EFFECT OF TWO-TIER BOARD STRUCTURE ON THE FINANCIAL PERFORMANCE OF LISTED FIRMS AT NAIROBI SECURITIES EXCHANGE

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DECLARATION

I declare that this research project is my own work and it has not been submitted for any degree or examination in any other university.

Signature: Date: **09TH NOVEMBER 2022**

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

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DEDICATION

This research project is dedicated to my family, supervisor, lecturers and friends for their endless support, love and encouragement during the study. May God Bless you all.

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ANOVA	Analysis of Variance
CEO	Chief Executive Officer
CMA	Capital Markets Authority
EA	East Africa
EASEA	East African Securities Exchanges Association
KCB	Kenya Commercial Bank
NSE	Nairobi Securities Exchange
ROA	Return on Assets
SPSS	Statistical Package for the Social Sciences
VAIC	Value-Added Intellectual Coefficient
VIF	Variance Inflation Factor
WFE	World Federation of Exchanges

ABSTRACT

The study investigated the effect of a two-tier board structure on the financial performance of all 63 companies in the Nairobi securities exchange. The study considered board diversity, board independence, and board size as the independent variables of the study and financial performance as the dependent variable. The research design adopted in the study was a descriptive cross-sectional approach focused on the firms listed between 2001 and 2021. The study utilized secondary data that was sourced from the annual financial reports of the NSE-listed companies. Moreover, the research also used primary data from respondents from NSE-listed companies. The study used a regression analysis to estimate the relationship between the study's main variables. The study found that board diversity, the board size, and board independence had a statistically insignificant relationship with the financial performance of the NSE-listed firms. The study's findings also show that board diversity, independence, and size have a weak correlation with the financial performance of firms listed in the NSE. Generally, the research findings conclude that the two-tier board structure has an insignificant relationship with the financial performance of the companies listed in the NSE. The research recommends using other variables that affect the financial performance of the listed companies apart from the two-tier board structure because it has a statistically insignificant effect on the performance of the listed companies. Moreover, future research may look at other board characteristics and other measures of performance to evaluate whether there is a positive or a negative relationship.

CHAPTER ONE: INTRODUCTION

1.1 Background of the Study

According to Arifai et al. (2018), a two-tier board structure protects shareholder rights and interests more effectively, and the board of directors is more responsible to shareholders. Further, Hossain & Oon (2022) notes that a board comprised of members from many stakeholders, such as shareholders, workers, and customers, are likely to make choices in the best interests of the firm as a whole, resulting in greater dedication. Aluoch et al. (2020) research found that different board structure methods, except the size of the board, have a considerable impact on the performance, and that board structure as a whole has a significant impact on listed company performance. The frequency of board meetings, financial literacy and board size were demonstrated to be statistically important in impacting business performance in several studies, however the independence of the panel of directors was not statistically significant (Muchiri, 2016). The two-tier board structure may contribute to staff retention by enhanced communication and decision-making, better accountability and transparency, and expanded chances for career growth (Du Plessis, 2021). In addition, two-tiered board arrangements may offer workers with a higher feeling of ownership and engagement in the firm, which may result in better job satisfaction and loyalty (Njenga, 2018). Moreover, Njenga (2018) notes the two-tiered board may facilitate the simplification of decision-making and the improvement of communication between the board and management, resulting in higher productivity.

The research was be guided by agency and stewardship theories. Agency theory describes how principals and agents interact, with agents acting as the principals' representative (Löhde, Campopiano & Calabro, 2020). The idea tackles the issue of how to incentivize agents to operate in the principals' best interests. The theory says that organizations should use incentive systems to align the interests of agents and principals (Choi, Chatfield, & Chatfield, 2018). In addition, it suggests that companies closely monitor the behavior of agents to verify that they are operating in the organization's best interests. The stewardship theory of management is based on the notion that managers are trustees responsible for the resources assigned to them (Obermann et al., 2020). The agency theory is founded on the idea that managers have a moral and ethical obligation to utilize these resources in a manner that benefits the firm and its stakeholders. Both theories are founded on the notion of responsibility, demonstrating their impact on the performance of businesses.

In 1954, the NSE was established as the Nairobi Stock Exchange. In terms of market capitalization and liquidity, it is presently one of the largest stock exchanges in Africa. It offers a platform for firms to obtain financing, fosters economic growth, and generates employment (Lwanga, 2018). It belongs to both the East African Securities Exchanges Association (EASEA) and the World Federation of Exchanges (WFE).The Capital Markets Authority (CMA) oversees the NSE, which is responsible for the supervision of all securities exchanges in Kenya (Njenga, 2018). Moreover, it is a significant income source for the Kenyan government because it collects taxes on the earnings of NSE-listed firms. The NSE also offers job possibilities for Kenyans and has contributed to the development of Kenyans' accounting, financial, and investing abilities. The reason why NSE was selected for the current research is that most firms registered under NSE have a two-tier management structure. The firms listed in the NSE were also be chosen in the current research since it is the most important stock exchange in Kenya and it has the highest market capitalization.

1.1.1 Two-tier Board Structure

An organization with a two-tier board structure has an executive board and a supervisory board (Jouber, 2020). The supervisory board provides oversight and direction, while the executive board controls the company's daily operations. Additionally, a two-tier board structure is a system in which a firm has two distinct boards of directors, one for the parent company and one for its subsidiary (Bzeouich, Lakhal & Dammak, 2019). Typically, the subsidiary board is in charge of the company's daily operations, while the main corporate board provides oversight and makes strategic and major project decisions. This form of board structure gives more flexibility and responsibility than a single board, but if not handled effectively, it can also lead to confusion and conflict.

It is crucial to take into account the measures of a two-tier board structure when examining the governance of a corporation. In the structure, according to Kao, Hodgkinson & Jaafar (2018), the number of board members is an essential metric. A big board is more independent and, hence, less likely to be dominated by management. A board with a modest size is more likely to be under the influence of management. The number of independent board members may also be used to determine if a board has a two-tier structure (Omware, Atheru & Jagongo, 2020). Typically, a bigger board is more independent than a smaller board since more views and opinions are represented. The proportion of independent to non-independent board members influences success of board members (Omware, Atheru & Jagongo, 2020). A high ratio shows that the board is more independent and, hence, less likely to be influenced by management. A low ratio suggests that management is more likely to exert influence on the board. In a two-tiered board structure, the number of committees is another crucial metric (Muchiri, 2016). Holding many board meetings indicates a more autonomous board likely to be controlled by management.

