory is a theory which describes the interaction (often in the form of conflict) between the owner and management, including the issue of CEO turnover. In Agency Theory, introduced by Jensen and Meckling (1976), it is stated that among the interested parties-owners and CEOs-where the owners and managers of the companies are two different persons, there is asymmetric information. This further encourages the owners to form an agreement (contract) with the CEO by which the CEO will take action that will lead to improving the welfare of the owners. Financial performance, which is generally a benchmark

of a managers' success in improving the welfare of the owners, is believed to be one of the essential considerations in CEO turnover

1.2 Statement of the Problem

In Kenya mostly among firm listed in the NSF , the CEO turnover are internal or board driven , arising from the board wrangles CEO turnover varies with firm performance, previous work suggests a modest relation between internal (board initiated) turnover and firm performance. Researchers examine agency problem in the firms through various proxies Those proxies include firm performance, CEO compensation, anti-takeover provisions, likelihood of frauds, and the relationship between the probability of Chief Executive Officer (CEO) turnover and firm performance. One of the frequently observed proxies is the relationship between the probability of CEO turnover and firm performance. The association between the probability of CEO turnover and firm performance implies that there is a mechanism providing motivation for the CEO to align his interests to those of shareholders.

Prior research provides evidence that firms' earnings are a predictor of CEO turnover (Weisbach, 1988; Murphy and Zimmerman, 1993). Market-based measures tend to impound the investors' expectation of CEO's dismissal Therefore, boards of directors may have to rely on accounting-based measures in making CEO-retention decisions (Hermalin and Weisbach, 1998). Fee and Hadlock (2004) examine CEO turnover relative to other executives within the company. Engel *et al.* (2003) suggest that accounting information is more heavily relied upon by the board of directors in dismissal decisions. Accounting-based measures, such as profit, return on equity, and return on assets, as well as market-based performance measures, such as return on asset and total shareholder return, have been used in many studies.

Local studies done on CEO turnover includes; Ondieki (2011) did a study on determining the effect of CEO changes on stock returns where he tested statistical difference of the mean daily return of the event period; he found that that CEO change by firms listed at NSE has both positive and negative effects on daily mean returns. Kamau (2009) did a study on the relationship between CEO and stock return where he found that is negative relationship between likelihood of CEO turnover and stock Returns. Most studies measure board independence using the proportion of non-executive directors or outside directors on board; the larger the proportion of non-executive/outside directors on board, the higher would be the degree of board independence. This study seek to determine the relationship between CEO turnover and firm performance, the researcher wants to bridge the gap to investigate this issue in Kenya and contribute to the understanding of how the performance of company reacts to CEO turnover.

1.3 Objective of the Study

The objective of the study was to establish the relationship between CEO turnover and firm performance, evidence from firms quoted in the NSE.

1.4 Value of the study

This study was of importance to the following categories of stakeholders and interest groups. The study was importance to the policy makers in the Ministry of Finance, the Capital Markets Authority (CMA) and the Nairobi Stock Exchange in regard to informing the approaches applied by listed firms on changes in management. This will help cushion the investors against possible volatility effects after the market responds to such announcements

The objective of all listed firms is to maximize the returns on the investments for their shareholders. This study stands to inform the management of listed firms on the effects of making sensitive announcements (Chief Executive Officer Changes) on the value of their shareholders' wealth. The study was of importance to future researchers and academicians conducting studies related to volatility of shares of firms listed at the Nairobi Stock Exchange.

CHAPTER TWO: LITERATURE REVIEW

2.1 Introduction

This chapter summarizes the information from other researchers who have carried out their research in the same field of study. The specific areas covered here are theoretical review, empirical review, CEO Turnover, firm performance and summary of the literature.

2.2. Theoretical review

2.2.1 Agency theory

The Agency theory is concerned with aligning the interest of the owner and the manager (Jensen & Meckling, 1976, Fama, 1980, Fama & Jensen, 1983) and this is based on the premise that there is inherent conflicts between the interest of the firm's owners and its management (Fama & Jensen, 1983). As to the mechanism by which a board is expected to impact on corporate performance, agency theory suggests that a greater proportion of outside/independent directors-recognizing that these two terms are not identical- was able to monitor any self-interested actions by managers. As a result of the monitoring, there was less opportunity for managers to pursue self-interest at the expense of owners (lower agency costs) and so shareholders will enjoy greater returns (or increased profits).

High levels of outsiders on the board of directors are associated with high monitoring of the management, which is associated with agency cost and consequently high corporate performance. The Chief Executive Officers (CEOs) of organizations are appointed by the

Board of Directors Boards of directors have a critical role in corporate governance in organizations in Kenya and all around the world. Theoretically, the ultimate responsibility for ensuring that firms are properly managed rests with shareholders. With the separation of ownership from control in most major business enterprises, however, the responsibility for strategic decisions and ensuring that top managers discharge their day-to-day duties effectively and efficiently is entrusted to the board of directors (Fox and Opong, 1999, Adelegan, 2007)

The relationship between the stakeholders, who are the owners of the company, and the CEO, is a pure agency relationship. The CEO as an agent works to maximize shareholder's wealth. The problem of inducing an "agent" to behave as if he is maximizing the "principal's" welfare exists in all organizations (Jensen and Meckling, 1976). Thus the existence of agency problems is potentially harmful to the owners of the firm and may lead to inefficiency and wealth destruction in an economy. The existence of agency problems will affect macroeconomic growth and securities market performance in general and valuation of firms at the micro level. It is in the best interest of owners to resort to control mechanisms that move the operation of the firm toward full efficiency of the Fisherian separation principle (Fisher, 1966). The channels for efficiency gain are improved managerial performance and reduced cost of external capital resulting from appropriate control mechanism. These controls should be built into the corporate governance system, contractual mechanisms, and market for corporate control.

