THE RELATIONSHIP BETWEEN CORPORATE GOVERNANCE AND FINANCIAL PERFORMANCE AMONG BROADCASTING STATIONS IN KENYA

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DECLARATION

STUDENTS DECLARATION

This is to declare that this research project is my original work and has not been presented for an award for any degree to any other University or Institution of Higher Learning.

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DECLARATION BY SUPERVISOR:

This is to declare that this project has been submitted for examination with my approval as the university supervisor.

Sign: -- Date: ---

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ACKNOWLEDGEMENT

I wish to express my sincere appreciation to my family for their understanding and support during the project.

I would also like to express my sincere thanks to the supervisor for having agreed to supervise this research paper and his patience in reading the drafts and occasionally guiding me, without which the research would not have been a reality.

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DEDICATION

This study is dedicated to my loving family, for their support, encouragement and patience during the entire period of my study and continued prayers towards successful completion of this course.

May God bless you all.

ABSTRACT

Corporate governance has received much attention in the accounting literature, with studies focusing on the impact of corporate governance and the financial performance of the firm. The association between quality of corporate governance and firms' profitability is quite major focus in corporate governance studies, but one cannot predict much on the direction as prior literatures show mixed results. Better-governed firms might have more efficient operations, resulting in a higher expected future cash-flow stream.

The purpose of this study is to determine corporate governance practices and the effect of corporate governance on financial performance of broadcasting station in Kenya. For the purposes of this study, the researcher will apply a descriptive research design. Primary data was collected from one head of the various departments in the thirty five broadcasting stations in Kenya. Self-administered drop and pick questionnaires will be distributed among thirty sampled employees currently employed by broadcasting companies in Kenya. Quantitative data collected was analyzed by the use of descriptive statistics.

From the findings the study concludes that Limited partnership agreements at the top level that prohibit headquarters from cross-subsidizing one division with the cash from another, High-equity ownership on the part of managers and board members; board members who in their funds directly represent a large fraction of the equity owners of each subsidiary company. The study concludes that board size and composition, splitting of the roles of chairman and chief executive, optimal mix of inside and outside directions and number board of directors affected the financial performance of the companies.

The board should balance the costs and benefits of meetings frequency given that the study established that if the board increases the frequency of its meetings, the recovery from poor performance is faster. The study also recommends that media houses should adopt good governance systems as they enhance the financial performance these media house. The study therefore recommends that policy makers for media houses should take serious notice of these findings to implement policies that sustain the already existing strong corporate governance structures.

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CHAPTER ONE: INTRODUCTION

1.0 Background of the Study

Corporate governance has dominated policy agenda in developed market economies for more than a decade and it is gradually warming its way to the top of the policy agenda on the African continent. The Asian crisis and the relative poor performance of the corporate sector in Sub-Saharan Africa have made corporate governance a catchphrase in the development debate (Berglof and von Thadden, 1999). Developing countries are now increasingly embracing the concept of good corporate governance, because of its ability to impact positively on sustainable growth. It is believed that, good governance generates investor goodwill and confidence. Firms are now improving their corporate governance practices knowing it increases valuations and boosts the bottom line. Corporate governance is seen as the process and structure used to direct and manage the business affairs of the company towards enhancing business prosperity and corporate accountability with the ultimate objective of realizing long-term shareholder value, whilst taking into account the interest of other stakeholders. Claessens et al. (2002) maintain that better corporate frameworks benefit firms through greater access to financing, lower cost of capital, better performance and more favourable treatment of all stakeholders.

The OECD itself describes corporate governance as, "… a set of relationships between a company's board, its shareholders, and other stakeholders. It also provides the structure through which the objectives of the company are set, and the means of attaining those objectives, and monitoring performance, are determined" (OECD, 1999). On the other hand it has also been interpreted as; "the manner in which suppliers of corporate funds ensure appropriate returns to their investment" (Shleifer and Vishny, 1997); "… (being) to protect shareholders" rights and enhance shareholder value; "the system by which companies are directed and controlled (Cadbury Report, 1992); or about, "… taking a fresh look at management structure taking into account all interested parties and ensuring all the necessary monitoring and controls are in place to ensure that shareholder value is always at the forefront" (Kendall and Kendall, 1998). It has

also been argued that in the end it is a country's political framework which determines the quality of its corporate governance practices (Roe, 2003).

The key operational feature of corporate governance of direction and control appears to be the common denominator, with opinions differing only on its scope that is whether it should be about the satisfaction of shareholders' interests or extended more widely to incorporate stakeholders' interests, translated to mean the interests of employees, suppliers, creditors, the community, and so on (Bhagat and Black, 2002).

1.1.1 Significance of Corporate Governance

The Anglo-Saxon economies being predominantly market-based and market-driven operates through dispersed shareholdings and influential sophisticated institutional shareholders where minorities may expect some degree of protection; and where the board is increasingly made up of majority non-executive independent directors who may not align with the interests of dominant shareholders but rather all shareholders (Coombs and Watson, 2001; La Porta et al., 1999). Here, financial information disclosure is crucial not only to ensure transparency and accountability, but more importantly the sustenance of market liquidity to provide a workable environment for corporate divestment, takeover and merger activities. Corollary to this, the corporate and capital market frameworks are geared towards greater focus on transparency, accountability and enforcement issues.

Corporate governance is not just about board structure and interests alignments for its own end. It is very much about perceived benefits in terms of attraction of capital and its retention. For corporations it could well mean enhanced market capitalization. An international corporate governance survey showed that investors are prepared to pay more for corporations with more effective governance structures and practices. This resulted in lower share premiums for Asian, Latin American and other emerging economies; a comparatively higher premium for those in continental Europe where there are still pressures for better disclosure of information to shareholders; and an even higher premium for those in the UK and US capital markets where

information disclosure to shareholders is enhanced either through strict securities laws or codes of best practices (McKinsey & Co., 2005).

1.1.2 Corporate Governance and Financial Performance

A well defined and functioning corporate governance system helps a firm to attract investment, raise funds and strengthen the foundation for firm financial performance. Good corporate governance shields a firm from vulnerability to future financial distress (Demsetz and Villalonga, 2002; Bhagat and Jefferis, 2002). The argument has been advanced time and time again that the governance structure of any corporate entity affects the firm's ability to respond to external factors that have some bearing on its financial performance (Donaldson, 2003). In this regard, it has been noted that well governed firms largely perform better and that good corporate governance is of essence to firm's financial performance.

The subject matter of corporate governance has dominated the policy agenda in developed market economies for sometime especially among very large firms. Subsequently, the concept is gradually warming itself to the top of policy agenda in the African continent. Indeed, it is believed that the Asian crisis in 1992 and the seemingly poor performance of the corporate sector in Africa have made the concept of corporate governance a catchphrase in the development debate (Berglof and von Thadden, 1999). It is believed that good governance generates investor goodwill and confidence. Again, poorly governed firms are expected to be less profitable. Claessens *et al.* (2002) also posits that better corporate framework benefits firms through greater access to financing, lower cost of capital, better financial performance and more favourable treatment of all stakeholders. They argue that weak corporate governance does not only lead to poor firm financial performance and risky financing patterns, but are also conducive for macroeconomic crises like the 1997 East Asia crisis. Other researchers contend that good corporate governance is important for increasing investor confidence and market liquidity (Donaldson, 2003).

Among the many claimants on firm's cash flows, equity shareholders have always claimed a special attention may be because of the residual nature of their claims. Parker (2007a) paradigm of the separation of share holder ownership and management's control explained that agency problem occurs when the principal (Shareholders) lacks the necessary power/information to monitor and control the agent (manager) and when the compensation of the principal and the agent is not aligned.

Given the existing problem inherent in the corporate firm, financial performance will be function of the quality of the corporate governance structures of the company (McKinsey and Co. 2005). In an efficient capital market, investors will discount the price they are willing to pay for a company's shares by the expected level of managerial agency costs. It is therefore assumed that for a company to prosper it will choose a corporate governance that is efficient in minimizing agency costs. It has also been argued that in the end it is a country's political framework which determines the quality of its corporate governance practices (Roe, 2003).

Corporate governance is defined as a field in economics that investigates how to secure or motivates efficient management of corporations by the use of incentives mechanism, such as contracts, organization design and legislation (Mathiesen, 2002). Abor, (2007) defines corporate governance as the system by which companies are directed and controlled. It also refers to as the way in which corporations are handled by corporate boards and officers. Hampel (1998) observes that good governance ensures that stakeholders with the relevant interest in the company business are fully taken into account thus enhancing the financial performance of the firm. Brown and Caylor (2004) also shares the foregoing views seeing corporate governance as the relationship among various participant in determining the direction and performance of the companies consistent with the public good.

Corporate governance can be defined as the set of institutional arrangements affecting corporate decision making (Carter and Lorsch, 2004). Evans and Loh (2002 p.l) describe corporate governance as " rules governing board structures, managers and board's incentive compensation, decisions rights by the board and the Chief Executive Officer(CEO), session of the board and

Chief Executive Officer, shareholding voting, debt/equity finance decisions as well as disclosure during take-over.

1.1.3 Broadcasting Stations in Kenya

The communications sector in Kenya has grown in leaps and bounds over the last one decade. From having only one licensed radio and television network (the then Voice of Kenya and now Kenya Broadcasting Corporation) to having over ten licensed television networks and more that twenty operating radio stations. But nothing exemplifies this rapid expansion more than the telecommunications sub-sector. Within a very short since its introduction, we have seen a very rapid expansion in this sector (CCK, 2008).

During the first 2 decades of Kenyan independence, the government was in strict control. There was only one political party, and the media were held in tight check. Kenya television consisted of a single station which was mainly a tool for the government. With a change of national leadership in the 1990s, the television industry in Kenya was given more freedom and more stations were founded (CCK, 2008).

In the 1990s, the field began to expand and modernize. The KBC started to improve its capabilities with new equipment and expanded services. During this time, competition began to appear as new stations were launched. The second one was the Kenya Television Network (KTN), started in 1990. The KTN was private, unlike the government-owned KBC which gave them greater freedom with regards to their content. By 2000, more stations began to broadcast and further broaden the options available for Kenyans. Additional stations are Nation TV (renamed NTV), Family TV, Sayare TV and Citizen TV. Later K24, classic and Kiss TV joined in. Gradual liberalization of broadcasting airwaves began in late1989 when the government licensed private owned Kenya Television Network (KTN), to broadcast television services. In 1995, Capitol FM became the first private FM station to be licensed by the government (CCK, 2008). From mid 90's up to now, the government fully liberalized the broadcasting airwaves by issuing broadcasting permits to private entities to venture into the broadcasting sector.