1.1.2 Organizational and Financial Performance

According to Conţu (2020), the extent to which an organization successfully places itself on the commercial market utilizing its financial, informational, and human resources is referred to as organizational performance. El-Amin (2022) defines financial performance as the ratio of an organization's actual output to its expected yield in terms of financial performance, shareholder return, and product market performance. Saha et al. (2022) also defines organizational performance as the process of an organization's economic development that allows for alignment with the professional development of the organization's current human resources.

According to Singh, Darwish & Potočnik (2016), one of the common measures of financial performance is profitability. Profitability is a measure of how much money an organization makes and it gauges whether a company is generating enough revenue to cover its expenses (Singh, Darwish & Potočnik, 2016). A company's profitability can be determined by its net income, which is the total revenue generated minus the total expenses incurred. It is measured in terms of net income, operating income, or net margin (Singh, Darwish & Potočnik, 2016). A company that is not profitable may have difficulty sustaining itself in the long term and may eventually have to shut down. According to Anwar & Abdullah (2021), productivity is also another measure of organizational performance because it shows how efficiently an organization produces goods or services. It can be measured in terms of output per employee, output per hour, or output per unit of input. It is often expressed as a ratio of output to input, or as a rate of return on investment (Anwar & Abdullah, 2021). Market share is another measure of organizational performance. It is a measure of an organization's share of the total market for its products or services. Market share can be measured in terms of market share by revenue, market share by unit sales, or market share by customer (Barth, Emrich & Daumann, 2018). What is more, employee satisfaction is also a measure of performance, which is associated with measuring how happy and satisfied employees are with their jobs. It can be measured in terms of employee turnover, absenteeism, or surveys (Barth, Emrich & Daumann, 2018). Customer satisfaction can be also used to measure organizational performance by measuring how satisfied customers are with an organization's products or services. It is measured in terms of customer surveys or customer complaints.

1.1.3 Nairobi Securities Exchange

The most important stock market in East Africa is the Nairobi Securities Exchange (NSE). The institution was founded in 1954.2006 marked the introduction of the NSE's computerized trading system before being demutualized and became a publicly traded corporation (Njenga, 2018). The NSE 20 Share Index is the exchange's primary index. The NSE launched the NSE25 Index in 2020, which was aimed to track the performance of the exchange's 25 largest companies. It provides a trading platform for stocks, bonds, and other assets and it is the first African exchange to implement electronic trading. Additionally, it belongs to the World Federation of Exchanges and home to sixty-three listed firms (Njenga, 2018).

The Nairobi securities exchange offers a venue for businesses to raise finance. It allows corporations to raise funds by listing their shares on the exchange. Additionally, it gives companies access to a larger pool of possible investors (Lwanga, 2018). The Nairobi securities market gives investors with liquidity as they may readily purchase and sell shares, allowing them to immediately liquidate their investments if necessary. In addition, the stock market is regulated to ensure openness and investor protection (NSE, 2022). It offers a wide variety of goods, including stocks, bonds, and derivatives, giving investors several options for investment (Lwanga, 2018). The Nairobi securities exchange is a well-established market with a lengthy history, which provides investors with trust in the market's stability and durability.

In recent years, the performance of companies listed on the NSE has been good due to the favorable business environment created in Kenya. Nonetheless, there have been major exceptions, such as the fall of Kenya Airways' stock price in late 2019. The performance of the firms is attributed to good corporate governance and the board structures used by the firms listed in the NSE. The Capital Markets Authority, a legislative body created by the Capital Markets Act, Cap. 485A of the Laws of Kenya oversees the Nairobi Securities Exchange (NSE)(Njenga, 2018). The institutions help in regulation, and promoting creation of an orderly, efficient and fair capital market in the Kenyan market (NSE, 2022).

1.2 Research Problem

The board structure and its impact on an organization's success have been widely contested because of the challenges brought on by board composition. Despite the fact that board composition is a significant factor in a company's performance, research on the subject is conflicting. Balsmeier, Buchwald & Dilger (2015) focused on the supervisory function of supervisory board members with concurrent outside directorships in order to examine the factors that influence CEO turnover on two-tiered boards. According to the study, external supervisory board members tend to raise executive turnover at the companies they oversee. Mofokeng (2021) studied the association between ownership structure and board characteristics on CEO-firm performance sensitivity and discovered that CEO age and institutional ownership are negatively associated with CEO turnover. In addition, a correlation existed between board size and CEO turnover.

Most companies registered on the NSE have a Board of Directors and a Board of Management. The directors are responsible for the overall strategy and direction in the company, while the Board of Management is in charge of day-to-day operations. The structure is prevalent in European nations and is increasingly embraced by Nairobi Securities Exchange-listed companies. In Kenya, companies such Safaricom, Kenya Airways, KCB Group, Equity Bank Kenya, National Bank of Kenya, Barclays Bank of Kenya, and East African Breweries. Kenya have accepted the regulation and reaped the benefits of increased accountability and transparency, as well as supervisory board independence. Consequently, management and shareholders' interests are linked in those firms.