Among various corporate governance mechanisms that ensure managerial discipline, the managerial labour market plays a key role. In particular, performance-based compensation schemes stimulate managers to maximize profit and shareholder value, while the threat of dismissal prevents them from shirking and/or engaging in expropriation of investors' funds (Muravyev, 2009). Indeed, effective corporate governance system requires that badly performing incumbents are systematically replaced by new, more skilled and better motivated, managers. A study on Ukrainian joint-stock companies' reports to the regulator, State Commission on Securities and the Stock Market, provided evidence of an inverse relationship between past performance of companies and the likelihood of managerial turnover (Muravyev, 2009). Claessens (2003) argues that better corporate governance can enhance firm value as well as operational performance, through more efficient management, better allocation of assets, better stakeholder management and other improved mechanisms.

2.2.2. Market Efficiency Theory

For the information on change in the CEO to have any impact on the market, there need be an efficiency capital market. A capital market in which prices always fully reflect available information (including CEO changes) is said to be informationally efficient. The concept of market efficiency had been anticipated by turn of the 20th century as evidenced in empirical observations accumulated by classical scholars. Building on these observations, Fama (1970) developed the Efficient Market Hypothesis (EMH). The theory defines three levels of efficiency, namely weak form, semi-strong form and strong forms. Fama went a step ahead to propose studies for testing the different levels of efficiency. These designs have achieved

general acceptance in the field of financial economics and have become conventional designs for evaluating in the level of efficiency in the stock markets.

The efficient market hypothesis is simple in principle but remains elusive evolving from an initially puzzling set of observations about the random character of security prices. It became the dominant paradigm in finance during 1970s. The efficient market hypothesis came to be supported by a growing body of empirical research demonstrating the difficult of beating the market, whether by analyzing publicly available information or by employing professional investment advisors. Mabhunu (2004) contends that the main principle behind Efficient Market Hypothesis (EMH) is that the price of a stock reflects all the information available to the market participants concerning the return and risk of that security. The current price represents the present value of all future dividends expected from holding the stock. If all the information is factored into the market price, the market price reflects the share's worth or estimated value. All the information available to the market about future cash flows expected from holding a particular share is factored into the share's price through trading.

A market is efficient with respect to particular information if it is impossible to make abnormal profits (other than by chance) by using this set of information to formulate buying and selling decision. This study is done in an emerging market where the weak and semi strong form of efficiency are relevant. For the case of Kenya, the Nairobi Stock Exchange (NSE) information provision is still slow. A survey by NSE itself revealed that there are a lot of information gaps in Kenyan stock market and there is normally a gross lack of awareness of major news among participants (Mabhunu, 2004)

2.2.3 Shareholder Theory

There are two main theories of shareholder-oriented governance: the principal-agent or finance model and the myopic market model. The principal-agent model starts from an assumption that the social purpose of corporations is to maximize shareholders' wealth (Coelho *et al.*, 2003). The principal-agent model regards the central problem of corporate governance as self-interested managerial behaviour in a universal principal-agent relationship. Agency problems arise when the agent does not share the principal's objectives. Furthermore, the separation of ownership and control increases the power of professional managers and leaves them free to pursue their own aims and serve their own interests at the expense of shareholders.

There are two problems occurring in the agency relationship with which agency theory is concerned. The first is that because it is difficult or expensive for the principal to verify what the agent is actually doing, the principal cannot verify that the agent has behaved appropriately. The second problem is that the principal and the agent may prefer different actions because of the different attitudes toward risk. Those two problems bring about a particular type of management cost incurred as principals attempt to ensure that agents act in principals' interests: agency cost (Raheja, 2005). To solve those problems, agency theory must determine the most efficient contract governing the principal-agent relationship and an optimal incentive scheme to align the behaviour of the managers with the interest of owners. While the principal-agent model agrees upon the failure of corporate internal control, it denies the inherent failure of market mechanisms, insisting that markets are the most

effective regulators of managerial discretion, the so-called efficient market model (Abor, 2007).

The myopic market model shares a common view with the principal-agent model that the corporation should serve the shareholders' interests only, but criticises that the Anglo-American model of corporate governance because of competitive myopia and its consequent pre-occupation with short-term gains in return, profit, return on asset and other performance measures induced by market pressures. The myopic market model holds that what is wrong with corporate governance is that the system encourages managers to focus on short-term performance by sacrificing long-term value and competitiveness of the corporation. The financial markets often force managers to behave in a way divergent from the maximization of long-term wealth for shareholders (Huson, 2001).

The myopic market view contends that corporate governance reform should provide an environment in which shareholders and managers are encouraged to share long-term performance horizons. Shareholders' loyalty and voice should increase, whereas the ease of shareholders' exit should reduce. Policy proposals for the reform include the encouragement of relationship investing to lock financial institutions into long-term positions, restrictions on the takeover process and on voting rights for short-term shareholders, and the empowerment of other groups such as employees and suppliers that have long-term relationships with the firm (Keasey *et al.*, 1997).

2.3 Empirical Review

Firm performance is usually used to determine CEO performance. Kim (Huson *et al.*, 2004) argues that firm performance at any time interval is assumed to be the sum of management's quality. Therefore, poor performance of the firm should be an evidence of management failure and thus trigger CEO turnover. Researchers examine agency problem in the firms through various proxies. Those proxies include firm performance, CEO compensation, anti-takeover provisions, likelihood of frauds, and the relationship between the probability of Chief Executive Officer (CEO) turnover and firm performance. One of the frequently observed proxies is the relationship between the probability of CEO turnover and firm performance. The association between the probability of CEO turnover and firm performance implies that there is a mechanism providing motivation for the CEO to align his interests to those of shareholders. The relationship is generally found to be negative (Easterwood and Raheja, 2007)

However, the likelihood of CEO turnover following poor performance is found to be influenced by board structure and ownership structure of the firm. In the case of board structure, it has been widely acknowledged that board with small size, high independence, and separate role of CEO and chairman was better in performing its monitoring duty. This view has been supported by many empirical studies. Yermack (1996) finds that the probability of CEO turnover following the decline of firm performance decreases as board size increases. Weisbach (1988) and Renneboog (2000) find higher level of board independence increases the chance of CEO turnover following poor firm performance.