Permits issued by the Ministry of Information and Communications to prospective broadcasters specify the type of broadcasting service (TV and/or sound) and the permitted coverage areas (i.e. region, province or nationwide coverage). The government has also authorized 5 foreign radio stations to operate in Kenya. The liberalization has resulted in a very vibrant broadcasting industry in Kenya, especially FM sound broadcasting, with the demand for broadcasting frequencies outstripping the supply especially in urban areas (CCK, 2008). As of now, over 264 FM frequencies have been assigned countrywide; a number of these broadcasting stations are already on air.

There are several radio stations in Kenya that have been licensed to operate over the last few years by the Communications Commission of Kenya. Examples of the radio stations are Kenya Broadcasting Corporation (KBC) Kiswahili and English service, Capital FM, Easy FM, Metro FM (owned by KBC), Kiss 100, Radio Citizen and Classic 105. These are the main radio stations that broadcast in English or Kiswahili. There are numerous other radio stations that broadcast in local languages. Some of them are based in Nairobi while others are based in other towns in the country. Examples of these stations are Kameme FM, Ramogi FM, Kass FM, Coro FM and Mulembe FM. These radio stations are usually given different frequencies to operate with. Some of them such as Citizen Radio and KBC broadcast in the whole country (national) while others operate just within a small area, for example, Kass FM.

With the establishment of the Communications Commission of Kenya (CCK) through the enactment of the Kenya Communications Act of 1998 (KCA 1998), the Kenya Postal and Telecommunications Act was repealed. The CCK, Kenya’s communications industry regulator, took over the mandate of planning of broadcasting frequencies as well as assignment of the frequencies for broadcasting although the KCA 1998 did not give it express mandate to regulate broadcasting content. In this regard, a void has existed in as far of the issue of regulation of content is concerned.

The broadcasting stations have remained one of the most profitable ventures in Kenya. The financial position of the companies is published in the financial reports which the companies

release each year. The financial statements also contain the issue of the corporate governance which reflect the stakeholders interests and the political intervention. From the annual reports, the measures of corporate governance are seen to have an effect to the financial performance of the companies (CCK, 2008). The size of the board and split chairman/CEO roles at the stations has been shown to have a material impact on the quality of corporate governance making the companies deliver higher return on their investments to the investors. Corporate governance at the stations, measured through better accounting standards, appears to matter for financial performance and result in a lower cost of capital for the companies.

1.2 Statement of the Problem

Corporate governance has received much attention in the accounting literature, with studies focusing on the impact of corporate governance and the financial performance of the firm. Brown and Caylor (2004) provide insights to relationships between good corporate governance and corporate performance. Research indicates that companies with better corporate governance guarantee, the payback to the shareholder and limit the risk of the investment. The association between quality of corporate governance and firms' profitability is quite major focus in corporate governance studies, but one cannot predict much on the direction as prior literatures show mixed results. Jensen and Meckling (1976) have proven that better-governed firms might have more efficient operations, resulting in a higher expected future cash-flow stream. Klapper and Love (2003) that use return on assets as measure for performance found evidence that firms with better governance have higher operating performance. Contrast results are seen in Gompers *et al.* (2003) who found no significant relationship between firms governance and operating performance. Eisenberg *et al.* (1998) also find negative correlation between board size and profitability when using sample of small and midsize Finnish firms. Mak and Yuanto (2003) re-echo the above findings in firms listed in Singapore and Malaysia when they found that firm valuation is highest when a board has five directors, a number considered relatively small in those markets. According to Cho and Kim (2003), company would enhance their corporate governance when the company's performance is poor because changes in corporate governance structure are expected to bring out positive result on their performance.

Even though corporate governance principles have always been important for getting good rating scores for large and publicly-held companies, they are also becoming much more important for investors, potential investors, creditors and governments (Gompers *et al.*, 2001). Because of all of these factors, corporate governance receives high priority on the agenda of policymakers, financial institutions, investors, companies and academics (Heracleous, 2001). In the literature a number of studies have sought to investigate the relation between corporate governance mechanisms and financial performance (e.g. Berglof, von Thadden, 1999) Most of the studies have shown mixed results without a clear-cut relationship. E.g. a study by Becht *et al.*, (2002) show that corporate governance practices positively influences the profitability of the organization while MacAvoy and Millstein (2003) found that board composition does not have any effect on financial performance. This study thus seeks to investigate the relationship that exists among Kenyan TV stations. Further, the limited studies in the area have focused mainly on developed economies (E.g. Becht *et al.*, 2002). It is crucial to examine the relationship in the context of a developing economy.

Locally, Jebet (2001) conducted a study of corporate governances the case of quoted companies in Kenya, Muriithi (2005) did a study on the relationship between corporate governance mechanisms & performance of firms quoted on the NSE, Manyuru (2005) researched on corporate governance and organizational performance the case of companies quoted at the NSE while Matengo (2008) did a study on the relationship between corporate governance practices and performance: the case of banking industries in Kenya. None of these studies have focused on the relationship between corporate governance and financial performance in the Kenya broadcasting stations. This study aims to explore the relationship between corporate governance and the financial performance of the broadcasting stations in Kenya. The study findings will be invariable to the entire broadcasting sector in Kenya as it will provide a benchmark on the effect of good corporate governance on the financial performance.

1.3 Objectives of the study

1.3.1 General Objectives

The objective of this study was to determine corporate governance practices and the effect of corporate governance on financial performance of broadcasting station in Kenya.

1.3.2 Specific Objectives of the Study

The specific objectives of this study are;

i. To determine the corporate governance adopted by broadcasting stations in Kenya.
ii. To establish the relationship between corporate governance and the financial performance of broadcasting stations in Kenya.

1.4 Importance of the Study

This study is important to the companies in the broadcasting industry as they will be able to know for certain how corporate governance plays a bigger role in shaping their operations and how they affect their financial performance.

The results of this study will also be invaluable to researchers and scholars, as it will form a basis for further research. The students and academics will use this study as a basis for discussions on the corporate governance practices adopted by the broadcasting industry and how these affect their financial performance.

The industry regulator, the Communications Commission of Kenya, will also find the results of this study very invaluable, as it will be able to ascertain the corporate governance practices that enhance financial performance to an individual firm and as so determine whether such practices adopted in the industry conform to the guidelines provided for the industry by the government.

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 corporate governance, determinants of good corporate governance, importance of good corporate governance, corporate governance and firm performance, corporate governance and financial performance and the empirical review.

2.2 Theoretical Review

2.2.1 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 maximise shareholders' wealth (Coelho *et al.*, 2003; Friedman, 1970). 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 (Berle and Means, 1932). 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 (Eisenhardt, 1989, p. 58). 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” (Jensen and Mechling, 1976). 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

mangers 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" (Blair, 1995, p. 107).

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" (Hayes and Abernathy, 1980) and its consequent pre-occupation with short-term gains in return, profit, stock price 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 maximisation of long-term wealth for shareholders (Blair, 1995). 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, pp. 6-7).

2.2.2 Stakeholders Theory

There are two main theories of stakeholder governance: the abuse of executive power model and the stakeholder model. Current Anglo-American corporate governance arrangements vest excessive power in the hands of management who may abuse it to serve their own interest at the expense of shareholders and society as a whole (Hutton, 1995). Supporters of such a view argue that the current institutional restraints on managerial behaviour, such as non-executive directors, the audit process, the threat of takeover, are simply inadequate to prevent managers abusing

corporate power. Shareholders protected by liquid asset markets are uninterested in all but the most substantial of abuses. Incentive mechanisms, such as share options, are means through which managers can legitimise their abnormal overpayment (viewed by some as a symptom of the breakdown of governance (Keasey *et al.*, 1997, pp. 7-8)). The abuse of executive power is particularly embedded in the problem of executive overpay since executive remuneration has risen far faster than average earnings and there is at best a very weak link between compensation and management performance (Conyon *et al.*, 1995; Gregg *et al.*, 1993). The only restraint on executive pay seems to be the modesty of executives themselves, and the creation of so-called independent remuneration committees by large companies is not effective. What is worse is that it legitimises self-serving managerial behaviours. The independence is generally a sham, not for restraining excess of pay, but for justifying it (Kay and Silberston, 1995, p. 85, 94). The supporters of this model do not believe that the main lines of corporate governance reform, such as non-executive directors, shareholder involvement in major decisions and fuller information about corporate affairs, are suitable monitoring mechanisms (Kay and Silberston, 1995, p. 94). Instead, they propose statutory changes in corporate governance, under which hostile takeovers are not possible to effect, since ownership of shares no longer brings the right to appoint executive management. The basic objective of corporate governance in this guise is "managerial freedom with accountability", to allow executive management the power to develop the longer term business, while holding them rigorously responsible to all stakeholders involved in the business.

Perhaps the most fundamental challenge to the orthodoxy is the stakeholder model, with its central proposition is that a wider objective function of the firm is more equitable and more socially efficient than one confined to shareholder wealth (Keasey *et al.*, 1997, pp. 8-9). The well-being of other groups such as employees, suppliers, customers and managers, who have a long-term association with the firm and therefore a "stake" in its long-term success, is recognised. The goal of corporate governance is to maximise the wealth creation of the corporation as a whole. Specifically, a stakeholder is defined as "any group or individual who can affect or is affected by the achievement of the firm's objectives" (Freeman, 1984, p. 25), and this is "meant to generalise the notion of stockholder as the only group to whom management

need to be responsive” (Freeman, 1984, p. 31). These definition were formulated form the base that modern corporation is affected by a large set of interest groups, including at a minimum shareholders, lenders, customers, employees, suppliers and management, which are often referred to as the primary stakeholders, who are vital to the survival and success of the corporation. To these the corporation adds secondary stakeholders, such as the local community, the media, the courts, the government, special interest groups and the general public, that is society in general. From this perspective, corporate governance debates often proceed with a fixation on the relationship between corporate managers and shareholders, which presupposes that there is only one right answer. In fact, shareholders are difficult and reluctant to exercise all the responsibilities of ownership in publicly held corporations, whereas other stakeholders, especially employees, may often too easily exercise their rights and responsibilities associated as owners. This is a compelling case for granting employees some form of ownership.