Numerous other experts have researched the effect of two-tier board on the success of publicly traded companies, and their findings indicate both a positive and negative correlation. Arifai et al. (2018)investigated the effects of the two-tier board system on the success of listed family-owned businesses in Indonesia. They found that family involvement in company board participation and family equity ownership establishes an alignment between the supervisory role and the role of management, leading in improved management oversight of the organization. Participation of family members on both boards has a beneficial effect on corporate success. Yasser, Al Mamun & Rodrigs (2017) studied at the connection between the financial success of Karachi Stock Exchange businesses and the demography of the directors in the board. According to the study, the presence of family directors on the board, board size, and minority representation on the board are all positively correlated with business performance. The authors also discover that in Pakistan, independent directors are adversely correlated with business value, rather than producing value. Adika, Maru & Mugambi (2018) evaluated the impact of board composition on the financial performance of enterprises listed on Kenya's NSE. The results showed that board composition factors such as non-executive directors and director nationality has a positively statistically significant impact on business success. Additionally, Muchiri (2016) investigated how characteristics of the board affected the performance of public companies in Kenya. The findings discovered that board independence was not statistically significant, but the board size, board meetings, board size, and financial independence were beneficial in predicting a positive firm's performance. Wanyama & Olweny (2013) examined how financial performance of insurance companies was affected corporate governance in Kenya. Their findings of the research show a direct connection between corporate governance and the profitability of the businesses. However, the findings of the research show that the financial performance of insurance firms negatively affected board size. Machira (2016) researched the effect of governance on the performance of Kenyan insurance businesses. The results discovered that board size and board independence should not be prioritized because they have minimal effects on the financial growth of the insurance companies. Ogeno (2013) examined the effect of board characteristics on financial performance in Kenya and found that CEO duality, board size, audit committees, board remuneration, and board independence have a substantial negative association with financial success. It was discovered that board diversity had a considerable favorable impact on financial success.

There is a significant gap because none of the research investigate the effect of two-tier board on the financial performance of NSE-listed companies. Most research concentrates on how corporate governance, board makeup, board characteristics, and board meetings affect the profitability of enterprises and publicly traded companies. The majority of studies on the effects of two-tier boards were conducted in other countries, such as Indonesia, which is another limitation of the present studies. Additionally, none of the studies looked at board independence, board size, or board diversity as independent variables. The current study investigated how a two-tier board affects the listed companies' financial performance. Consequently, the study addressed the following question: does the two-tier board structure influence the success of Nairobi securities exchange listed companies?

1.3 Research Objective

To determine the effects of a two-tier board structure on the financial performance of Nairobi securities exchange listed enterprises.

1.4 Value of the Study

The research contributes to theory by providing more information to be used by researchers to show the relationship existing between public companies financial performances and the two-tier board structure. Researchers and scholars will also benefit with the information from the research because it adds on the already existing literature. Additionally, it offers more proof of the link between board structures and performance of organizations, which is beneficial in making economic models and frameworks for educational purposes. The study also provides insights into the mechanisms by which two-tier board structure leads to improved firm performance. The information is valuable for educators who want to prepare their students for the increasingly complex business world.

The government and policy makers are also beneficiaries of the research findings. The findings will provide enough information on ways which introduction of two-tier boards would help the firms. As a result, they would decide whether to introduce a regulatory framework to control the operations of the listed firms. The research offers the government evidence to support the introduction or expansion of such structures in the business sector. The study could also provide insights into the most effective way to design and implement two-tier board structures, which could be useful for policy makers when developing related regulations or guidelines. Finally, the study could also highlight any potential risks or negative consequences associated with two-tier board structures, which could help government and policy makers to avoid these pitfalls.

The findings offer valuable information for strategic managers, who can use this evidence to make decisions about whether or not to implement a two-tier board structure. Additionally, the study provides insights into how two-tier board structures can affect firm financial performance. This information can be used by strategic managers to make more informed decisions about how to structure their boards. The findings of the research will be beneficial to strategic managers in the NSE listed companies because they will obtain valuable information, which will be effective in improving the financial performance of firms by changing the board composition or structure. The investors with strategic management knowledge will also benefit from the information because they will get the most viable investment opportunity from the firms listed in NSE a fact that enhances their safety and surety of getting reasonable returns.

CHAPTER TWO: LITERATURE REVIEW

2.1 Introduction

This section focuses on the study of theoretical frameworks used in the current research, a review of empirical evidence considering the determinants of two tier board structure on financial performance.

2.2 Theoretical Review

The influence and contribution of the board are considered paramount by researchers in management and organizational theories. In the current research, the stewardship theory and the agency theory are used to explain the viewpoints of managers and board members. The two approaches analyze the impacts of governance on the performance of companies, and they will fit in the current research because the board structure is vital in setting governance mechanisms.

2.2.1 Agency Theory

In 1976, Jensen and Meckling formulated the theory (Vitolla, Raimo, & Rubino, 2020). According to the principle, corporate governance is concentrated on the separation of controls and owners, which causes principal and agent problems in modern companies. The board of directors is essential in minimizing the principal and agent problems (Vitolla, Raimo, & Rubino, 2020). The management is tasked with initiating and implementing while the board of directors monitors the operations of the company. The board monitors the company's operations to ensure that the stakeholders' interests in the market are met. As a result, the directors must introduce evaluations, scrutiny, and regulations to the top management to ensure the stakeholder's interests are maximized.

When the principal hires another party, the agent, to provide a service on their behalf, an agency relationship occurs (Vitolla, Raimo, & Rubino, 2020). In firms where capital is widely held, the actions of the managers are different from stakeholders because the stakeholders want to maximize their wealth leading to the agency problem. According to the theory, the governance mechanisms are associated with protecting the shareholders' interests, ensuring alignment of agent-principal interest, and minimizing the agency cost within an organization (Vitolla, Raimo, & Rubino, 2020). The theory assesses the conflict of interest between the principals and agents, especially in situations where the intentions of the agents are questionable. In such cases, the principal seeks more information to evaluate and monitor the agents to ensure they act on behalf of the stakeholders' interests (Vitolla, Raimo, & Rubino, 2020). Critics of the theory argue that agency theory assumes people are self-interested and rational, which is not the case because employees are not always acting in the company's interest. Because managers may act in their own accord rather than maximizing the interests of the shareholders, agency theory can result in a conflict of interest between managers and shareholders, which can produce friction within the company. The theory is pertinent to the current research because, under a two-tiered board structure, the directors assist monitor management conduct and may gauge an organization's effectiveness by their deeds.

2.2.1 Stewardship Theory

Donaldson and Davis proposed the theory in 1989, arguing that the directors of the board are accountable for supervising the operation of the firm in favor of the stakeholders (Subramanian, 2018). Managers are viewed as stewards of the firm and must operate for the benefit of the shareholders of the business. The major focus of the idea is on the institutions that enable and empower individuals, rather than on monitoring and managing the firm's operations (Subramanian, 2018). Therefore, the theory supports appointing a single person to be CEO and chairperson within an organization. Managers are motivated to gain and achieve intrinsic satisfaction by going through the most challenging tasks, which can be acquired by authority and recognition from peers and bosses. The theory supports having a board of directors dominated by internal employers to understand the firm's operations in-depth.