Renneboog (2000), Goyal and Park (2002), and Hou and Chuang (2008) found that the sensitivity of CEO turnover to firm performance is lower when CEO chairs the board

In the case of ownership structure, types of controlling owner affect the likelihood of CEO turnover. Kang and Shivdasani (1993) find that when the firms are controlled by banks, likelihood of CEO turnover following poor firm performance increases. However, when the firm has family as a controlling owner, the effects on the likelihood of CEO turnover are mixed. Tsai *et al.* (2006) provides evidence that family is effective in monitoring by showing higher sensitivity of CEO turnover to firm performance for Taiwanese family controlled firms compared with non-family controlled firms. On the contrary, Lausten (2002) and Volpin (2002) find that family control decreases the probability of CEO turnover for Danish and Italian firms, respectively. For Italian firms, Volpin (2002) finds lower sensitivity of CEO turnover to firm performance when CEO is part of the controlling family while Brunello *et al.* (2003) show that the negative relation between CEO turnover and firm performance holds only if the controlling shareholder is not the CEO.

CEO duality refers to the structure of the board where the role of CEO and chairman is combined (Boyd, 1995 and Lam and Lee, 2008). Despite some advantages of CEO duality for example, clear leadership of the board and the firm, no rivalry between CEO and chairman of the board, and lower cost of information sharing between CEO and chairman (Lorsch and Zelleke, 2005), such duality can also harm the board's critical roles in monitoring the CEO. The job of chairman is to run board meetings and supervise the board's activities. Compared to other board members, the chairman has strong influence on the board's decision including monitoring CEO performance. When CEO chairs the board, it is

unlikely that the board can evaluate CEO's performance without bias. Previous studies provide evidence of weaker monitoring effectiveness of the board with CEO duality by reporting lower likelihood of CEO turnover in poor performing firm when CEO chairs the board (Hou and Chuang, 2008).

When there is higher proportion of outside directors on board, the board is said to be more independent since there was less potential domination by the management. Outside directors are supposed to be better in CEO monitoring (Hermalin and Weisbach, 2003) due to two major reasons: First, outside directors have incentives to display their expertise in decision making. As a result, they are more inclined to remove the nonperforming CEO (Fama and Jensen, 1983). Second, with their careers tied to the CEO's, inside directors are generally unable or unwilling to replace the CEO while outside directors can make the decision independently (Weisbach, 1988). Weisbach (1988) and Renneboog (2000) find higher level of board independence increases the chance of CEO turnover following poor performance.

Most studies generally recommend keeping the board size small for better effectiveness and less chance of being controlled by the CEO (Lipton and Lorsch, 1992 and Jensen, 1993). Yermack (1996) finds that the probability of CEO turnover following the decline of firm performance decreases as board size increases. In addition to board and ownership structure, probability of CEO turnover can be influenced by CEO's age (Goyal and Park, 2002). The likelihood of turnover following poor performance is found to be higher for younger CEO (Hou and Chuang, 2008). To explain the higher chance of being replaced after poor performance for younger CEO than those of older CEO, Parrino (1997) suggests that "It is more costly to retain a poor CEO who is ten or 15 years from retirement than it is to retain

one who is likely to step down voluntarily in the next few years." Chevalier and Ellison (1999) add that older manager has advantage of prior success to reduce likelihood of being replaced for current poor performance

There are different ways to determine whether a firm is controlled by the family. A firm can be identified as a family firm if it is run by family member(s) (Tsai *et al.*, 2006). Alternatively, La Porta *et al.* (1999), followed by Claessens *et al.* (2000) and Wiwattanakantang (2001), define that a firm is controlled by family if the family has meaningful control of its votes

The cut-off level which is the minimum level of voting rights used to determine whether a firm is controlled by the family varies in different studies, for example 20 percent in La Porta *et al.* (1999) and Claessens *et al.* (2000), and 25 percent in Wiwattanakantang (2001). Since ownership of Thai firms is very concentrated, to gain control over the firm, one needs to hold substantial level of ownership. This study therefore follows Wiwattanakantang (2001) using the cut-off level of 25 percent. However, to make it comparable with studies in other countries, the test for 20 percent cut-off level will also be conducted

Executive turnover has been the focus of a large and growing literature because it provides a crucial measure of how effective a firm solves the two sets of principal-agent problems faced by the firm. Empirical evidence suggested that CEOs have incentives to both manage earnings and also manage earnings expectations. Bartov *et al.* (2002) find evidence that firms are becoming more successful in meeting or beating analyst earnings expectations in part due to firms managing analyst earnings expectations. Kasznik and Lev (1995) and Soffer *et al.*

(2000) find evidence that management disclosure strategies regarding earnings announcements are consistent with managers attempting to manage analyst earnings expectations. Recent evidence suggests that CEOs attempt to manage analyst earnings expectations and managers who are better able to manage expectations realize economic benefits through larger bonuses (Matsunaga and Park, 2001).

The large literature on the effect of firm performance on CEO turnover uses a variety of performance measures, turnover definitions, and econometric models. Typical studies use a logit or probit framework and regress a dummy variable for forced turnover on a measure of firm performance over the previous 12 to 24 months. The common conclusion is that the difference in the implied turnover probabilities between good and bad performers is small. A typical spread between the forced turnover probabilities at the 10th and 90th performance percentile is between 2 and 6 percentage points.⁴ In a critical review of the literature, Brickley (2003) concludes that “firm performance continues to explain very little of the variation in CEO turnover.”