2.2.3 Agency Theory

Historically, definitions of corporate governance also took into consideration the relationship between the shareholder and the company, as per “agency theory”, i.e. director-agents acting on behalf of shareholder-principles in overseeing self-serving behaviors of management. However, broader definitions of corporate governance are now attracting greater attention (Solomon and Solomon, 2004). Indeed, effective corporate governance is currently understood as involving a wide number of participants. The primary participants are management, shareholders and the boards of directors, but other key players whose interests are affected by the corporation are employees, suppliers, customers, partners and the general community. Therefore, corporate governance, understood in these broadening social contexts, ensures that the board of directors is accountable not only to shareholders but also to non-shareholder stakeholders, including those who have a vested interest in seeing that the corporation is well governed. Some corporate governance scholars (Carter and Lorsch, 2004; Leblanc and Gillies, 2005) also argue that at the heart of good corporate governance is not board structure (which receives a lot of attention in the current regulations), but instead board process (especially consideration of how board members work together as a group and the competencies and behaviors both at the board level and the

level of individual directors). As a result, the current scholarly discourse about the nature of corporate governance has come to reflect this body of research.

This separation is however, linked and governed through proper "agency relationship" at various levels, among others "between shareholders and boards of directors, between boards and senior management, between senior and subordinate levels of management" (ISDA, 2002). In such a principal-agent relationship, there is always "inherent potential for conflicts within a firm because the economic incentives faced by the agents are often different from those faced by the principals" (ISDA, 2002). According to ISDA (2002), all companies are exposed to agency problems, and to some extent develop action plans to deal with them. These include establishing such measures as: "controls on the actions of agents, monitoring the actions of agents, financial incentives to encourage agents to act in the interest of the principals, and separation of risk taking functions from control functions" (ISDA, 2002).

2.2 Corporate Governance

Corporate governance has, in more recent years, become one of the most commonly used terms in the modern corporation. The empirical research and literature has burgeoned and the field is highly interdisciplinary. Stakeholders in the corporate governance arena are many and wide-ranging and their participation in this field has spawned a rich and varied range of information resources pertaining to distinct disciplinary fields and practitioner interests. The corporate governance researcher thus needs to have an in-depth understanding of the diverse roles various stakeholders play and how they "fit" together in the complex arena of corporate governance as it exists today.

Corporate governance has come to underpin systematically the work of many business academics and practitioners alike, and their information and research needs present challenges not only for them, but also for the information professionals who assist them. Governance refers to the manner in which power is exercised in the management of economic and social resources for sustainable human development initiative (McCord, 2002). According to McCord corporate

governance refers to the manner in which the power of a corporation is exercised in the stewardship of the corporation total portfolio and resources with an objective of obtaining increasing stakeholders value with a satisfaction of other stakeholders within the context of individual organizations corporate mission and vision as spelt out in the strategic plan of an institution. In today's world governance has assumed critical importance in the socio-economic and political systems.

The definition of corporate governance may vary in different contexts or different countries (Solomon and Solomon, 2004). In very simple terms, corporate governance refers to how a corporation is governed (National Association of Corporate Directors, 2006). Laws, regulations or formal policy play a significant role in determining this, of course. For example, legally, a board of directors is vested with the authority to manage or supervise the management of the business and affairs of a corporation. Each director and officer, in exercising their powers and discharging their duties, is required by law to: act honestly and in good faith with a view to the best interests of the company (otherwise known as the director's "fiduciary duty"); and exercise the care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances (otherwise known as the director's "duty of care"). While these duties are deliberately broad in their scope, what has occurred in the last several years is that specific duties and responsibilities have been imposed on, and expected of, directors, by regulations, shareholder guidelines and otherwise, in a broad variety of areas (e.g., board structure and composition, director qualifications and financial, risk and compensation oversight by the board) in order to ensure that boards of directors adequately oversee the management of the organization and act in the best interests of the company and all of its shareholders at all times.

Corporate governance systems may be therefore thought of as mechanisms for establishing the nature of ownership and control of organisations within an economy. In this context, corporate governance mechanisms are economic and legal institutions that can be altered through the political process – sometimes for the better (Shleifer and Vishny, 1997). Company law, along with other forms of regulation (including stock exchange listing rules and accounting standards), both shape and is shaped by prevailing systems of corporate governance. The impact of

regulation on corporate governance occurs through its effect on the way in which companies are owned, the form in which they are controlled and the process by which changes in ownership and control take place (Jenkinson and Mayer, 1992). Ownership is established by company law, which defines property rights and income streams of those with interests in or against the business enterprise (Deakin and Slinger, 1997). The definition of "ownership" is problematic in this context (Njoya, 1999). At the bottom, differences in conceptions of ownership lead to differences in forms of control and, therefore, differences in the formulation and implementation of corporate strategy (Deakin and Hughes, 1997).

The main corporate governance themes that are currently receiving attention are adequately separating management from the board to ensure that the board is directing and supervising management, including separating the chairperson and chief executive roles; ensuring that the board has an effective mix of independent and non-independent directors; and establishing the independence of the auditor and therefore the integrity of financial reporting, including establishing an audit committee of the board.

2.2.1 Governance Systems

In designing a corporate governance system, it is important to include all the stakeholders. It should involve the company and all interested parties. The system of governance could thus help or hinder internal corporate ventures. It is in the best interests of owners to resort to control mechanisms that move the operations of the firm to full efficiency by aligning the interest of managers and all stakeholders. The stakeholder theory argues about the importance of a firm paying special attention to the various stakeholder groups in addition to the traditional attention given to investors (Freeman, 1984; Gibson, 2000). These various groups of stakeholders which include customers, suppliers, employees, the local community and shareholders are deemed to also have a stake in the business of a firm.

Proponents of stakeholder theory thus argue for representation of all stakeholder groups on boards for effective corporate governance. The stakeholder theory also emphasizes the role of non-market mechanism, such as the need to determine an optimal board size, the need to design a

committee structure that allows for the setting up of specialised committees. Such a structure would allow, for example, the setting up of productivity-oriented committees and monitoring-oriented ones (John and Senbet, 1998).

There is recognition of the issue of multiplicity of stakeholders under the stakeholder theory. John and Senbet (1998) argue that certain actions of management might have conflicting effects on various classes of stakeholders. This implies that managers have a multiplicity of objective functions to optimize. Jensen (1993) sees this as an important weakness of the stakeholder theory because it violates the proposition that a single-valued objective is a prerequisite for purposeful or rational behaviour by any organisation. He suggests a refinement of the stakeholder theory – the enlightened stakeholder theory. The modified form of the stakeholder theory proposes one objective that managers should pursue: the maximization of long-run value of the firm. If the interest of any major stakeholder were not protected, the long-run value maximization would not be achieved.

2.3 Good Corporate Governance

To explain primary impediments of good governance, the International Swaps and Derivatives Association (ISDA) (2002) reminds us that modern economic theory has established an approach to the construct of corporate governance through the separation of two main functions in firms, which are: principals, the owners of the companies who hold claims over the net income of the company's business no matter it is positive or negative, who then appoint; and agents, who execute duties and responsibilities in the companies on behalf of the principals.

Good Corporate Governance aims at increasing profitability and efficiency of organizations and their enhanced ability to create wealth for shareholders, increased employment opportunities with better terms for workers and benefits to stakeholders. The transparency, accountability and probity of organizations make them acceptable as caring, responsible, honest and legitimate wealth creating organs of society. The enhanced legitimacy, responsibility and responsiveness of business enterprises within the economy and improved relationships with their various

stakeholders comprising shareholders, managers, employees, customers, suppliers, host communities, providers of finance and the environment enhance their market standing, image and reputation.

Good corporate governance is necessary in order to attract investors both local and foreign and assure them that their investment will be secure and efficiently managed and in a transparent and accountable process, create competitive and efficient companies and business enterprises, enhance the accountability and performance of those entrusted to manage corporations and promote efficient and effective use of limited resources (Ledgerwoods, 1981).

Without efficient companies or business enterprises the country will not create wealth or employment. Without investment, companies will stagnate and collapse. If businesses enterprises do not prosper there will no economic growth, no employment, no taxes, paid and invariably the country will not develop. The country needs well-governed and managed business enterprise that can attract investment, create jobs and wealth and remain viable, sustainable and competitive in the global market place. Good corporate governance therefore becomes a prerequisite for national economic development (Ledgerwoods, 1981).

ISDA (2002) notes in its mission statement that corporate governance has become an issue of worldwide importance. The Corporation has a vital role in promoting economic development and social progress. It is the engine of growth internationally and increasingly responsible for providing employment, public and private services, goods and infrastructure. The efficiency and accountability of the corporation is now a matter of both private and public interest and governance has thereby come to the head of the international agenda (ISDA (2002).

The Commonwealth Association for Corporate Governance in its publication "CAGG guidelines Principles for Corporate Governance in the Commonwealth states that the globalization of the market place within this context has ushered in an era where the traditional dimensions of corporate governance defined within local laws, regulations and national priorities are becoming increasingly challenged by circumstances and events having an International Impact (The Pan African Consultative Forum on Corporate Governance, 2004).

2.4 Indicators of Good Corporate Governance

2.4.1 Independent Directors

The focus on board independence is grounded in agency theory (Fama and Jensen, 1983). In fact, it has long been argued in the finance literature that boards with a majority of independent directors are more effective in monitoring management (Baysinger and Butler, 1985; Morck and Nakamura, 1994; Kaplan and Minton, 1994; Bhagat and Black, 2002) and are more likely to replace poorly performing CEOs (Weisbach, 1988). More independent boards are also more likely to opt for a clean slate when company performance deteriorates significantly, and to hire a replacement CEO from outside the firm rather than promote an internal candidate (Borokhovich et al., 1996; Huson, 2001).

2.4.2 Independence of Committees

Similarly, independence is also considered important for a board committee to be an effective monitor (Klein, 1998). John and Senbet (1998) report empirical evidence showing that the presence of monitoring committees (audit, nomination, and compensation committees) is positively related to factors associated with the benefits of monitoring. However, the presence of insiders in the compensation committees increases the probability of making decisions in favor of the CEO's interests (Newman and Mozes, 1999).

Moreover, when the CEO sits on the nominating committee or when no nominating committee exists, firms appoint fewer independent outside directors and more gray outsiders with conflicts of interest (Shivdasani and Yermack, 1999). In addition, the stock market's reaction to appointments of independent outside directors is more positive when the director's selection process is viewed as relatively independent of CEO involvement (Shivdasani and Yermack, 1999). Klein (2002) shows that independent audit committees reduce the likelihood of earnings management, thus improving transparency. Finally, when the CEO serves on the nominating committee, the audit one is less likely to have a majority of independent directors (Klein, 2002).