The theory posits that managers are motivated by non-financial reasons such as requirements to achieve and fulfillment of effective organizational performance. The stewards are portrayed as keen when defending their ability to make decisions using their skills (Subramanian, 2018). As a result, the firms operate in ways that maximize monetary performance. The agents in this theory are considered trustworthy in managing the resources entrusted to them, which makes the monitoring aspect obsolete. Opponents of the theory argue that it relies heavily on self-regulation, which is difficult to maintain over a period. The stewardship therefore does not offer clear guidelines of how people are supposed to act in specific situations because it relies on the idea of self-interest. People who are overly focused on their own interests are less likely to operate for the benefit of the shareholders of the business. The theory is relevant to the present research because it informs how managers are meant to operate as stewards to protect the interests of stakeholders.

2.3 Two-Tier Board Structure and Financial Performance

Most contemporary corporations have been affected by the two-tier board structure's effect on the performance of companies listed at the Nairobi Securities Exchange. Researchers all over the world are still studying the impact of a two-tier board structure on the success of businesses. The studies below, conducted by various scholars, show the connection between the impacts of a two-tier board structure on financial performance.

Merendino & Melville (2019) investigated the effect of having a panel of directors on business performance in Italy. The independent variables used in the research were board size, ownership structure, shareholder agreement, level of board independence, and CEO-chairman leadership. The study was based on a dynamic generalized method of moments to evaluate the effects of the board of directors on organizational performance. The results of the research showed that minority shareholders do not have an impact on organizational performance. The study confirms that independent directors and board size affect organizational performance. Additionally, the study's findings showed that shareholder agreements and ownership structure do not impact financial performance.

Yasser, Al Mamun & Rodrigs (2017) studied how Pakistani board structure affected company performance. The goal of the research was to examine the connection between the board's demographics and the financial success of companies listed on the Karachi Stock Exchange. The performance of the businesses was evaluated using the return on assets, Tobin Q, and economic value added in the study. The study's findings supported the notion that the performance of the business was correlated with board size, the presence of family directors, and the participation of underrepresented groups on the board. The research also found that independent directors in Pakistan negatively affect a firm's financial performance.

Kao, Hodgkinson & Jaafar (2018) investigated the impact of company performance on ownership structure and board of directors in Taiwan. The research follows use of the time series aspect of the data by using listed companies from 1997 to 2015 plus panel estimate. The data was displayed in graphs and tables, and the research employed a regression model. According to the study's findings, having many independent directors, a two-tier board structure, a smaller board size, and a lack of duality in the chief executive role all help to improve organizational performance. The findings also showed that ownership structure, block holders’ ownership, foreign ownership, institutional ownership, and family ownership all positively affects an organization's performance.

Hossain & Oon (2022) examined the impacts of board leadership and frequency of holding board meetings on business performance in two-tier boards. The study examined how leadership on the board affects the frequency of meeting meetings and how the frequency of meetings influences an organization's performance. The study utilized a 10-year longitudinal company dataset in Indonesia and Germany. The research findings showed that CEOs in both countries prefer having lower board meeting frequency. The research results also showed that female independent directors in Germany were more likely to initiate more board meetings. Frequent board meetings increased firm performance in Indonesia compared to Germany, as demonstrated by the study results.

Arifai et al. (2018) studied the performance of Indonesian family enterprises under the two-tier board arrangement. The presence of the board of commissioners, directors, and both boards is used in the study to assess family involvement. The value-added intellectual coefficient (VAIC) used in the research incorporated capital employed, structural capital, and human capital efficiencies to assess a firm's performance. Three years were spent gathering the data that was used in the study. According to the study, family ownership improves a company's success. The findings revealed that family representation on the commissioners and board of directors had a favorable impact on an organization's performance. The findings indeed support the notion that having family members on the panel of directors alone has a detrimental impact on the businesses' success. Additionally, the board of commissioners' performance improved because of family members' participation. The results imply that family representation on both boards fosters a balance between managerial and supervisory responsibilities, resulting in effective oversight of the businesses' operations.

Aluoch et al. (2020) examined the connection between composition of the board and the operating performance of companies listed on the Nairobi Stock Exchange. The association between the variables was examined using a longitudinal descriptive research methodology.

Regression analysis was used in the study to examine the information gathered. The findings of the study demonstrated that occupational expertise and gender diversity had a positive impact on return on assets. The study's findings also revealed that the selected Kenyan enterprises' Tobin's Q was highly impacted by the board's independence and age. Both Tobin's Q and return on assets were significantly impacted by the board's overall impact on the listed firms' performance. Additionally, the research results demonstrated that the board size had a little effect on the performance of the listed companies in Kenya.

Machira (2016) investigated how governance of corporations affected the financial success of Kenyan insurance firms. The research looked at how board meetings, board committees, board size, board independence, and board diversity affected an organization's ability to generate returns on assets, which is a measure of financial success. To examine the data, the research employed a descriptive research methodology using linear regression analysis. The data used in the research was gathered from secondary sources, and the data analysis was carried out using SPPS. The return on assets was shown to be negatively impacted by board size, but board diversity was positively correlated with board diversity. According to the data, there is not much of a connection between board meetings and corporate success. The effectiveness of the company was shown to be significantly positively correlated with board committee and board independence.

Muchiri (2016) investigated how board composition affected listed companies' performance on the Nairobi Stock Exchange. Board independence, board members, board size, and number of board meetings were all taken into account as independent factors in the study. The study focused on the businesses listed between 2010 and 2014 and employed a descriptive research approach. The findings of the research demonstrated a favorable connection between the number of board meetings, board size, and financial literacy and firm performance. The research also discovered that there was no significant connection between the success of enterprises and the independence of the board of directors.

CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Introduction

The methodology used for the research is explained in this section. It outlines the study's research design, model specification, data collection approach, target population, and data analysis procedure.