Ondieki (2011) did a study on determining the effect of CEO changes on stock returns where he tested statistical difference of the mean daily return of the event period, he found that that CEO change by firms listed at NSE has both positive and negative effects on daily mean returns. Kamau (2009) did a study on the relationship between CEO and stock return where he found that is negative relationship between likelihood of CEO turnover and stock Returns. He found that there is an increased likelihood of CEO turnover following poor firm performance. Evidence also indicated that CEOs are often blamed for poor firm performance

even when their decisions are similar to the decisions made by the CEOs of comparable firms. Most studies measure board independence using the proportion of non-executive directors or outside directors on board. The larger the proportion of non-executive/outside directors on board, the higher would be the degree of board independence. Independent director refers to the director with no involvement in the company management, no relationship with major shareholders and hold less than 0.5 percent ownership of the firm. Since “independent directors” are very similar to “outside directors” in corporate governance literature, this study therefore uses the proportion of independent directors on board to represent degree of board independence.

2.4 Firm Performance

In previous studies, both accounting performance and market performance have been used to identify its effect on CEO turnover and other corporate governance mechanisms. Brunello *et al.* (2003), and Hou and Chuang (2008) use both performances while others, for example, Lausten (2002) and Huson *et al.* (2004) focus only on accounting performance. Although both types of firm performance have been frequently used, market performance approach has some limitations. For example, Weisbach (1988) argues that market performance will underestimate the effect of board structure on CEO turnover. Weisbach explains that in general, the return on asset of a poorly performing firm was trading at a discount. If CEO is a controlling owner and thus is unlikely to be replaced even when firm performance is very poor, the discount of return on asset for poor performance was even greater. Kaplan (1994)

suggests that market performance also reflects changes in discount rates and therefore accounting performance may be more informative to measure CEO performance

Return on assets (ROA) adjusted by median of the industry is frequently used to represent firm performance in previous studies of CEO turnover, Kang and Shivdasani (1995), Huson *et al.* (2001), and Goyal and Park (2002) so that it will not be biased by firm size, industry effects, capital structure, and tax treatment. However, the industry median ROA is not available in SETSmart database, only industry mean is provided. We assume that if the board looks at other firms in the same industry when evaluating CEO performance, it should look at the available measure, which is industry mean.

2.5 Summary Literature Review

The studies mentioned above have limited their scope to the developed countries. No research from the reviewed studies undertaken in the developing economies. Many research investigated market reactions of CEO changes, but the results are mixed. In US, Weisbach (1988), Denis and Denis (1995), and Huson, Malatesta and Parrino (2004) found positive market reaction to CEO changes. On the other hand, Reinganum (1985), and Warner, Watts and Wruck (1988) did not find market reaction for the US. In UK researcher find as well mixed results. Dahyaa and McConnel (2003) show that there is evidence that market react favorable to CEO change and find positive abnormal returns around CEO changes. But, on the other hand Dedmen and Lin (2002) find negative abnormal returns around CEO changes and they claim that markets react negatively to CEO changes. Richard, Sing and Barr (2001) confirm the result found by Dedmen and Lin (2002) using Australian data. Investors in Australia perceived CEO change as bad news, therefore they react negatively to these

announcements. Research about market reaction to CEO change in Asia, i.e. in Japan conducted by Kang and Shivdasani (1996) shows positive abnormal returns. This means that market perceives CEO succession as an improvement of a firm's firm performance, or good news, and therefore they react positively. From research in the literature review the researcher find a gap in this study in developing countries particularly in Kenya. This research will feel the gap on the relationship between CEO turnover and firm performance.

CHAPTER THREE:

RESEARCH METHODOLOGY

3.1 Introduction

This chapter set out various stages and phases that was followed in completing the study. It involved a blueprint for the collection, measurement and analysis of data. Specifically the following subsections were included, research design, target population, data collection instruments, data collection procedures and finally data analysis.

3.2 Research Design

Creswell (2003) defines a research design as the scheme, outline or plan that is used to generate answers to research problems. Dooley (2007) notes that a research design is the structure of the research, it is the "glue" that holds all the elements in a research project together. The study adopted a descriptive cross-sectional research design, which was used since the problem was defined specifically and the researcher had certain issue that was described by the respondents about the problem. The study aimed at establishing the relationship between CEO turnover and firm performance among firms listed in the Nairobi security exchanges, these firms were selected from all the sectors of the NSE thus the use of cross-sectional survey.

3.3 Target Population

Target population can be defined as a complete set of individuals, cases/objects with some common observable characteristics of a particular nature distinct from other population. The

population of this study was all the companies listed at NSE, there are 61 companies that are currently listed in the NSE.

3.3.1 Sampling Techniques

The total number of companies listed at NSE were 61, through purposive sampling the study targeted companies that had CEO change from year 2007 to date. The sample size was 17 companies listed at NSE which had CEO change in the last few years (Appendix II). The study will target one respondent from finance department of each company.

3.4 Data collection

Secondary data was collected for this study. This data was useful in generating additional information for the study from already documented data or available reports. Cooper and Schindler (2003) further explain that secondary data is a useful quantitative technique for evaluating historical or contemporary confidential or public records, reports, government documents and opinions. Mugenda and Mugenda (2003) add that, numerical records can also be considered a sub category of documents and those records include figures, reports and budgets. This basically implied the incorporation of valuable statistical data in the study.

3.5 Data Analysis and Processing

The relationship between CEO turnover and firm performance will be tested by logit model following Weisbach (1988), Kang and Shivdasani (1995), Denis *et al.* (1997), Denis and Kruse (2000), Huson *et al.* (2001), Suchard *et al.* (2001), Goyal and Park (2002), and Lausten (2002). The estimated logit model is as follows: Equation below. The dependent variable, CEO turnover equals one if the CEO in current year is a different person from the

CEO in the previous year, zero if otherwise. Firm performance is measured by return on assets. Board independence is measured by proportion of independent directors on board. Board size is measured by the number of directors on board.

$$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \epsilon$$

Where:

Y = Firm performance

β_0 = Constant Term

β_1 = Beta coefficients

X_1 = CEO turnover

X_2 = board independence

ϵ = Error Term

Firm performance is usually used to determine CEO performance. Kim (1996, cited in Huson et al., 2004) argues that firm performance at any time interval is assumed to be the sum of management's quality. Therefore, poor performance of the firm should be an evidence of management failure and thus trigger CEO turnover, which is the essence of our main hypothesis: The likelihood of CEO turnover is negatively related to firm performance.