2.4.3 Board Size

The size of the board has been shown to have a material impact on the quality of corporate governance. Several studies support the idea that large boards can be dysfunctional. Hermalin and Weisbach (2003) believe that board size proxies for the board's activity, explaining why smaller board sizes are better than larger ones that may be plagued with free rider and monitoring problems. For example, Yermack (1996) and Eisenberg et al. (1998) find a negative relation between board size and firm value, indicating that smaller boards are more effective since they experience fewer communication and coordination problems.

2.4.4 Split Chairman/CEO Roles

The question of whether the chairman and CEO positions should be separate has been controversial. The advantages and the drawbacks of separating the chairman and CEO positions have been studied extensively. Jensen (1993) argues that separating CEO and chairman roles is in the shareholders' interest. Similarly, large firms that separate the two functions trade at higher price-to-book multiples (Yermack, 1996) and have higher return on assets and cost efficiency ratios than firms where the same person holds both titles.

In addition, bestowing the CEO and chairman duties on one individual makes it harder for a board to replace a poorly performing CEO (Shivdasani and Zenner, 2004), which can reduce the flexibility of a board to address sizable declines in performance (Goyal and Park, 2002). On the other hand, Brickley et al. (1997) find no evidence that separating these roles improve firm performance. More precisely, combining the positions of chairman and CEO confers greater power to the CEO, who gains the title of chairman after having outperformed his/her peers (Brickley et al., 1997). So the chairman title serves as a reward to a new CEO who has demonstrated superior performance and represents an implicit vote of confidence by outside directors. Then, requiring companies to separate the positions of CEO and chairman would deprive boards of an important tool to motivate and reward new CEOs (Brickley et al., 1997).

2.4.5 Board Meetings

Boards should be ready to increase meetings frequency if the situation requires a high supervision and control (Shivdasani and Zenner, 2004). Other studies suggest that boards should balance the costs and benefits of frequency. For example, if the board increases the frequency of its meetings, the recovery from poor performance is faster (Vafeas, 1999).

2.5 Importance of Good Corporate Governance

Corporate governance, although analyzed from many different perspectives, is usually understood as a complex set of constraints that "managers put on themselves, or that investors put on managers to reduce the ex post misallocation and to induce investors to provide more funds ex ante" (Shleifer and Vishny, 1997). Thus, the main tasks of corporate governance refer to: assuring corporate efficiency and mitigating arising conflicts (Blair, 1999); providing for transparency and legitimacy of corporate activity (Monks, 2001); lowering risk for investments and providing high returns for investors (Cadbury Committee, 1992); and delivering framework for managerial accountability (Monks, 2001).

The importance of corporate governance proved to be crucial in line with recent corporate scandals which resulted in substantial economic losses, higher risk and decrease of confidence. The concept of corporate governance evokes the question of corporate performance and higher returns in the case of companies complying with certain rules. The research on these relations constitute a substantial proportion of papers in modern management, finance as well as law and economics. Researchers have investigated relationships between company performance and corporate governance variables such as ownership structure (concentration, shareholder identity), board structure (composition, turnover, proportion of independent, insider/outside or affiliated members), structure and functioning of board committees, structure and size of executing compensation (fixed salary vs incentives programs and stock options), structure and size of debt (long vs short term, private vs public). Although, the research findings remain relatively mixed, many results do reveal clear relations between governance characteristics and performance. An

overview of the main findings on corporate performance and corporate governance characteristics include the following: ownership concentration improves corporate performance lowering the agency costs of dispersed ownership (Holderness and Sheehan, 1988; Elloumi and Guelie, 2001); however, the dominant shareholder may tend to abuse minority investors particularly under conditions of poor institutional order (Pajuste, 2002); the involvement of institutional investors in the ownership structure is positively correlated with corporate performance due to their skills and experience in monitoring (McConnell and Servaes, 1990; Monks and Minow, 2004; Faccio and Lasfer, 2000); independent directors positively influence corporate performance providing objectivity and professionalism (Zajac and Westphal, 1996; Conyon and Peck, 1998; Hambrick and Jackson, 2000; Monks and Minow, 2004); separation of CEO and Chairman enhances the monitoring and supervision exerted by the board (MacAvoy and Millstein, 2003); performance-based executive compensation aligns managerial interests with those of shareholders and mitigates agency problems (Daily et al., 1996); and investor protection improves corporate governance and capital market development La Porta et al., 2000).

2.6 Corporate Governance and Firm Performance

Research has shown that companies with a higher corporate governance (based on developed indices) were performing better and had higher market value or Tobin's q (Bauer and Guenster, 2003; Beiner et al., 2004; Schmidt and Zimmermann, 2004). Moreover, a portfolio of companies with better corporate governance delivered a 2.1 per cent higher return as compared with companies of poor corporate governance (Bauer and Guenster, 2003). Schilling (2003) conducted on the sample of 242 of Europe's largest corporations listed in the FTSE Eurotop 300 index shows that companies with stronger corporate governance performance (measured by over 300 corporate governance rating variables)are on average also valued higher in terms of Tobin's q. These results indicating positive relationship between good corporate governance and firm performance were supported by international research conducted on a sample of 526 Korean companies (Black et al., 2003).

Additionally, research conducted on firm-level data of corporate governance ratings across 14 emerging markets (not covering transition countries) reveals that better corporate governance is correlated with better operating performance and market valuation (Klapper and Love, 2002).

2.7 Corporate Governance and Financial Performance

Corporate governance mechanisms assure investors in corporations that they will receive adequate returns on their investments (Shleifer and Vishny, 1997). If these mechanisms did not exist or did not function properly, outside investors would not lend to firms or buy their equity securities. Overall, economic performance would likely suffer because many good business opportunities would be missed and temporary financial problems at individual firms would spread quickly to other firms, employees and consumers. Previous evidence suggests that corporate governance has a positive influence over corporate performance. For example, based on industry-level view, Rajan and Zingales (1998) find that firms in industries that require large amounts of external financing grow faster in countries with high scores on their measures of financial development. Thus, corporate governance (measured through better accounting standards, stronger legal protection of investors, and a stronger rule of law) appears to matter for financial performance. In addition, Williams (2000), Drobetz *et al.* (2003) and Gemmill and Thomas (2004) concluded in their respective studies that there is a positive relationship between good corporate governance practices and firm value. A widely accepted statement is that good corporate governance results in a lower cost of capital. One explanation is that good corporate governance will lead to lower firm risk and subsequently to a lower cost of capital.

Another research stream relies on the hypothesis that greater disclosure enhances stock market liquidity, thereby reducing the cost of capital (Coombs and Watson, 2001). The commitment of management teams to increase the level of disclosure should lower the information asymmetry between managers and shareholders and lower the cost of capital. As a result of a reduced cost of capital, firm valuation will increase. If these relationships hold, greater disclosure of financial information and corporate governance topics will reduce information asymmetry and thereby lowering uncertainty and reducing the cost of capital. The main idea behind disclosure of

corporate information and corporate governance is that it reduces information asymmetries between managers and shareholders and lowers its risk. Conventional wisdom on corporate governance predicts that good corporate governance increases firm valuation and firm performance and reduces the cost of capital and financial fraud. However, there may be important empirical and theoretical reasons why these relationships do not hold.

In theory, good corporate governance should be related to high-corporate valuation. A number of empirical studies have found that investors are willing to pay a premium averaging 10-12 percent for good corporate governance (Monks and Minow, 2004). The correlation of the governance index with performance could be explained in several different ways. One explanation, suggested by the results of other studies, is that inefficient governance directly causes additional agency costs. If the market estimates these additional costs, then stock returns will drop (Faccio and Lasfer, 2000). An alternative explanation is that good governance is a signal or symptom of lower agency costs – a signal not properly incorporated in market prices (Baysinger and Butler, 1985). Each of these explanations has different economic implications for the source of agency problems and different policy implications for the regulation of governance. It would be interesting to see whether higher corporate valuations are associated with better-governed US companies, measured by our measure of corporate governance index (Baysinger and Hoskinsson, 1990).

Though the issue of whether directors should be employees of or affiliated with the firm (inside directors) or outsiders has been well researched, no clear conclusion is reached. On the one hand, inside directors are more familiar with the firm's activities and they can act as monitors to top management especially if they perceive the opportunity to advance into positions held by incompetent executives. On the other hand, outside directors may act as "professional referees" to ensure that competition among insiders stimulates actions consistent with shareholder value maximization (Fama, 1980). John and Senbet (1998), argue that boards of directors are more independent as the proportion of their outside directors increases. Though it has been argued (Fama and Jensen, 1983; Baums, 1994) that the effectiveness of a board depends on the optimal

mix of inside and outside directors, there is very little theory on the determinants of an optimal board composition.

2.7.1 Separation of Ownership and Control

Shleifer and Vishny (1997) illustrate corporate governance as how to make sure managers do not shirk or steal capital from the firm or make bad investments. The separation of ownership and control (Berle and Means, 1932) constitutes agency problems between managers and the suppliers of capital. Suppliers of capital want to know how managers take care of their money and maximize shareholder wealth and how to prevent them from consuming perks, such as expenses in favor of managers that do not necessarily maximizes shareholders wealth. Jensen and Meckling (1976) consider the firm as a nexus of contracts in which the conflicting objectives of managers and shareholders (and other participants) are brought in equilibrium within a framework of contractual relationships. Within this setting**,** Macey (1998) establishes the need for corporate governance principles because of the incomplete nature of corporate contracts and the need to control managerial shirking and to control agency costs. Several mechanisms can be used to overcome the problems associated with separation of ownership and control: alignment of shareholders' interest with managerial interests (compensation plans, stock options, bonus schemes); board monitoring by large shareholders and lenders; legal protection of (minority) shareholders from managerial expropriation through shareholder rights and the market for corporate control as an external device.

Within the paradigm of the shareholder model, the ultimate goal of the firm is to maximize shareholder wealth and corporate governance has to be seen as a mechanism to realize this goal. As a consequence, supporters of this concept expect a positive relationship between corporate governance and firm performance. Firms that do not adopt cost-minimizing corporate governance mechanisms are less efficient and will be taken over or replaced in the long-run (Elloumi and Guelie, 2001). Most organizations that sell corporate governance ratings refer to this relationship.