3.2 Research Design

The research design offers a detailed plan used to obtain facts needed to solve the problem in a study (Pandey & Pandey, 2021). In the current study, a descriptive cross-sectional survey research approach was used in an effort to better understand the impact of a two-tier board structure on the financial performance of businesses listed on the NSE. The research adopted a descriptive research design involves collecting data in order to describe a phenomenon. A cross sectional study involves studying a population at a specific point in time. The major emphasis of a descriptive cross sectional study design is collection of data from a population at a single point in time. The research design is suited for the current study because it describes the characteristics of the targeted population within a given period of time.

3.3 Target Population

All of the companies registered on the Nairobi stock exchange make up the target population. As of 2021, there are 63 listed companies on the Nairobi Securities Exchange. The research was a census study because it considers all the companies listed in NSE. Therefore, the target population consists of all the companies listed in NSE for the period 2001 to 2021. The listed firms to be included in the study are those trading in the Nairobi securities exchange during that period. The companies listed under NSE attract skilled and experienced individuals to their boards. Such companies are preferred in the study because of availability of sufficient data to be analyzed for the study.

3.4 Data Collection Method

The data utilized in the research was extracted from primary and secondary sources. The secondary information comes from the Nairobi securities exchange, which has all the yearly reports of the firms listed. The study collected secondary data on financial performance from annual reports and the company website. Specifically, the return on assets data from the annual reports was considered. The study focused on the published data such as the statements of financial position and income statements. Document analysis was used whereby the income statements were studied to gather information for the study variables.

Supervisors and staff members of the companies listed on the NSE provided the primary data. The data was collected using a questionnaire administered online and through face-to-face meetings. The questionnaire has two parts including organizational characteristics, board independence, board diversity and board size. Part A of the questionnaire has captured the organizational characteristics factors. Part B of the questionnaire has covered questions on the two-tier board structure. Data on financial performance was collected using annual reports available from the company websites. The annual reports provided information on the return on assets (ROA) ratio of the company. The ratio was extracted by using the net income and the total assets from the financial statements.

3.5 Data Analysis

Secondary data from the Nairobi securities exchange reports was reviewed for consistency and completeness to apply the statistical analysis using SPSS. The NSE data was analyzed using inferential and descriptive statistics approach. Different descriptive analysis techniques are used to analyze the quantitative data such as mean, media, standard deviation. Charts and tables are used to summarize the responses from the respondents to facilitate further comparison of the data. The study used multiple linear regression analysis to explain the connection existing between two-tier board structure and the financial performance of the listed firms in NSE.

This study's regression model is written as follows:

$Y=\beta0 + \beta1X1 + \beta2X2 + \beta3X3 +\varepsilon$

Where:

Y = The performance of the firm (ROA was used to measure performance)

X1= Board Size (It was measured using the total members of the board of directors).

X2 = Board independence (The proportion of non-executive board of directors to all of the directors)

$X3$= board diversity (The total number of women or male directors on the board)

ε = Error term

$\beta 0$ = Constant Variable

$\beta 1$, $\beta 2$, $\beta 3$ = Beta coefficients to measure of how quickly X1, X2, and X3 change.

CHAPTER FOUR: DATA ANALYSIS, RESULTS AND DISCUSSIONS

4.1 Introduction

The chapter provides details of the results analyzed from the consolidated data extracted through a questionnaire and secondary data from all the NSE-listed companies from 2001 to 2021. The association between the two-tier board structure and the financial performance of businesses listed on the NSE was investigated through a linear regression analysis. The results of the research are presented using descriptive statistics and tables organized according to the study's objective. The chapter shows the descriptive statistics that were employed in the study, results of the normality test, the model summary, ANOVA, correlation, and discussion of the study findings.

4.2 Response Rate

The study targeted 63 respondents from the companies listed in the Nairobi securities exchange. There was a 100% response rate from the supervisors and staff members of the companies listed on the NSE. The high response rate assisted in getting the necessary information to show the influence of a two-tier board structure on the financial performance of companies listed in the NSE.

4.3 Descriptive Statistics

The standard deviation and mean of the research variables are summarized in tables below. The descriptive statistics of the organizational characteristics are considered in this section.

4.3.1 Description of Organization

Table 1: Description of the Organization

Description of the organization				
		Frequency	Percent	Cumulative Percent
Valid	Private	0	0	0
	Public	63	100	100.0
	Others	0	0	100.0
	Total	63	100.0	

The table 1 shows all the companies used in the study were public companies. The frequency table shows that 100% of the respondents agreed the NSE listed companies are public. None of the respondents confirmed the companies were private or any other form of company as shown by the 0% response rate.

4.3.2 Years of Operation

Table 2: Years of Operation

Years of operation				
		Frequency	Percent	Cumulative Percent
Valid	Less than 5 years	1	1.6	1.6
	5-10 years	10	15.9	17.5
	11 years and above	52	82.5	100.0
	Total	63	100.0	

The frequency table shows that majority of the respondents confirmed the NSE listed companies have been in existence for more than 11 years. The results show that 82.5% of the respondents confirmed that the companies have been in existence for more than 11 years. 1.6% of the respondents claimed that companies registered in the NSE have been in operation for less than 5 years as shown by the results of the study.

4.3.3 Number of Staff Members

Table 3: Number of Staff Members

Number of Staff Members				
		Frequency	Percent	Cumulative Percent
Valid	0-50 employees	1	1.6	1.6
	51-100 employees	5	7.9	9.5
	101-150 employees	12	19.0	28.6
	151 employees and above	45	71.4	100.0
	Total	63	100.0	

Table 3 shows the number of staff members in the various companies listed in the NSE. The results of the study shows that majority of the companies have more than 151 employees and above as represented by 71.4%. Only 1.6% of the respondents claimed that companies employ less than 50 employees as shown by table 3. The high number of employees in majority of the companies shows that the companies registered by NSE are big.