The next hypothesis relates to the effect of board independence. When there is higher proportion of outside directors on board, the board is said to be more independent since there will be less potential domination by the management. Outside directors are supposed to be better in CEO monitoring (Fama and Jensen, 1983; Jensen, 1993; and Hermalin and

Weisbach, 2003) due to two major reasons. First, outside directors have incentives to display their expertise in decision making. As a result, they are more inclined to remove the nonperforming CEO (Fama and Jensen, 1983). Second, with their careers tied to the CEO's, inside directors are generally unable or unwilling to replace the CEO while outside directors can make the decision independently (Weisbach, 1988). Weisbach (1988) and Renneboog (2000) find higher level of board independence increases the chance of CEO turnover following poor performance. The next hypothesis therefore assumes that board with higher degree of independence is more likely to replace poor performing CEO. CEO turnover is more likely when board independence is higher.

CHAPTER FOUR:

DATA ANALYSIS AND PRESENTATION OF FINDINGS

4.1 Introduction

This chapter presents the research findings on the relationship between CEO turnover and firm performance, evidence from quoted in the NSE. The study was conducted on 17 firms listed at the NSE where secondary data from the period of 2007 to 2011 was used in the analysis. Regression analysis was used in analysis the data.

4.2 Simple Regression Model

The table below shows that the coefficient of determination (the percentage variation in the dependent variable being explained by the changes in the independent variables) for the listed companies at Nairobi securities exchange

4.2.1 Regression analysis for Year 2007

Table 4.1: Model Summary

| Model | R | R Square | Adjusted R Square | Std. Error of the Estimate |
|-------|-------------------|----------|-------------------|----------------------------|
| 1 | .836 ^a | .690 | .678 | 61978 |

Adjusted R^2 is called the coefficient of determination and it shows how a change in the independent variable results affects the dependent variable. From data, the value of adjusted R^2 is 0.678. This implies that, there was a variation of 67.8% of performance of firms listed in the NSE with changes in CEO turnover and board independence at 95% confidence interval, this is an indication that 67.8% of change in performance of firm listed in the NSE could be accounted for by changes in the CEO turnover and Board independence, the study

also found that there is a strong positive relationship between the study variable between firm performance and CEO turnover and Board independence as shown by correlation coefficient of 0.836

Table 4.2: Coefficients

| Model | | Unstandardized | | Standardized | t | Sig. |
|-------|--------------------|----------------|------------|--------------|-------|------|
| | | Coefficients | | Coefficients | | |
| | | B | Std. Error | Beta | | |
| 1 | (Constant) | 1.652 | .183 | | 9.011 | .110 |
| | CEO Turnover | .836 | .168 | .762 | 2.777 | .026 |
| | Board independence | .116 | .094 | .132 | 1.228 | .223 |

The established regression equation was for years 2007

$$Y = 1.652 + 0.836X_1 + 0.116X_2$$

From the above regression model, without CEO turnover and Board independence performance of firm listed in the NSE would be 1.652, it's established that a unit increase in CEO turnover would cause an increase in performance of the firm by 0.836, further unit increase in board independence would lead to increase in firm performance by a factor of 0.116. This clearly shows that there is a positive relationship between performances of the firm listed to the NSE and CEO turnover and board independence. The study further revealed that the P-value were less than 0.05 which is an indication that shows CEO turnover was statistically significant and thus in position to make conclusion for the study.

4.2.2 Regression analysis for Year 2008

Table 4.3: Model Summary

| Model | R | R Square | Adjusted R Square | Std. Error of the Estimate |
|-------|-------------------|----------|-------------------|----------------------------|
| 1 | .855 ^a | .731 | .712 | .52536 |

From data, the value of adjusted R^2 is 0.712. This implies that, there was a variation of 71.2% of performance of firms listed in the NSE with changes in CEO turnover and Board independence at 95% confidence interval, this is an indication that 71.2% of change in performance of firm listed in the NSE could be accounted for by changes in the CEO turnover and Board independence, the study also found that there is a strong positive association between the study variable between firm performance and CEO turnover and Board independence as shown by correlation coefficient of 0.855.

Table 4.4: Coefficients

| Model | | Unstandardized Coefficients | | Standardized Coefficients | t | Sig. |
|-------|--------------------|-----------------------------|------------|---------------------------|-------|------|
| | | B | Std. Error | Beta | | |
| 1 | (Constant) | 1.161 | .129 | | 8.978 | .710 |
| | CEO Turnover | .855 | .764 | .693 | 1.286 | .019 |
| | Board independence | .305 | .097 | .402 | 3.145 | .002 |

The established regression equation was for years 2008

$$Y = 1.161 + 0.855 X_1 + 0.305 X_2$$

From the above regression model, CEO turnover and Board independence to a constant zero, performance of Firm listed in the NSE would be 1.161, it's established that a unit increase in CEO turnover would cause an increase in performance of the firm by a factor of 0.855, further unit increase in board independence would lead to increase in firm performance by a factor of 0.305. This clearly shows that there is a positive relationship between performances of the firm listed to the NSE and CEO turnover and board independence. The study further revealed that the P-value were less than 0.05 which is an indication that shows CEO turnover was statistically significant and thus in position to make conclusion for the study.