2.7.2 Board Size and Composition and Financial Performance

Studies of the impact of boards/board effectiveness on corporate profitability and shareholder value have dominated corporate governance research in finance. These researchers focused on the influence of non-executive directors, splitting of the roles of chairman and chief executive, or the introduction of board sub-committees, have enhanced board effectiveness which in turn has added to shareholder value. For example, Dahya *et al.* (2002) investigated the relationship between top management turnover (a measure of board effectiveness) and financial performance (a measure of management effectiveness). Others have studied the appointment of non-executive directors and their role in monitoring company management, on behalf of shareholders (Bhagat and Black, 2002). Research has considered whether there is a positive relationship between the number of non-executive directors and corporate financial performance, generally showing that there is (Ferguson, Lennox and Taylor, 2005).Researchers have also investigated the relationship between executive remuneration and financial performance (Jensen and Murphy, 1990). A host of corporate governance research has focused on takeovers and mergers and their relationship with performance, stemming from a seminal study which identified takeover as a disciplining mechanism over company management, again within the finance paradigm of agency theory (Jensen and Ruback, 1993).

The composition of the board may be used to ameliorate the principal-agent problem. The participation of outside directors is designed to enhance the ability of the firm to protect itself against threats from the environment and align the firm's resources for greater advantage. However, research on the impact of outside directors have grown significantly but with mixed results. While the study by Wen *et al.*(2002) found a negative relationship between the number of outside directors on the board and performance, Bhagat and Black (2002) found no relationship between outside directors and Tobin's Q. In another related work, the proportion of outside directors was found to have a significant positive relationship to firm performance (Weisbach, 1988). Firms with higher number of outside directors are expected to pursue activities that would bring about low financial leverage with a high market value of equity (Baysinger and Butler, 1985).

The number board of directors is assumed to have an influence on performance. The board is vested with responsibility for managing the firm and its activities. There is no agreement over whether a large or small board does this better. Yermack (1996) suggests that the smaller the board of directors the better the firm's performance. Yermack (1996) further argued that larger boards are found to be slow in decision making. The monitoring expenses and poor communication in a larger board has also been seen as a reason for the support of small board size (Jensen, 1993). However, there is another school of thought that believes that firms with larger board size have the ability to push the managers to pursue lower costs of debt and increase performance. Studies by Wen *et al.*(2002) and Abor (2007) both reported evidence in support of a positive relationship between board size and leverage. They argued that large boards with superior monitoring ability pursue higher leverage to raise the value of the firm.

Eisenberg *et al.* (1998) also find negative correlation between board size and profitability when using sample of small and midsize Finnish firms. Mak and Yuanto (2003) re-echo the above findings in firms listed in Singapore and Malaysia when they found that firm valuation is highest when a board has five directors, a number considered relatively small in those markets. In a Nigerian study, Sanda *et al.* (2003) found that firm performance is positively related with small, as opposed to large boards.

2.8 Empirical Review

A number of empirical studies on outside directors support the beneficial monitoring and advisory functions to firm shareholders. Rosenstein and Wyatt (1990) showed that the market rewards firms for appointing outside directors. Brickley *et al.* (1994) found a positive relation between proportion of outside directors and stock-market reactions to poison pill adoptions. However, Forsberg (1989) found no relation between the proportion of outside directors and various financial performance measures. Bhagat and Black (2002) found no significant relationship between board composition and financial performance. Yermack (1996) also showed that, the percentage of outside directors does not significantly affect firm financial

performance. Agrawal and Knoeber (1996) suggest that boards expanded for political reasons often result in too many outsiders on the board, which does not help financial performance.

Previous empirical studies have provided the nexus between corporate governance and firm financial performance (Gompers *et al.*, 2003; Black *et al.*, 2003 and Sanda *et al.* (2003) with inconclusive results). Others, Bebchuk and Cohen (2004) have shown that well-governed firms have higher firm performance. The main characteristic of corporate governance identified in these studies include board size, board composition, and whether the CEO is also the board chairman.

Recently, some empirical papers appear to focuses on the relationship between corporate governance ratings and firm financial performance: Gompers *et al.* (2003), Brown and Caylor (2004), for the USA; Drobetz *et al.* (2003) and Bauer *et al.* (2004) for Europe; Foerster and Huen (2004) for Canada. Ricart *et al.* (2005) considered the relationship between corporate governance systems and sustainable development of DJSI leading companies.

Bauer *et al.* (2004) argued whether good corporate governance leads to higher common stock returns, firm value or operating performance using a sample of 269 firms from the FTSE Eurotop 300 over the period 2000-2001. The authors used Deminor's corporate governance ratings in order to measure the firms' quality of corporate governance. Deminor's rating can be attributed to four categories: shareholder rights, takeover defenses, disclosure on corporate governance and board structure and functioning. They argue that good corporate governance will increase investor trust and subsequently lower corporate risk and a lower expected rate of return; furthermore a lower expected rate of return leads to a higher firm valuation. However, they found an insignificant relationship between corporate governance and firm valuation. Finally, the relationship between corporate governance and firm performance is statistically negative.

Empirical evidence on the association between outside independent directors and firm financial performance is mixed. Studies have found that having more outside independent directors on the board improves financial performance (Daily and Dalton, 1994), while other studies have not

found a link between independent NEDs and improved firm financial performance (Hermalin and Weisbach, 1991). The point that can be made from these studies is that there is no clear benefit to firm financial performance provided by independent NEDs. Petra (2005) argues that the mixed results may be reflective of a corporate culture wherein corporate boards are controlled by management and the presence of independent NEDs has no discernable impact on management decisions. As for the association between role duality and financial performance, Abdul Rahman and Haniffa (2003) documented that Malaysian companies with role duality seem not to perform as well as their counterparts with separate board leadership based on accounting performance measurement.

According to Cho and Kim (2003), company would enhance their corporate governance when the company's performance is poor because changes in corporate governance structure are expected to bring out positive result on their performance. Claessens *et al.* (2002) believes that good governance generates investor goodwill and confidence. Again, poorly governed firms are expected to be less profitable. Gibson, (2000) also posits that better corporate framework benefits firms through greater access to financing, lower cost of capital, better financial performance and more favorable treatment of all stakeholders. They argue that weak corporate governance does not only lead to poor firm financial performance and risky financing patterns, but are also conducive for macroeconomic crises like the 1997 East Asia crisis.

Freeman, (1984) reveals that greater disclosure enhances stock market liquidity, thereby reducing the cost of capital. The commitment of management teams to increase the level of disclosure should lower the information asymmetry between managers and shareholders and lower the cost of capital. As a result of a reduced cost of capital, firm valuation will increase. If these relationships hold, greater disclosure of financial information and corporate governance topics will reduce information asymmetry and thereby lowering uncertainty and reducing the cost of capital. The main idea behind disclosure of corporate information and corporate governance is that it reduces information asymmetries between managers and shareholders and lowers its risk. Conventional wisdom on corporate governance predicts that good corporate

governance increases firm valuation and firm performance and reduces the cost of capital and financial fraud.

Locally several studies have been done on the effect of corporate governance on financial performance. E.g. Muriithi, (2004) studied the relationship between corporate governance mechanisms and performance of firms quoted on the NSE and found that the size and the composition of the board of directors together with the separation of the control and the management have the greatest effect on the performance.

Ngugi (2007) did a study on the relationship between corporate governance structures and the performance of insurance companies in Kenya and found that inside directors are more familiar with the firm's activities and they can act as monitors to top management especially if they perceive the opportunity to advance into positions held by incompetent executives. The study also found that the effectiveness of a board depends on the optimal mix of inside and outside directors concluding that an optimal board composition lead to better performance of the companies.

Gatauwa (2008) studies the relationship between corporate governance practices and stock market liquidity for firms listed on the Nairobi Stock Exchange. The study found that greater disclosure enhances stock market liquidity, thereby reducing the cost of capital. The commitment of management teams to increase the level of disclosure also lower the information asymmetry between managers and shareholders and lower the cost of capital. Matengo (2008) also conducted a study on the relationship between corporate governance practices and performance the case of banking industries in Kenya. The study found that good corporate governance will lead to lower firm risk and subsequently to a lower cost of capital. The study also found that separation of ownership and control maximizes shareholders wealth.

2.9 Conclusion

Corporate governance refers to the manner in which the power of a corporation is exercised in the stewardship of the corporation total portfolio and resources with an objective of obtaining

increasing stakeholders value with a satisfaction of other stakeholders within the context of individual organizations corporate mission and vision as spelt out in the strategic plan of an institution. The main corporate governance themes that are currently receiving attention are adequately separating management from the board to ensure that the board is directing and supervising management, including separating the chairperson and chief executive roles; ensuring that the board has an effective mix of independent and non-independent directors; and establishing the independence of the auditor and therefore the integrity of financial reporting, including establishing an audit committee of the board.

Good Corporate Governance aims at increasing profitability and efficiency of organizations and their enhanced ability to create wealth for shareholders, increased employment opportunities with better terms for workers and benefits to stakeholders. Indicators of Good Corporate Governance identified in the study include independent directors, independence of committees, board size, split chairman/CEO roles and the board meetings. Thus, the main tasks of corporate governance refer to: assuring corporate efficiency and mitigating arising conflicts providing for transparency and legitimacy of corporate activity, lowering risk for investments and providing high returns for investors and delivering framework for managerial accountability.

The research conducted on firm-level data of corporate governance ratings reveals that better corporate governance is correlated with better operating performance and market valuation. Corporate governance mechanisms assure investors in corporations that they will receive adequate returns on their investments evidence suggests that corporate governance has a positive influence over corporate performance. The literature also establishes that good corporate governance results in a lower cost of capital. One explanation is that good corporate governance will lead to lower firm risk and subsequently to a lower cost of capital. Good governance is a signal or symptom of lower agency costs – a signal not properly incorporated in market prices

Several mechanisms can be used to overcome the problems associated with separation of ownership and control: alignment of shareholders' interest with managerial interests (compensation plans, stock options, bonus schemes); board monitoring by large shareholders and

lenders; legal protection of (minority) shareholders from managerial expropriation through shareholder rights and the market for corporate control as an external device. The number board of directors is assumed to have an influence on performance. The board is vested with responsibility for managing the firm and its activities. The studies cited in the literature mostly concentrate on the developed countries whose strategic approach and CG systems are not similar to that of Kenya. The studies have also been done on other companies other than the broadcasting stations. To the best of the researchers' knowledge, no study has been done on the relationship between corporate governance and financial performance among broadcasting stations in Kenya. This study seeks to fill this gap by investigating the relationship between corporate governance and financial performance among broadcasting stations in Kenya.

CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Introduction

In this chapter the research methodology will be presented in the following order, research design, target population, sampling procedure, data collection methods, instruments of data collection and finally the pilot study.