4.3.4 Annual Revenue

Table 4: Annual Revenue

Annual revenue					
		Frequency	Percent	Cumulative Percent
Valid	1-2 million sales revenue	2	3.2	3.2
	3-5 million sales revenue	6	9.5	12.7
	6-8 million sales revenue	16	25.4	38.1
	9 million and above	39	61.9	100.0
	Total	63	100.0	

Table 4 shows the revenues gained from the operations of the NSE listed companies in a year. The responses show that 61.9% of the companies gain more than 9 million annually. The results also show that 2% of the companies earn between 1-2 million annually. The high number of companies earning more than 9 million shows that the NSE listed companies have been making more sales from their operations.

4.4 Two-Tier Board Structure Characteristics

Data on each individual independent variable was collected and analyzed. The two-tier board characteristics selected in the study include the board independence, board diversity and board size.

4.4.1 Board Independence

Table 5: Board Independence

Statement	Mean	Std. Deviation
Relationship with shareholders is good	2.59	1.278
Relationship with present company staff is good	2.95	1.142
The board sets up its own agenda	2.65	1.310
The board can challenge the management any time	2.73	1.273
Average value of mean	2.73	1.2508

The respondents were asked to declare whether they agreed or disagreed on the influence of board independence on the financial performance of the companies. The responses were based on a five point Likert scale. A mean value of 2.5 shows neutral response, values above 2.5 represents agreeing and values below 2.5 represents disagreeing. The findings of the study as shown by Table 5 reveal that most of the respondents agreed that the company was having a good relationship with the shareholders as shown by a mean of 2.59 and a standard deviation of 1.278. The mean value is above 2.5 showing that the respondents agreed. The respondents also showed that the relationship with the organization is good as represented by a higher mean value of 2.95 and standard deviation of 1.142. The respondents also agreed that the board was involved in setting up its own agenda because the mean value was more than 2.5. The respondents also agreed that the board could challenge the management at any time as shown by the mean value of 2.73 and the standard deviation of 1.273. The values of mean are all above 2.5 showing that the respondents agreed that board independence influenced the performance of NSE listed companies. The low values of standard deviation imply that the data points are clustered to the mean. Therefore, the mean value is considered an accurate representative of the effects of board independence on the performance of the listed firms. On average, the respondents agreed that the board independence influences the performances of listed companies as shown by the mean value of 2.73 and standard deviation of 1.2508 representing all the statements.

4.4.2 Board Size

Table 6: Board Size

Statement	Mean	Std. Deviation
Number of board members is high	2.63	1.248
The executive directors are more than 2	2.48	1.030
The organization is big	2.51	1.230
There are complex operations in my company	2.71	1.288
Average value of mean	2.58	1.199

The respondents were asked whether they agreed or disagreed with the influence of board size on the financial performance of NSE listed companies. In the first statement, the value of the mean is 2.63 and the standard deviation is 1.248 showing that the respondents slightly agreed that the organization had many board members. In the second statement, the respondents disagreed that the executive directors of the companies are more than two as shown by the mean value of 2.48 and the low standard deviation value of 1.030. The third statement asked whether the organization is big and the respondents slightly agreed that the organization was big as shown by the mean value of 2.51 and a standard deviation of 1.230. The respondents confirmed that the NSE listed companies are involved in complex operations as shown by the high mean value of 2.71 and a standard deviation of 1.288. Therefore, most respondents agree that board size has an influence of the financial performance of the listed companies. The low values of standard deviation in all the statements show that the mean is an accurate measure because the data points are clustered on the mean. On average, the respondents agreed that the board size influences the financial performances of listed companies as shown by the mean value of 2.58 and standard deviation of 1.199 representing all the statements.

4.4.3 Board Diversity

Table 7: Board Diversity

Statement	Mean	Std. Deviation
There is gender parity in my organization	2.84	1.125
There is a notable age difference among of directors	2.70	1.265
The board members have different educational qualifications	2.60	1.225
The board members are from different racial groups	2.33	1.231
Average value of mean	2.62	1.2115

The respondents were asked whether board diversity influences the financial performance of listed companies using a five point Likert scale. In the first statement, the respondents prove that there is gender parity in the organization as shown by the value of the mean that was 2.84 and a standard deviation of 1.125. The standard deviation is low showing that the data points are clustered on the mean. The respondents also agreed that there was a notable age difference among the directors of the companies. The mean value of the statement was 2.70 and the standard deviation was 1.265. The respondents also prove that the board members had different educational qualifications as shown by the high mean value of 2.60 and the standard deviation value of 1.225. However, the respondents disagreed that the board members are from different racial groups as shown by the low value of mean. The mean value was 2.33 and the standard deviation was 1.231 implying that the data points are clustered on the mean. On average, the respondents agreed that the board diversity influences the financial performances of listed companies as shown by the mean value of 2.62 and standard deviation of 1.2115 representing all the statements.

4.5 Normality Test

Table 8: Testing for Normality

Tests of Normality						
	Kolmogorov-Smirnov			Shapiro-Wilk		
	Statistic	df	Sig.	Statistic	df	Sig.
Board Independence	.067	63	.200*	.971	63	.140
Board size	.091	63	.200*	.974	63	.195
Board diversity	.081	63	.200*	.967	63	.086
ROA	.021	63	.200*	.997	63	1.000

The sample size considered in the research was above 50, showing that it was appropriate to use the Kolmogorov-Smirnov test to determine if the data in the research variables was normally distributed. A p-value less than 0.05 shows that the data is not normally distributed and that the null hypothesis should be rejected. The Kolmogorov-Smirnov test yielded a p-value of 0.2 for all the variables showing the data was distributed normally.

4.6 Linear Regression

To determine the impact of the two-tier board structure on the financial performance of companies in the NSE, the extracted data was analyzed using linear regression analysis. A model summary showing the values of R-squared, ANOVA, and regression model coefficient table was used to explain the study's results.

4.6.1 Summary of the Model

Table 9: Summary of the Model

Summary of the Model										
					Change Statistics					
Model	R	R Square	Adjusted value of R Square	Standard Error of the Estimate	Value of R Square Change	Value of F Change	df1	df2	Significant F Change	Durbin-Watson value
1	.205[a]	.042	-.007	5.01807	.042	.864	3	59	.465	1.850

Multiple R is the absolute value of the correlation coefficient. The value represents the correlation between two or more variables. Therefore, 0.205 is the absolute value of the correlation between the variables used in the study.