4.2.3 Regression analysis for Year 2009

Table 4.5: Model Summary

| Model | R | R Square | Adjusted R Square | Std. Error of the Estimate |
|-------|-------------------|----------|-------------------|----------------------------|
| 1 | .917 ^a | .841 | .807 | 3.69669 |

From data, the value of adjusted R^2 is 0.807. This implies that, there was a variation of 80.7% of performance of firms listed in the NSE with changes in CEO turnover and Board independence at 95% confidence interval, this is an indication that 80.7% of change in performance of firm listed in the NSE could be accounted for by changes in the CEO turnover and Board independence, the study also found that there is a strong positive relationship association between the study variable between firm performance and CEO turnover and Board independence as shown by correlation coefficient of 0.917.

Table 4.6:Coefficients

| Model | | Unstandardized Coefficients | | Standardized Coefficients | t | Sig |
|-------|--------------------|-----------------------------|-------------------|---------------------------|-------|------|
| | | <i>B</i> | <i>Std. Error</i> | <i>Beta</i> | | |
| 1 | (Constant) | 1.128 | .921 | | 1.225 | .222 |
| | CEO Turnover | .917 | .238 | .905 | 3.187 | .002 |
| | Board independence | .245 | .147 | .182 | 1.664 | .010 |

The established regression equation was for years 2009

$$Y = 1.128 + 0.917 X_1 + 0.245 X_2$$

From the above regression model, CEO turnover and Board independence to a constant zero, performance of Firm listed in the NSE would be 1.128, it's established that a unit increase in CEO turnover would cause an increase in performance of the firm by a factor of 0.917, further unit increase in board independence would lead to increase in firm performance by a factor of 0.245. This clearly shows that there is a positive relationship between performances of the firm listed to the NSE and CEO turnover and board independence. The study further revealed that the P-value were less than 0.05 which is an indication that shows CEO turnover was statistically significant and thus in position to make conclusion for the study

4.2.4 Regression analysis for Year 2010

Table 4.7: Model Summary

| Model | R | R Square | Adjusted R Square | Std. Error of the Estimate |
|-------|-------------------|----------|-------------------|----------------------------|
| 1 | .763 ^a | .582 | .565 | 63.445 |

From data, the value of adjusted R^2 is 0.565. This implies that, there was a variation of 56.5% of performance of firms listed in the NSE with changes in CEO turnover and Board independence at 95% confidence interval, this is an indication that 56.5% of change in performance of firm listed in the NSE could be accounted for by changes in the CEO turnover and Board independence. the study also found that there is a strong positive relationship between the study variable between firm performance and CEO turnover and Board independence as shown by correlation coefficient of 0.763

Table 4.8: Coefficients

| Model | Unstandardized Coefficients | | Standardized Coefficients | t | Sig. |
|--------------------|-----------------------------|------------|---------------------------|-------|------|
| | B | Std. Error | Beta | | |
| 1 (Constant) | 1.164 | .154 | | 6.007 | .070 |
| CEO Turnover | .763 | .174 | .703 | 4.033 | .000 |
| Board independence | .158 | .100 | .183 | 1.583 | .017 |

The established regression equation was for years 2010

$$Y = 1.164 + 0.763 X_1 + 0.158X_2$$

From the above regression model, CEO turnover to a constant zero, performance of Firm listed in the NSE would be 1.164, it's established that a unit increase in CEO turnover would cause an increase in performance of the firm by a factor of 0.763, further unit increase in board independence would lead to increase in firm performance by a factor of 0.158. This clearly shows that there is a positive relationship between performances of the firm listed to the NSE and CEO turnover and board independence. The study further revealed that the P-value were less than 0.05 which is an indication that shows CEO turnover was statistically significant and thus in position to make conclusion for the study.

4.2.5 Regression analysis for Year 2011

Table 4.9: Model Summary

| Model | R | R Square | Adjusted R Square | Std. Error of the Estimate |
|-------|-------------------|----------|-------------------|----------------------------|
| 1 | .785 ^a | .616 | .604 | .90861 |

From data, the value of adjusted R^2 is 0.604. This implies that, there was a variation of 60.4% of performance of firms listed in the NSE with changes in CEO turnover and Board independence at 95% confidence interval. The study also found that there is a strong positive relationship between the study variable between firm performance and CEO turnover and Board independence as shown by correlation coefficient of 0.785.

Table 4.10: Coefficients

| Model | Unstandardized Coefficients | | Standardized Coefficients | t | Sig. |
|-------|-----------------------------|------------|---------------------------|---|------|
| | B | Std. Error | | | |
| | | | Beta | | |

| | | | | | | |
|---|--------------------|-------|------|------|--------|------|
| 1 | (Constant) | 1.201 | .214 | | 19.587 | .203 |
| | CEO Turnover | .785 | .272 | .611 | 7.765 | .011 |
| | Board independence | .071 | .093 | .091 | .760 | .049 |

The established regression equation was for years 2011

$$Y = 1.201 + 0.785X_1 + 0.071X_2$$

From the above regression model, CEO turnover and Board independence to a constant zero, performance of Firm listed in the NSE would be 1.201, it's established that a unit increase in CEO turnover would cause an increase in performance of the firm by a factor of 0.785, further unit increase in board independence would lead to increase in firm performance by a factor of 0.071. This clearly shows that there is a positive relationship between performances of the firm listed to the NSE and CEO turnover and Board independence. The study further revealed that the P-value were less than 0.05 which is an indication that shows CEO turnover was statistically significant and thus in position to make conclusion for the study.

4.3 Summary and Interpretation of Findings

Returns for the sample companies listed and trading at Nairobi stock exchange were computed using the accounting model. The study examined the effect of the of CEOs turnover on the firm's performance. The result shows that the of CEO turnover creates significantly positive impacts on firm performance. Adjusted R² is called the coefficient of determination and it shows how change in the independent variable results to changes in the dependent variable. The study revealed that there value of adjusted R squared ranged between 0.807 and 0.565, this is an indication that greater variation in firm performance could be accounted by

changes in the CEO turnover. From the results on the correlation the study found that there was a strong positive relationship between firm performance and CEO turnover as shown by high correlation coefficients. The study found that there was positive relationship between board independence and firm performance.