3.2 Research Design

Donald (2006) 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. For the purposes of this study, the researcher will apply a descriptive research design. A descriptive study is concerned with determining the frequency with which something occurs or the relationship between variables. According to Cooper and Schindler (2003)**,** a descriptive study is concerned with finding out the what, where and how of a phenomenon. Thus, this approach will be appropriate for this study, since the researcher intends to collect detailed information through descriptions and is useful for identifying variables and hypothetical constructs.

3.3 Population

Target population in statistics is the specific population about which information is desired. According to Bryman and Bell, (2003) a population is a well defined or set of people, services, elements, events, group of things or households that are being investigated. This definition ensures that population of interest is homogeneous. Cooper and Schindler (2003) describe a population as the total collection of elements whereby references have been made. Thus the population should fit a certain specification, which the researcher was studying and the population should be homogenous. Primary data was collected from one head of the various departments in the thirty five broadcasting stations in Kenya. The respondents were selected from various departments such corporate strategy, human resources, regulatory and business development, sales and marketing department. This population was considered appropriate because the head of various departments are well versed with the effect of corporate governance

in the broadcasting stations. A sample population of thirty broadcasting stations will be selected from the target population using simple random sampling. According to Cooper and Schindler (2003), a sample population should comprise of at least 30 items in to allow reliability and generalization.

3.4 Data Collection

In order to identify the effect of corporate governance on the financial performance among TV stations in Kenya, self-administered drop and pick questionnaires were distributed among thirty sampled employees currently employed by broadcasting companies in Kenya. The researcher used structured questionnaires as the main data collection instrument. The questionnaires had both open and close-ended questions. The close-ended questions provided more structured responses to facilitate tangible recommendations. The open-ended questions provided additional information that may not have been captured in the close-ended questions.

Secondary data sources were also employed through the use of previous documents or materials to supplement the data received from questionnaires. Secondary data was collected from the companies' financial statements and reports in order to get the financial position of the companies.

3.5 Data Analysis and Presentation

Before processing the responses, the completed questionnaires were edited for completeness and consistency. Quantitative data collected was analyzed by the use of descriptive statistics using SPSS to do a regression analysis and presented through percentages, means, standard deviations and frequencies. The information was displayed by use of bar charts, graphs and pie charts and in prose-form. This was done by tallying up responses, computing percentages of variations in response as well as describing and interpreting the data in line with the study objectives and assumptions through use of statistical package for social sciences (SPSS) version 17.0.

Five year average score for Dividend payout, turnover/disbursement, Net Surplus, Market Share, Return on assets, Stock returns are to be used to establish the performance of the companies under review. SPSS computer package will be used to analyze data and present if in form of tables and graphs, Product Moment correlation coefficient was used to help investigate the correlation between organization financial performance and corporate governance.

Model Specification

Since the efficiency and effectiveness of the strategic performance measures used by a firm has direct effect on its performance, profitability will be used to quantify the financial performance measures. The study used the natural logarithm of the previous years profit while the corporate government elements (Split Chairman/CEO Roles, Board Size, Independence of Committees and Independent Directors) was quantified using a Likert scale scores whose means will be computed for each factor within the element. Regression model to the study that was used is:

$$lnPROF = \beta_0 + \beta_1 RP + \beta_2 BP + \beta_3 CP + \beta_4 DP + \varepsilon_{it}$$

Whereby β_0 is constant of the model while $\beta_{1,}$ $\beta_{2,}$ β_3 and β_4 are the coefficients of the independent variables

lnPROF = natural logarithm of the previous years profit

RP = total mean scores for the factors within the Split Chairman/CEO Roles perspective

BP = total mean scores for the factors within the Board Size perspective

CP = total mean scores for the factors within the Committees Independence perspective

DP = total mean scores for the factors within the Independent Directors perspective

$\varepsilon_{it =}$ an error term for the model

The data collected in the questionnaire was coded and run in Statistical Package for Social Sciences (SPSS version 17.0) so as to get the coefficient of the regression model above.

CHAPTER FOUR: DATA ANALYSIS, INTERPRETATION AND PRESENTATION

4.1 Introduction

This chapter presents the data analysis, interpretation and presentation there-to on the study to determine corporate governance practices and the effect of corporate governance on financial performance of broadcasting station in Kenya. The study had targeted 30 respondents out of which 30 respondents filled and returned their questionnaire constituting 100 % response rate. Data analysis was done through Statistical Package for Social Scientists (SPSS) version 17. Frequencies, percentages and mean were used to display the results which were presented in tables and graphs.

4.2 Data Analysis

Table 1: Distribution of respondent by gender

	Frequency	Percent
Male	13	43.3
Female	17	56.7
Total	30	100.0

From the finding in table majority of the respondent were females as shown by 56.7% while 43.3% were females, this information shows that media houses employed both male and female employee. The study sought to establish the respondent department , from the findings the study revealed that respondent were in finance department and their designation were internal auditor, accountant , financial analyst , clerk , cashier and finance manager.

Table 2: Age bracket of the respondent

	Frequency	Percent
19 to 24	9	30.0
25 to 29	3	10.0
30 to 34	15	50.0
35 to 39	3	10.0
Total	30	100.0

On the age of the respondent, from the findings the study found that 50% of the respondents were aged between 30 to 34 years, 30% were aged between 19 to 24 years, those aged between 25 to 29 years and 35 to 39 years were shown by 10% in each case. This shows that the media house was being managed by relatively young employees.

Table 3: Respondent Level of education

	Frequency	Percent
Secondary	3	10.0
College	9	30.0
University degree	12	40.0
Masters	3	10.0
Others	3	10.0
Total	30	100.0

On the respondent level of education the study found that 40% of the respondents had university degree, 30% of the respondent had attained colleges education, those who had secondary education, master and profession qualification were shown by 10% in each case. This

information shows that employees of media house were well educated.

Table 4: Length of work

	Frequency	Percent
1 to 5 years	18	60.0
6 to 10 years	12	40.0
Total	30	100.0

From the findings in the table the study found that majority of the respondent had worked with media house for 1 to 5 years and 40% had worked in the media house for 6 to 10years. This information shows that most of the respondents were in the media house for long enough to give credible information to the study.

Table 5: Rating the effectiveness of governance systems in public sectors

	very effective	Effective	Moderately effective	Less effective	Very ineffective	Mean
Limited partnership agreements at the top level that prohibit headquarters from cross-subsidizing one division with the cash from another	16	11	3	0	0	1.5667
High-equity ownership on the part of managers and board members; board members who in their funds directly represent a large fraction of the equity owners of each subsidiary company	8	16	6	0	0	1.9333

Small boards of directors, typically consisting of not more than eight people	4	11	12	3	0	2.4667
CEOs who are typically the only insiders on the board	3	18	9	0	0	2.2000
CEOs who are seldom the chairman of the board	**13**	**8**	**6**	**3**	**0**	1.9667

The study sought to know the respondent rating of the various governance systems, from the findings the study found that most the respondent indicated the following as effective, they include Limited partnership agreements at the top level that prohibit headquarters from cross-subsidizing one division with the cash from another as shown by mean 1.5667, High-equity ownership on the part of managers and board members; board members who in their funds directly represent a large fraction of the equity owners of each subsidiary company as shown by mean of 1.933, CEOs who are seldom the chairman of the board as shown by mean of 1.9667, CEOs who are typically the only insiders on the board as indicated by mean of 2.20 and Small boards of directors, typically consisting of not more than eight people as shown by mean of 2.4667. This shows that governance systems that were effective include Limited partnership agreements at the top level that prohibit headquarters from cross- subsidizing one division with the cash from another.

On who incorporate corporate governance system in the respondent firm the study found that they were board of directors, partners, department heads, directors who own the company and top management. The study further revealed that majority of media house regularly review and collected data on customer feedback for services provided. The methods used were SMS line, phone line, through emails, online interview, questionnaires, interview guide, and interview and through survey and shows. This implies that the incorporation of corporate governance system in the firm is by various players and media houses regularly review and collected data on customer

feedback for services provided using SMS line, phone line, through emails and online interview, questionnaires.

Table 6: Respondent level of agreement on corporate governance

	Strongly agree	agree	Moderately agree	Disagree	Strongly disagree	Mean
Good corporate governance approach aims at performing the main function of separating the firm's principals and agents.	30	0	0	0	0	1.0000
Corporate governance themes in your station separates management from the board	3	14	13	0	0	2.3333
Corporate governance systems are mechanisms for establishing the nature of ownership and control of organizations within an economy.	13	14	3	0	0	1.7667
Agency problem arises as a result of the relationships between shareholders and managers	17	3	10	0	0	1.7667
Corporate governance would not apply to the sector since the agency problems are less likely to exist.	10	11	3	3	3	2.2667

Table shows that most of the respondent strongly agreed that good corporate governance approach aims at performing the main function of separating the firm's principals and agent as shown by mean of 1. Respondent agreed that Agency problem arises as a result of the relationships between shareholders and managers and Corporate governance systems are mechanisms for establishing the nature of ownership and control of organisations within an economy as shown by mean of 1.7667 in each case, Corporate governance would not apply to the sector since the agency problems are less likely to exist as shown by mean of 2.2667 and Corporate governance themes in your station separates management from the board as shown by mean of 2.333. This implies that good corporate governance approach aims at performing the main function of separating the firm's principals and agent.

Table 7: Rating the determinants of strong corporate governance

	Very significance	Significant	Moderately significant	Slightly significant	Insignificant	Mean
Split Chairman/CEO Roles	11	13	3	3	0	1.9333
Board Size	0	11	16	3	0	2.7333
Independence of Committees	16	9	5	0	0	1.6333
Independent Directors	8	19	3	0	0	1.8333
Any other	19	5	6	0	0	1.5667

On the respondent rating the determinant of strong corporate governance the study found that most of the respondent indicated the following were significant other factors as shown by mean of 1.5667, Independence of Committees as shown by mean of 1.6333, Independent Directors as

indicated by mean of 1.8333 and Split Chairman/CEO roles as indicated by mean of 1.9333. Board Size was rated as significant as shown by mean of 2.7333. This implies that determinant of strong corporate governance were independence of committees, independent directors and split chairman/CEO roles.