R-squared is a statistical measure in regression, which is used to determine the percentage of variance in the dependent variable that can be explained by the independent variable selected.

The value of R-squared shows how the data fits the regression model used. High values of R squared show the model fits the data but a low value show a low goodness of fit. The R squared value is 4.2%, as shown by the table 9, showing a weaker fit of the regression model. The low values of R-squared shows that the variables considered in the study are ineffective in explaining the changes in independent variable. The table 4 also shows that the Durbin Watson value is close to 2, indicating no autocorrelation.

4.6.2 ANOVA

Table 10: Analysis of Variance (ANOVA)

ANOVA						
Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	65.292	3	21.764	.864	.465[b]
	Residual	1485.680	59	25.181		
	Total	1550.972	62			

The independent variables do not reliably predict the dependent variable, as indicated by the low value of F statistic. The low F-value shows that the group means are close together with minimal variability compared to the variability within each group. To reject the null hypothesis, F value has to be high but the F value in the research is low showing that we accept the null hypothesis. Therefore, the low F-value from the test shows that the independent variables used in the research has an insignificant impact on the dependent variables.

4.6.3 Regression Model Coefficients

Table 11: Regression Model Coefficients

Coefficients

Model		Unstandardized Coefficients		Values of Standardized Coefficients	T	Significance	Correlations			Value of Collinearity Statistics	
		B	Standard Error	Beta			Zero-order	Partial	Part	Tolerance	VIF
1	(Constant)	-2.521	2.164		-1.165	.249					
	Board Independence	-.680	.847	-.138	-.803	.425	.042	-.104	-.102	.553	1.810
	Board size	1.355	1.057	.260	1.281	.205	.178	.165	.163	.395	2.530
	Board diversity	.078	.968	.014	.081	.936	.122	.010	.010	.526	1.901
a. Dependent Variable: ROA											

The unstandardized coefficients show the direction of the relationship between the financial performance and the two-tier board structure. The resulting regression model is as shown below:

Y= -2.521 - 0.680 board independence +1.355 board size +0.078 board diversity

A unit increase in the board independence in the listed companies in NSE leads to a 0.68 decrease in the NSE-listed financial performance. Furthermore, a unit increase in board size leads to a 1.355 unit increase in financial performance. A unit increase in board diversity led to a 0.078 a unit increase in financial performance. However, the study results show an insignificant effect in all the variables because the p-values are more than 0.05. Board size, board diversity, and board independence each had significance values of 0.425, 0.205, and 0.936, respectively. Therefore, the effect of board size, independence, and diversity is insignificant in relation to the financial performance of the NSE-listed firms.

4.7 Discussion of Findings

The study findings show a positive and weak relationship between the effect of the two-tier board structure and the financial performance of businesses listed on the NSE, as shown by the regression results. Generally, the results prove that an insignificant relationship exists between the two-tier board structure and the financial performance of businesses listed on the NSE. The study results are consistent with the study by Muchiri (2016), who investigated how the characteristics of the board affected the performance of public companies in Kenya. Muchiri

(2016) found that board independence was not statistically significant, similar to the current study results showing that independence of the board has a statistically insignificant relationship with the financial performance of firms listed in NSE. The results of the study are Consistent with Machira (2016), who researched the effect of governance on the performance of Kenyan insurance businesses. Machira (2016) discovered that board size and board independence had an insignificant relationship because they had insignificant effects on the performance of insurance companies. The results also showed diversity of the board had a positive correlation with performance of the companies listed in NSE, consistent with the current study results. The current research findings are also consistent with a study by Ogeno (2013), who evaluated the impact of board characteristics on performance of companies in Kenya and concluded that independence of the board had a negative association with financial performance. The current research shows that board independence negatively affects the financial performance of listed companies.

CHAPTER FIVE: SUMMARY, RECOMMENDATIONS AND CONCLUSIONS

5.1 Introduction

The section covers a recap of the study results. The chapter offers a summary of the research findings and a comprehensive conclusion focusing on the established connection between two-tier board structure and the financial performance of the listed companies at NSE. Additionally, the chapter offers suggestions for further research, lists the study's limitations, and makes recommendations.

5.2 Summary of the Research Findings

The research findings prove most of the companies listed in the Nairobi securities exchange have existed for more than 11 years. Moreover, the companies are large because the results show that they employ more than 150 employees. Most of the respondents from the various companies reported that the companies gain more than 9 million in revenues each year. The high revenues generated by most of the companies also prove that they are big.

The descriptive statistics table shows that board independence, size, and diversity had mean values above 2.5. The respondents agreed that the board independence influences the performance of the listed companies as shown by the average mean value of 2.73 and standard deviation of 1.2508 for all the statements. Moreover, the respondents agreed that the size of the board influenced the performance of the listed companies as shown by the mean value of 2.5825 and standard deviation of 1.199. Additionally, the respondents agreed the board diversity also influenced the performance of listed companies. The results prove that the listed companies can make set their own agenda and the board can challenge the management. The results also show that the companies are big in size because they have many board members. The companies also have a high diversity of the board members showing that the members have various educational backgrounds and qualifications and they have different genders.

The study variables were not a good fit for the model because 4.2% of the variables fit in the regressing model, as shown in Table 4. Therefore, there is a weaker fitness to the model. Moreover, the results show that a 4.2% variance in the financial performance results can be predicted by the board diversity, board size, and board independence in the NSE companies. The

Durbin-Watson statistic has a value of 1.850, near 2, showing no autocorrelation in the regression model output.

The F-value is 0.864, and the significance level is 0.465 showing that the study results are not statistically significant. Therefore, board diversity, board independence, and board size does not reliably predict the performance of the listed companies. The low F value also shows that the linear regression model does not fit the data better. Therefore, the two-tier board structure had an insignificant effect on the financial performance of listed companies.

The coefficients of the regression model are not significant since the p-values are higher than 0.05. The p-values for board independence are 0.425, board diversity is 0.936, and board size is 0.205.The findings also show that the two-tier board structure has no association with the financial success of the listed firms because none of the variables is significant. The results from the regression model also show that board diversity and board size positively affected the financial performance of listed companies, while board independence negatively affected the performance of listed companies from the linear regression model. The outcome of the correlation analysis demonstrates that the performance of the firms had a weakly positive link with board independence, board diversity, and board size. The findings from the correlation show that the two-tier board structure affects the financial performance of the companies even though the relationship is insignificant. Therefore, the study's findings prove that introduction and existence of a two-tier board structure has an insignificant positive effect on financial performance of the listed companies.