The relationship between various measurements of performance and CEO turnover was influenced by the various properties of accounting systems. This was because CEO turnover seemed to happen more often in less-concentrated industries. The directors were able to learn sooner about the capabilities of a CEO in these types of industries and were able to replace a CEO with a poor performance record sooner.

Firm performance is assumed to be the sum of management's quality. Poor performance of the firm was an evidence of management failure and thus trigger CEO turnover, thus increase in CEO results to improvement in the firm performance. The association between the probability of CEO turnover and firm performance implied that there is a mechanism providing motivation for the CEO to align his interests to those of shareholders. The relationship is generally found to be negative.

The probability of CEO turnover following the decline of firm performance decreases as board size increases. Higher level of board independence increases the chance of CEO turnover following poor firm performance. The sensitivity of CEO turnover to firm performance is lower when CEO chairs the board. Executive turnover has been the focus of a large and growing literature because it provides a crucial measure of how effective a firm solves the two sets of principal-agent problems faced by the firm. Empirical evidence

suggested that CEOs have incentives to both manage earnings and also manage earnings expectations. The findings found evidence that management disclosure strategies regarding earnings announcements are consistent with managers attempting to manage analyst earnings expectations. Recent evidence suggests that CEOs attempt to manage analyst earnings expectations and managers who are better able to manage expectations realize economic benefits through larger bonuses.

Poor firm performance is found to greatly influence a board of directors' decision for CEO turnover which include accounting performance, stocks performance, CEO personality, composition of the board of directors, mergers and acquisitions, organizational factors, and auditing it was concluded that turnovers were often treated as dependent variables. The consistent findings were also that the level of turnovers was higher in companies with low corporate performance.

The change of different levels of senior managers in fact reports different results. According to the findings, the return of CEO sees greater responses and such response tend to have lasting impacts. Meanwhile, since the return of CEOs does not bring about the expected effects on the firm performance, therefore, the decision to bring back CEOs does not necessarily result in good performances. Companies are hence advised to cautiously evaluate whether they should change CEOs in order to avoid fluctuations of share prices and damages to news effect on shareholders interests.

Over the recent years, the issue of corporate social responsibility has attracted considerable public attention after rounds of scandals of well-known companies in Kenyan and overseas.

Given the rising public concern, many companies have established their management philosophies based on corporate social responsibility. Meanwhile, in order to make profits for shareholders, companies have to be morally responsible. Also, what can companies do to continue to enhance shareholders' equity and benefits while making efforts in social responsibilities? This is an important issue for the CEOs change to their previous companies.

The findings agreed with the study done by Finkelstein and Hambrick (1996) who argued that the state of performance prior to the turnovers explained only a small percentage of the variants. They indicated that the relation between variables following a turnover was still weak. *ROA* was found to have a negative relation with external turnover. There was no specific explanation as to why these researchers used the *ROA* variable. Most likely, it was due to the necessity to select from a vast amount of accounting ratio variables that existed

The findings were consistent with that of Engel et al and Defond and Park (1999) where they found in their studies that there was a negative relation between earnings and turnovers

CHAPTER FIVE

SUMMARY, CONCLUSION AND LIMITATIONS

5.1 Summary

This study was intended to reveal the nature of relationship that exists between firm performance and CEO turnover. The focus was to determine the role CEO change on firm performance among firm listed in the NSE. In order to achieve this objective, the study was designed to collect and analyse the relevant data for Kenyan listed companies from 2007 to 2011 among 17 firm that have change CEO in the NSE.

The study revealed that firm performance can be accounted for CEO change. There was strong positive relationship between CEO turnover and firm performance, this due to the fact that most of firm with poor performance change their CEO in order to change the firm performance.

The findings of this study have enriched the existing literature on CEO turnover and firm performance. It has shown that CEO change is key factor to enhance firm performance among firm listed in the NSE, CEO turnover is an important factor to enhance the performance of the firm. The study revealed that there value of adjusted R squared ranged between 0.807 and 0.565. This is an indication that greater variation in firm performance would be affected by CEO performance up to the rate of 80.7.

5.2 Conclusions

The objective of the study was to establish the relationship between CEO turnover and firm performance, evidence from quoted in the NSE. The findings of the study confirmed that there exists a positive relationship between CEO turnover and firm performance, this is an indication that CEO turnover/change can be used to enhance the performance of the firm with poor performance. Poor firm performance is found to greatly influence a board of directors' decision for CEO turnover which include accounting performance, stocks performance, CEO personality, composition of the board of directors, mergers and acquisitions, organizational factors, and auditing.

The consistent findings were also that the level of turnovers was higher in companies with low corporate performance. The study found that the state of performance prior to the turnovers explained only a small percentage of the variants. They indicated that the relation between variables following a turnover was still weak.

Given the numerous limits of this research projects, this paper does not conduct any further analysis or examination on the personal-attributes of the returnee CEOs. For example, whether the CEOs changed positions voluntarily or non-voluntarily may result in different outcomes, and hence this might limit the finding of this paper. Meanwhile, the ethical issues of leadership arise at number of different levels. It is, therefore, important to distinguish between various ethical issues that arise in the study of leadership. The fact that the case studies in this paper are on CEOs change to their previous positions may be the reason for different conclusions.

The coefficient of determination statistics further points out a very strong positive correlation or linear association between CEO turnover and firm performance. Thus, CEO turnover leads to a better firm performance. Most CEOs turnover are due to poor firms performs or end of tenure. Even in cases whereby a CEO had a good performance record the in-coming CEO normally often seeks to maintain the predecessor's good record to avoid victimization

5.3 Policy Recommendations

From the above discussion and conclusion the study recommends that companies at NSE with poor financial performance may use CEO turnover to improve their firm performance as CEO change is found to positively influence firm performance. There is need for firm listed in the NSE to have internal CEO turnover as external CEO turnover has a negative relationship with measure of profitability, *ROA* is found to have a negative relation with external turnover. Firm performance is usually used to determine CEO performance.