Table 8: Respondent level of agreement on various aspects of corporate governances that enhances financial performance

	Strongly agree	agree	Moderately agree	Disagree	Strongly disagree	Mean
Good corporate governance shields the station from vulnerability to future financial distress	21	3	3	3	0	1.7000
Governance structure of the station affects the firm's ability to respond to external factors that have some bearing on its financial performance	9	10	8	3	0	2.1667
Good governance generates investor goodwill and confidence	3	10	17	0	0	2.4667
Better corporate framework benefits the station through greater access to financing and lower cost of capital	6	21	0	3	0	2.0000
Good corporate governance is important for increasing investor confidence and market liquidity	14	7	6	3	0	2.0333
Companies with better corporate governance guarantee, the payback to the shareholder and limit the risk of the	6	12	6	3	0	2.5000

investment						
Better corporate governance is correlated with better financial performance and market valuation	3	18	6	3	0	2.3000
Corporate governance mechanisms assure investors in corporations that they will receive adequate returns on their investments	6	9	13	2	0	2.3667
Good corporate governance will lead to lower firm risk and subsequently to a lower cost of capital.	11	10	6	3	0	2.0333
Good corporate governance increases firm valuation and reduces the financial fraud	12	6	12	0	0	2.0000
There is no relation between the proportion of outside directors and various financial performance measures	10	9	6	3	2	2.2667
There is a significant relationship between board composition and financial performance.	3	12	12	3	0	2.5000
Percentage of outside directors significantly affects firm financial performance	7	14	3	3	3	2.3667
Good corporate governance increase investor trust and subsequently lower corporate risk and a lower expected rate of return	16	6	5	3	0	1.9333

From the findings in table the study found that most of the respondent agreed that Good corporate governance shields the station from vulnerability to future financial distress as shown by mean of 1.7, Good corporate governance increase investor trust and subsequently lower

corporate risk and a lower expected rate of return as shown by mean of 1.933, Good corporate governance increases firm valuation and reduces the financial fraud and Better corporate framework benefits the station through greater access to financing and lower cost of capital as shown by mean of 2.0 in each case, Good corporate governance will lead to lower firm risk and subsequently to a lower cost of capital And Good corporate governance is important for increasing investor confidence and market liquidity as indicated by mean of 2.0333 in each case, Governance structure of the station affects the firm's ability to respond to external factors that have some bearing on its financial performance as shown by mean of 2.1667, There is no relation between the proportion of outside directors and various financial performance measures as shown by mean of 2.2667, Better corporate governance is correlated with better financial performance and market valuation as indicated by mean of 2.3, Corporate governance mechanisms assure investors in corporations that they will receive adequate returns on their investments and Percentage of outside directors significantly affects firm financial performance as shown by mean of 2.3667 in each case and Good governance generates investor goodwill and confidence as shown by mean of 2.4667. Respondent moderately agreed that there is a significant relationship between board composition and financial performance as shown by mean of 2.5. These findings show that Good corporate governance shields the station from vulnerability to future financial distress, increase investor trust and subsequently lower corporate risk and a lower expected rate of return and increases firm valuation and reduces the financial fraud.

Table 9: Rating various aspects of board size and composition affecting the financial performance

	Very great extent	Great extent	Moderate extent	Little extent	Not at all	
Splitting of the roles of chairman and chief executive	18	12	0	0	0	1.4000
Number of non-executive directors	9	15	3	3	0	2.0000
Executive remuneration	10	14	3	3	0	1.9667
Optimal mix of inside and outside directions	9	18	3	0	0	1.8000
Participation of outside directors	5	9	16	0	0	2.3667
Proportion of outside directors	9	18	3	0	0	1.9000
Number board of directors	5	12	10	3	0	2.4667

On rating of various aspects of board size and composition affecting the financial performance, the study found that most of the respondent rated Splitting of the roles of chairman and chief executive to very great extent as shown by mean of 1.4. Those rated to great extent optimal mix of inside and outside directions as shows by mean of 1.8, Proportion of outside directors as shown by mean of 1.9, Executive remuneration as shown by mean of 1.9667, Number of non-executive directors as shown by mean of 2.0, Participation of outside directors as shown by mean of 2.3667and Number board of directors as indicated by mean of 2.4667. This implies that

splitting of the roles of chairman and chief executive affect the financial performance to a very great extent.

Table 10: Rating effects of corporate governance on financial performance o

Financial performance measure	Very great extent	Great extent	Moderate extent	Little extent	Not at all	Mean
Turnover	24	3	3	0	0	1.4000
Disbursement	6	21	3	0	0	1.9000
Surplus Or Net Profit	16	8	3	3	0	1.9667
Market share Price	15	6	6	3	0	1.9000
Return on assets	15	12	3	0	0	1.6000
Stock returns	12	12	6	0	0	1.8000
Dividend payout	8	22	0	0	0	1.7333

The study sought to establish the effect of corporate governance on various aspect of financial performance from the findings, most of the respondent rated Turnover to very great extent as shown by mean of 1.4. Those rated to great extent were Return on assets as shown by mean of 1.6, Dividend payout as shown by mean of 1.7333, Stock returns as shown by mean of 1.8, Market share Price and Disbursement as shown by mean of 1.9 in each case and Surplus Or Net Profit as indicated by mean of 1.9667. This implies that corporate governance affect turnover, return on assets, dividend payout, stock returns, market share price, disbursement and surplus or net profit.

4.3 Model analysis

The study used the natural logarithm of the previous year's profit while the corporate government elements (Split Chairman/CEO Roles, Board Size, Independence of Committees and Independent Directors) were quantified using a Likert scale scores whose means was computed for each factor within the element. Regression model to the study that was used is:

$LnPROF = \beta_0 + \beta_1 RP + \beta_2 BP + \beta_3 CP + \beta_4 DP + \varepsilon_{it}$

Whereby β_0 is constant of the model while β_1, β_2, β_3 and β_4 are the coefficients of the independent variables

Ln PROF = natural logarithm of the previous years profit

RP = total mean scores for the factors within the Split Chairman/CEO Roles perspective

BP = total mean scores for the factors within the Board Size perspective

CP = total mean scores for the factors within the Committees Independence perspective

DP = total mean scores for the factors within the Independent Directors perspective

ε_{it} = an error term for the model

Table 11: Coefficient Table Results

	Unstandardized Coefficients		**Standardized Coefficients**	**t**	**Sig.**
	B	**Std. Error**	**Beta**		
(Constant)	19.29881	14.04255		1.37431	0.400456
Split Chairman/CEO Roles	0.743081	0.186248	0.919489	3.989738	0.156343

Board Size	-2.53231	-2.865508	-0.54578	0.88372	0.539247
Board Composition	2.645539	19.81538	0.09976	0.133509	0.915505
Committees Independence	4.643407	8.572607	0.483821	0.540684	0.684451

The established regression equation was:

LnPROF = β + β Split Chairman/CEO Roles + β Board Size + β Board Composition + β Committees Independence

Whereby Ln PROF was natural logarithm of the previous year's profit, RP was total mean scores for the factors within the Split Chairman/CEO Roles perspective, BP was total mean scores for the factors within the Board Size perspective, CP was total mean scores for the factors within the Committees Independence perspective and DP was the total mean scores for the factors within the Independent Directors perspective. The study thus determined the regression equation to be:

LnPROF = 19.29881+0.743081 Split Chairman/CEO Roles - 2.53231 Board Size + 2.645539Board Composition + 4.643407 Committees Independence

The regression results shows that when value of the corporate governance indicators/measures used in the study (Split Chairman/CEO Roles ,board size, composition, Committees Independence) are zero, the financial performance of media houses will be becomes19.29881. The results also show that board size negatively affects firm's financial performance while board composition, spilt of chairman/CEO role and committee independence affects financial performance positively. Unit increase in splitting chairman/CEO role leads to increase in financial performance by a factor of 0.743081, unit increase in board composition leads to increase on financial performance by factors of 2.645539 and a unit increase in committee independence leads to increase in financial performance by factor of 4.643407. A unit increase in board size would lead to decrease in financial performance by a factor of 2.53231.

Table 12: Model Summary

R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson	
.975a	0.949985	0.749923	1.578726	1.270923	
	Sum of Squares	**df**	**Mean Square**	**F**	**Sig.**
Regression	47.340	4	11.835	4.748	.330a
Residual	2.492	1	2.492		
Total	49.832	5			

The model summary presented in table 12, shows that the relationship was strong as the R square value was 0.95. However the model was insignificant for prediction as the f significance was 0.33 meaning that the model might be 33% wrong in its prediction.

4.4 Summary of Findings

The study found that Limited partnership agreements at the top level, High-equity ownership on the part of managers and board members; board members who in their funds directly represent a large fraction of the equity owners, CEOs who are seldom the chairman of the board and Small boards of directors were effective in the stations. The study also found that the board of directors, partners, and department heads, directors and top management were responsible for incorporate corporate governance system. From the study findings, majority of media houses regularly review and collected data on customer feedback for services provided. The methods used were SMS line, phone line, through emails, online interview, questionnaires, interview guide, and interview and through survey and shows.

The study established that good corporate governance approach aims at performing the main function of separating the firm's principals and agent and corporate governance themes separates management from the board, Agency problem arises as a result of the relationships between

shareholders and managers and Corporate governance systems are mechanisms for establishing the nature of ownership and control of organisations within an economy and Corporate governance would not apply to the sector since the agency problems are less likely to exist. The determinants of strong corporate governance are independence of committees, independent directors and split chairman/CEO roles and board size. Good corporate governance shields the station from vulnerability to future financial distress, increase investor trust, increases firm valuation and reduces the financial fraud. There is no relation between the proportion of outside directors and various financial performance measures, better corporate governance is correlated with better financial performance and market valuation, corporate governance mechanisms assure investors in corporations that they will receive adequate returns on their investments and percentage of outside directors significantly affects firm financial performance and good governance generates investor goodwill and confidence. Governance structure of the station affects the firm's ability to respond to external factors that have some bearing on its financial performance.

On rating of various aspects of board size and composition affecting the financial performance, the study found that Splitting of the roles of chairman and chief executive was rated to very great extent. The study established that corporate governance affect turnover to very great extent. Those rated to great extent were Return on assets, Dividend payout, Stock returns, Market share Price, Disbursement and Surplus or Net Profit.

CHAPTER FIVE: SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Summary

The study was conducted by using self-administered drop and pick questionnaires that were distributed among thirty sampled employees currently employed by broadcasting companies in Kenya. Responses were then tallied by computing percentages of variations in response as well as describing and interpreting the data in line with the study objectives and assumptions through use of statistical package for social sciences (SPSS) version 17.0. By using a model specification, the relationship between corporate governance and financial performance among broadcasting stations in Kenya was determined.

The results showed that board size negatively affects firm's financial performance while board composition, spilt of chairman/CEO role and committee independence affects financial performance positively. The model summary shows that the relationship between corporate governance and financial performance was strong. The corporate governance indicators/measures used in the study (Split Chairman/CEO Roles ,board size, composition, Committees Independence), committee independence had the strongest relationship with financial performance of the firm.