5.3 Conclusion of the Study

The results of the research demonstrate that board size, board diversity, and board independence have insignificant impact on the financial performance of listed firms. The research also concludes that the companies listed in NSE have high revenues, and they employ more than 150 employees showing that they are big companies. Even though the results show that the two-tier board structure had an insignificant effect on the financial performance of the firms, the size of the board had the largest effect, board diversity had the second largest effect and board independence had the least and negative impact on the performance of the firms.

The study's findings prove that a two-tier board structure does not affect financial performance of companies listed in the NSE. The variables have a weak positive association and the relationship shows an insignificant relationship from the T-test and F-test used in the research. The value of R squared shows a weak relationship between the two-tier board and the financial performance of listed companies. Therefore, it is justified to conclude that the two-tier board structure does not reliably predict the performance of the listed companies in NSE because of the insignificant relationship between the variables considered in the study.

5.4 Recommendations

The findings show there is an insignificant relationship existing between the two-tier board structure and the financial performance of listed companies. Therefore, it is recommended that the listed companies have to change the current board structure composition to ensure they influence the financial performance of the companies. The changes can include having more having more than two executive directors and adoption of a board with members from different racial groups. The respondents proved that the board structures do not have different racial groups and they do not have more than two executive directors showing that adoption of many executive directors can influence the financial performance of the companies. It is recommended that the changes have to be made in line with the daily operations of the two-tier board structure for the companies to perform better in the market. The research findings offer valuable insight to the managers, authorities, and stakeholders on adopting the two-tier board structure. The findings will benefit the authorities tasked with formulation of policies, especially the Capital Market Authority(CMA), and the Nairobi Securities Exchange to know the changes to make in the two-tier board structure to ensure it contributes to the financial performance of the listed companies. The findings of the research show an insignificant relationship between the two-tier board structure and the financial performance of listed firms. Therefore, the NSE-listed companies have to formulate policies to popularize the acceptance of a two-tier board on the firms listed in NSE. The policies would encourage changes to the two-tier board composition, resulting to a higher significance in the data.

The research findings proves the two-tier board has an insignificant relationship with the financial performance of the companies listed in NSE. Therefore, it is recommended that the companies have to focus on other measures, such as financial expertise and the number of board meetings to evaluate whether they impact the financial performance of the listed companies. Therefore, the managers of the NSE-listed companies have to analyze the failures of board diversity, the board size, and board independence to improve the financial performance of the listed companies. Through the government and the board of directors, the companies can make the necessary changes on the board composition to ensure it influences the financial performance of companies. Therefore, an analysis of the board's diversity, size, and independence would strengthen the weak areas of the listed companies.

5.5 Study Limitations

Most respondents in the research offered neutral answers that limited the accuracy of the study findings. Extraction of the secondary data for the current research was another limitation because most companies have not exposed their data to the public for some periods within the 20 years considered in the research. As a result, it was hard to extract the information because extra finances were used to obtain information from the employees in the companies. Time was another limitation of the study because most of the respondents did not provide the responses within the set time. As a result, the study took more time to extract the primary data, affecting the efficiency of the study's extraction. Additionally, the time allotted for the research was constrained, and obtaining the listed companies' financial statements took time.

5.6 Suggestion for Further Research

The study did not consider all the characteristics of the two-tier board structure, and it did not consider the prevailing macroeconomic variables during the study period. Therefore, future research has to consider the prevailing macroeconomic variables to find their effects on the financial performance of NSE-listed companies. The other characteristics of a two-tier board structure, including the company structure, flow of authority, and communication mechanisms, can be considered in future research. Therefore, future research has to consider these factors to establish their influence on the financial performance of listed companies in NSE. Future research also has to consider the effects of a two-tier board structure on the financial performance of other governmental organizations and private companies. The findings would effectively inform whether there will be a significant relationship between the two-tier board structure and financial performance.

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Appendix 1: Data Collection Schedule

Year	ROA
2001	
2002	
2003	
2004	
2005	
2006	
2007	
2008	
2009	
2010	
2011	
2012	
2013	
2014	
2015	
2016	
2017	
2018	
2020	
2021	

Appendix 2: Questionnaire

Please provide your responses to the following questions. Use a tick or cross where necessary. Feel free to provide any additional relevant information relating to the subject matter in the spaces provided. Do not include any identifying details on this questionnaire.

PART A: ORGANIZATIONAL CHARACTERISTICS

1. How would you describe your organization?

Private [ ]

Public [ ]

Others [ ]

2. How long has your organization been in existence?

Less than 5 years [ ]

5-10 years [ ]

11 years and above [ ]

3. How many staff members are in your company?

0-50 employees [ ]

51-100 employees [ ]

101-150 employees [ ]

151 employees and above [ ]

4. How much revenue does your firm generate annually?

1-2 million sales revenue [ ]

3-5 million sales revenue [ ]

6-8 million sales revenue [ ]

9 million and above [ ]

PART B: TWO-TIER BOARD STRUCTURE CHARACTERISTICS

Tick the appropriate box for the following statement relating to two tier board structure. The items are arranged in a Likert scale of 1 to 5. 1-strongly disagree, 2-disagree, 3-Neutral, 4-Agree, 5- Strongly agree.

5. To what extent do the following aspects of board independence, board size board diversity influence performance of your company?

ELEMENTS OF TWO-TIER BOARD STRUCTURE	5	4	3	2	1
Board independence					
Relationship with shareholders is good					
Relationship with present company staff is good					
The board sets up its own agenda					
The board can challenge the management any time					
Board size					
Number of board members is high					
The executive directors are more than 2					
The organization is big					
There are complex operations in my company					
Board diversity					
There is gender parity in my organization					
The is a notable age difference among of directors					
The board members have different educational qualifications					
The board members are from different racial groups					

THANK YOU FOR PARTICIPATING.