The study recommends that CEO of firms should strive to ensure that they apply good management quality in their firms so as to ensure good performance. otherwise, risk losing their jobs. This is in cognizance of directors' preference for terminating CEOs tenure in order to turnaround a company's poor performance.

Since the study established a good correlation between CEO turnover and firm performance, the study recommend for directors to consider laying-off the ineffective ones so as to

enhance performance of the governance. These are in exercise of the directors and CEOs' stewardship roles to the shareholders of the company and other stakeholders

The study further recommends that companies should also engage in corporate social responsibility activities. This will improve the reputation of the company which in return will increase the earnings of the firm due to the good public image therefore the CEO will risk losing the job. There is need for managers of listed firm in Kenya to enhance board independence as board independence positively influence the performance of firm listed in the NSE.

5.4 limitations of the Study

In attaining its objective the study was limited to 17 firms listed companies in the NSE that have had CEO turnover in the year 2006 to 2011. Firm that had CEO turnover were excluded. The study could not therefore incorporate the impact on these of companies.

Secondary data was collected from the firm financial reports. The study was also limited to the degree of precision of the data obtained from the secondary source. While the data was verifiable since it came from the Nairobi Securities Exchange publications, it nonetheless could still be prone to these shortcomings.

The study was limited to establishing the relationship between CEO turnover and firm performance among firms listed in the NSE. For this reason the non-listed firms could not be incorporated in the study.

The study was based on a five year study period from the year 2007 to 2011. A longer duration of the study will have captured periods of various economic significances such as booms and recessions. This may have probably given a longer time focus hence given a broader dimension to the problem.

5.5 Suggestions for Further Study

From the findings and conclusion, the study recommends an in-depth study to be carried out on the relationship between CEO turnover and CEO compensation, anti-takeover provisions and likelihood of frauds. A study can be designed to find out factors that greatly influence a board of directors' decision for CEO turnover.

A study should be conducted using alternative techniques to test for chief executive officer changes on the stock returns at NSE, that is, chief executive officer changes on the stock returns and effects on the market index of companies listed at NSE. It would be worth considering indicators of variations on the performance of companies listed at NSE, in particular, NSE market index or the volume of shares traded in the market.

The study suggests that further studies can be conducted on board's turnover so as to establish how change in the boardroom affects firms' performance. Future studies can also be done on the effect of CEO attributes on performance of firms listed at the NSE.

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APPENDECIES

Appendix I : Listed Companies At The Nse By Sector

AGRICULTURAL

1. Ltd Eaagads Ltd
2. Kapchorua Tea Co Ltd
3. Kakuzi
4. Limuru Tea Co Ltd
5. Rea Vipingo Plantations Ltd
6. Sasini Ltd
7. Williamson Tea Kenya

COMMERCIAL AND SERVICES

1. Express Ltd
2. Kenya Airways Ltd
3. Nation Media Group
4. Standard Group Ltd
5. TPS Eastern Africa (Serena) Ltd
6. Scangroup Ltd
7. Uchumi Supermarket Ltd
8. Hutchings Biemer Ltd

TELECOMMUNICATION AND TECHNOLOGY

1. AccessKenya Group Ltd
2. Safaricom Ltd

AUTOMOBILES AND ACCESSORIES

1. Car and General (K) Ltd
2. CMC Holdings Ltd
3. Sameer Africa Ltd
4. Marshalls (E.A.) Ltd

BANKING

1. Barclays Bank Ltd
2. CFC Stanbic Holdings Ltd
3. Diamond Trust Bank Kenya Ltd
4. Housing Finance Co Ltd.
5. Kenya Commercial Bank Ltd
6. National Bank of Kenya Ltd.
7. NIC Bank Ltd Ord
8. Standard Chartered Bank Ltd
9. Equity Bank Ltd
10. The Co-operative Bank of Kenya Ltd

INSURANCE

1. Jubilee Holdings Ltd
2. Kenya Re-Insurance Corporation Ltd
3. Pan Africa Insurance Holdings Ltd

- 4 CFC Insurance Holdings
- 5 British-American Investments Company (Kenya) Ltd

INVESTMENT

1. City Trust Ltd
2. Olympia Capital Holdings ltd
3. Centum Investment Co Ltd
4. Trans-Century Ltd

MANUFACTURING AND ALLIED

- 1 B.O.C Kenya Ltd Ord
2. British American Tobacco Kenya Ltd
3. Carbacid Investments Ltd
4. East African Breweries Ltd
5. Mumias Sugar Co. Ltd
6. Unga Group Ltd
7. Eveready East Africa Ltd
8. Kenya Orchards Ltd
9. A. Baumann CO Ltd

CONSTRUCTION AND ALLIED

- 1 Athi River Mining
- 2 Bamburi cement ltd
3. Crown berger ltd
4. East African cables ltd
5. E. A. Portland cement limited

ENERGY AND PETROLEUM

1. KenolKobil Ltd
2. Total Kenya Ltd
3. KenGen Ltd
4. Kenya Power & Lighting Co ltd

Appendix II: firm with CEO change

- 1 Kenya Commercial Bank
- 2 Standard Chartered Bank
- 3 Housing Finance Corporation
- 4 Nation Media Group
- 5 Total Kenya
- 6 East African Cables
- 7 Bamburi Cement
- 8 British American Tobacco
- 9 Centum Investment
- 10 KPLC
- 11 Sameer Africa
- 12 Pan African Insurance
- 13 Sasini
- 14 CFC Stanbic
- 15 East African Breweries
- 16 Safaricom
- 17 National bank