From the study it was found that Limited partnership agreements at the top level that prohibit headquarters from cross-subsidizing one division with the cash from another, High-equity ownership on the part of managers and board members; board members who in their funds directly represent a large fraction of the equity owners of each subsidiary company. The study also found that board size and composition, splitting of the roles of chairman and chief executive, optimal mix of inside and outside directions and number board of directors affected the financial performance of the companies.

5.2 Conclusions

From the findings the study concludes that Limited partnership agreements at the top level that prohibit headquarters from cross-subsidizing one division with the cash from another, High-equity ownership on the part of managers and board members; board members who in their funds directly represent a large fraction of the equity owners of each subsidiary company, CEOs who are seldom the chairman of the board, CEOs who are typically the only insiders on the board and Small boards of directors, typically consisting of not more than eight people were very effective systems of corporate governance.

The study also concludes that Majority of media houses regularly review and collected data on customer feedback for services provided using SMS line, phone line, through emails, online interview, questionnaires, interview guide, and interview and through survey and shows. Good corporate governance approach aims at performing the main function of separating the firm's principals and agent and corporate governance themes in your station separates management from the board.

The study concludes that board size and composition, Splitting of the roles of chairman and chief executive, optimal mix of inside and outside directions, proportion of outside directors, executive remuneration, number of non-executive directors, participation of outside directors and number board of directors affected the financial performance of the companies.

The study further concludes that corporate governance affect turnover, Return on assets, Dividend payout, Stock returns, Market share Price, Disbursement and Surplus or Net Profit. It also concludes that there exist relationship was strong as the R square value was 0.95 between corporate governance and the financial performance of broadcasting stations in Kenya

5.3 Policy Recommendations

The study found out that the stations qualify as having very strong corporate governance principles. The study further revealed that there is a positive correlation between performance and corporate governance. Based on the study findings and conclusion, the study recommends

that there should an increase meetings frequency if the situation requires a high quality supervision and control. This will allow for consultations and discussions on the direction the company is to take to counter the changes in the operating environment.

The board should balance the costs and benefits of meetings frequency given that the study established that if the board increases the frequency of its meetings, the recovery from poor performance is faster.

Since it was clear from the study that the companies with a small board size had greater performance, the study recommends that board size should be maintained as small as possible as an increase in board size leads to decrease in financial performance of the company. However, the management should ensure that the board size is optimal as a very small board can also be redundant and may not be efficient in governing the company.

The study also recommends that media houses should adopt good governance systems as they enhance the financial performance these media house. This include optimal mix of inside and outside directions with a small proportion of outside directors and splitting of the roles of chairman and chief executive roles.

The study therefore recommends that policy makers for media houses should take serious notice of these findings to implement policies that sustain the already existing strong corporate governance structures.

The study also recommends to the management of media houses and other organizations to use the findings of this study to upgrade their corporate governance practices and structure so as to remain profitable in this competitive sector.

5.4 Limitations of the Study

A limitation for the purpose of this research was regarded as a factor that was present and contributed to the researcher getting either inadequate information or responses or if otherwise the response given would have been totally different from what the researcher expected.

The main limitations of this study were: Some respondents refused to fill in the questionnaires. This reduced the probability of reaching a more conclusive study. However, conclusions were made with this response rate.

The small size of the sample could have limited confidence in the results and this might limit generalizations to other situations. Most of the respondents were busy throughout and had to continuously be reminded and even persuaded to provide the required information. Time- Due to official duties time was a major concern.

5.5 Suggestions for Further Studies

The relationship that came out in as far as performance is concerned was that there is a positive relationship between, accountability, separation of ownership and control, board composition and size and splitting chairman/CEO role and performance. More studies should be done to ascertain the relationship between other aspects of corporate governance other than the ones studied in this research.

The researcher recommends that further studies should be done on the effect of corporate governance structures and practices on the financial performance of other institutions other that the media houses since each has a different approach.

Further studies should be done on the challenges of corporate governance and the effect of these challenges on the financial performance of the companies.

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APPENDICES

Appendix I: Letter of Introduction

TO WHOM IT MAY CONCERN

I am a postgraduate student studying at Nairobi University, currently undertaking a research on relationship between corporate governance and financial performance among broadcasting stations in Kenya.

Your organization is one of the organisations selected for the study.

I kindly request your assistance, and the information that will be collected is solely for academic purpose and will remain confidential. A copy of the final report will be made available to you at your.

Your assistance will be highly appreciated.

Yours sincerely,

Appendix II: Questionnaire

This interview guide consists of three parts; kindly answer all the questions by ticking in the appropriate box or filling in the spaces provided.

PART A: GENERAL INFORMATION

1. Please indicate your Gender.

   ( ) Male ( ) Female

2. Your department ……………………………………………………………………

3. Your designation………………………………………………………………….

4. What is your age bracket?

   ( ) 19 – 24 Years ( ) 30 – 34 Years

   ( ) 40 – 49 Years ( ) 35 – 34 Years

   ( ) 25 – 29 Years ( ) Over 50 years

5. What is your highest level of education?

   Secondary ( ) Masters degree ( )

   College diploma ( ) Others (please state) …………………………

   University degree ( )

6. How many years have you worked in this institution?

   1-5 years ( ) 16-20 years ( ) 26-30 years ( )

   6-10 years ( ) 21-25 years ( ) Over 30years ( )

11-15years ( )

PART B: CORPORATE GOVERNANCE AND GOVERNANCE SYSTEMS

1. Effective governance systems in public sector are characterized by the following factors, how effective are they in your institution? Please rate your response in a scale of 1 – 5 where 1 = Very Effective and 5 = Very ineffective.

	1	2	3	4	5
Limited partnership agreements at the top level that prohibit headquarters from cross- subsidizing one division with the cash from another					
High-equity ownership on the part of managers and board members; board members who in their funds directly represent a large fraction of the equity owners of each subsidiary company					
Small boards of directors, typically consisting of not more than eight people					
CEOs who are typically the only insiders on the board					
CEOs who are seldom the chairman of the board					

2. Who incorporates the corporate governance system in this institution?

a)………………………………………………………………………………………

b)………………………………………………………………………………………

c)……………………………………………………………………………………….

3. Does your organization regularly review and collect data on customer feedback for services provided?

………………………………………………………………………………………

If yes, which method is widely used (explain briefly)
....
....
....

4. What is your level of agreement with the following statements that relate to corporate governance at your organisation? Use a scale of 1 – 5 where 1 = strongly agree and 5 = strongly disagree.

	1	2	3	4	5
Good corporate governance approach aims at performing the main function of separating the firm's principals and agents.					
Corporate governance themes in your station separates management from the board					

Corporate governance systems are mechanisms for establishing the nature of ownership and control of organisations within an economy.					
Agency problem arises as a result of the relationships between shareholders and managers					
Corporate governance would not apply to the sector since the agency problems are less likely to exist.					

PART C: GOOD CORPORATE GOVERNANCE AND FINANCIAL PERFORMANCE

5. The following are the determinants of strong corporate governance, how significant is each of the factors in your institution's financial performance?

	Very significance	Significant	Moderately significant	Slightly significant	Insignificant
Split Chairman/CEO Roles					
Board Size					
Independence of Committees					

Independent Directors					
Any other (specify………………………….)					

6. Various aspects of good corporate governance are said to enhance financial performance of a firm. To what extent do you agree with the following statements that relate to corporate governance and the financial performance of the TV station? Use a scale of 1 - 5 where 1= strongly agree and 5 = strongly disagree.

	1	2	3	4	5
Good corporate governance shields the station from vulnerability to future financial distress					
Governance structure of the station affects the firm's ability to respond to external factors that have some bearing on its financial performance					
Good governance generates investor goodwill and confidence.					
Better corporate framework benefits the station through greater access to financing and lower cost of capital					

Good corporate governance is important for increasing investor confidence and market liquidity					
Companies with better corporate governance guarantee, the payback to the shareholder and limit the risk of the investment					
Better corporate governance is correlated with better financial performance and market valuation					
Corporate governance mechanisms assure investors in corporations that they will receive adequate returns on their investments					
Good corporate governance will lead to lower firm risk and subsequently to a lower cost of capital.					
Good corporate governance increases firm valuation and reduces the financial fraud					
There is no relation between the proportion of outside directors and various financial performance measures					
There is a significant relationship between board composition and financial performance.					
Percentage of outside directors significantly affects firm financial performance					

Good corporate governance increase investor trust and subsequently lower corporate risk and a lower expected rate of return					

7. To what extent do the following aspects of board size and composition affect the financial performance of your TV station?

	Very great extent	Great extent	Moderate extent	Little extent	Not at all
Splitting of the roles of chairman and chief executive					
Number of non-executive directors					
Executive remuneration					
Optimal mix of inside and outside directions					
Participation of outside directors					
Proportion of outside directors					
Number board of directors					

8. To what extent does corporate governance affect the following aspects of financial performance of your firm?

Financial performance measure	Very great extent	Great extent	Moderate extent	Little extent	Not at all
Turnover					
Disbursement					
Surplus Or Net Profit					
Market share Price					
Return on assets					
Stock returns					
Dividend payout					

FINANCIAL PERFOMANCE DATA TO BE COLLECTED FROM THE FINANCIAL STATEMENTS

PERFORMANCE MEASURE	YEAR 2009	YEAR 2008	YEAR 2007	YEAR 2006	YEAR 2005
Turnover Or Disbursement					
Surplus Or Net Profit					
Market share Price					
Return on assets					
Stock returns					
Dividend payout					

Appendix III: Broadcasting Stations

1. Capital FM
2. Classic 105
3. Coro FM
4. Coutry-side FM
5. KBC (Kenya Broadcasting Corporation)
6. KTN (Kenya Television Network)
7. NTV (Nation TV Channel 42)
8. Family TV
9. Citizen TV (Royal Media)
10. Classic TV
11. Kiss TV
12. East FM
13. Easy FM
14. Family 92.1
15. Hope FM
16. Hot 96 FM
17. Inooro FM
18. Iqra FM
19. Jesus is Lord
20. Kameme FM

21. Kangema FM
22. Kass FM
23. Kiss FM
24. Metro FM
25. Milele FM
26. Mulembe FM
27. Pwani FM
28. Q-FM
29. Radio Citizen
30. Radio Jambo
31. Radio Umoja
32. Ramogi FM
33. Rehema Radio
34. Sayare Radio (Eldoret)
35. Waumini FM