THE RELATIONSHIP BETWEEN CORPORATE GOVERNANCE PRACTICES AND FINANCIAL PERFORMANCE OF PROPERTY MANAGEMENT COMPANIES IN KENYA

BY

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DECLARATION

This project is my original work and has not been submitted for a degree in any other University.

Signed……………………………………............... ……………………………………

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D61/70105/2008

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

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DEDICATION

This study is dedicated to my loving wife Hannah and my family for being supportive during the time of my studies

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This study has been accomplished through the encouragement, support and various contributions for a number of people of whom I am greatly indebted. It may not be possible to thank each of those who assisted in one way or the other in realizing this goal but there are a few individuals I wish to recognize.

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LIST OF ACRONYMS

ANOVA	-	Analysis of Variances
BOD	-	Board of Directors
CEO	-	Chief Executive Officer
CMA	-	Capital Market Authority
ICPA (K)	-	Institute of Certified Public Accountant of Kenya
ICT	-	Information and Communication Technology
NSE	-	Nairobi Stock Exchange
PSCGT	-	Private Sector Corporate Governance Trust
SPSS	-	Statistical Package for Social Sciences
TCE	-	Transaction Cost Economics
UK	-	United Kingdom
US	-	United States
R^2	-	Coefficient of variation
Sig	-	Significance level

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ABSTRACT

The aim of this research was to determine the relationship between corporate governance practices and financial performance of property management companies in Kenya. The corporate governance practices included board of director's composition, role of audit committee, role of internal audit, effect of the size of the board, frequency of meeting, ownership concentration and the role of the management. The researcher used a random sample research design to determine the relationship between governance practices and financial performance .The sample comprised of 25 property management companies in Kenya. The data set comprised of both secondary and primary data. Secondary data was obtained from the financial statements of respective companies. The study sampled observations for the 5 year period from 2004-2008.A structured data sheet was used to collect secondary data. A multiple regression model of financial performance versus governance characteristics was applied to examine the relationship between the variables.

The study established that financial performance of property management companies in Kenya is influenced by corporate governance practices. The findings have been found to concur to previous evidence from empirical studies on corporate governance. The findings indicate that property management companies have adopted various corporate governance practices in order to improve on their financial performance. The external auditor's reports are tabled in audit committees which meet often enough to discuss all the queries raised. The study concludes that members of the audit committee are conversant with prudent financial management practices and are informed, vigilant and effectively overseas the financial reporting process and internal control functions of the company. The study also concludes that property management firms adopts appropriate financial strategies and decisions to ensure financial stability.

CHAPTER ONE
INTRODUCTION

1.1 Background of the study

Corporate Governance was ably defined by Sir Adrian Cadbury (1992) as the system by which companies are directed and controlled. Stone, Hurley and Khemani(1998) define Corporate governance as the rules and incentives by which the management of a company is directed and controlled to maximize the profitability and long-term value of the firm for shareholders while taking into account the interests of other legitimate stakeholders.

A good corporate governance complemented by a sound business environment can strengthen private investment, corporate performance and economic growth. Nam,Kang and Kim(1999) provided an overview of corporate governance among Asian Economies and indicated that Hong Kong and China maintains a higher standards of corporate governance and has a more developed legal systems which made them wither the Asian financial turmoil.

The Capital Markets Authority Guidelines defines the corporate governance process as the structure used to direct and manage business affairs of the company towards enhancing prosperity and corporate accounting with the ultimate objective of realizing shareholders long-term value while taking into account the interest of other stakeholders. These guidelines have been developed taking into account the work which has been undertaken extensively by several jurisdictions through many task forces and committees including but not limited to the United Kingdom, Malaysia, South Africa, Organization for Economic Cooperation and Development (OECD) and the Commonwealth Association for Corporate Governance. The Capital Markets Authority has developed these guidelines for good corporate governance practices by public listed companies in Kenya in response to the growing importance of governance issues both in emerging and developing economies and for promoting growth in domestic and regional capital markets (Nganga, 2007)

In Kenya, the development of a code of best practice for corporate governance is issued by the Private Sector Corporate Governance Trust (March, 1999). The Centre endeavors to achieve its mandate through training, education, research, monitoring, evaluation and advocacy. Corporate governance seems to be a growing concern among academics, practioners, and lawmakers and company stakeholders due to high profile scandals like Enron, Woldcom and Adelphia serving as the impetus to such is the recent US regulations as the Sarbanes-Oxley Act of 2002 which is considered to be the most sweeping corporate governance regulation in the past 70 years (Brynes at al…2003)

There is a demand by Society, that businesses should be well governed. This demand by society has also extended to other stakeholders who believe that the company should not only look at profit maximization but issues such as corporate Social responsibility (pluralist view of Corporate Governance).There has been a fight against money laundering, corruption, bribery and in many African states Anti -Corruption Courts have been established. This has called for more accountability and transparency. In Uganda, the Bank failure (Greenland) was attributed to poor Corporate Governance (Musaali, 2007).

Property Management is one of the fastest growing areas of specialization within the real estate industry and is emerging as a managerial science. Commercial properties include large, multistory office buildings, regional shopping malls, strip shopping centres, ministorage centers and large warehouses. Residential properties vary from large multi-family communities to scattered single family dwelling. Today property managers must possess the communication skills and technical expertise required for dynamic decision making. Property managers may be called to act as market analysts, advertising executives, sales people, accountants, diplomats and even maintenance engineers. These many roles require a wide range of interpersonal skills to deal effectively with owners, tenants, employees, outside contractors and others in the real estate business (Kyle, 2000)

More and more government intrusions into the real estate industry affect the property management field. These regulations include mandatory disclosures, deregulation of utilities, telecommunication and environmental issues thus making the job of the property manager more complex. Most professional property management involves structures built on real property that are not intrinsic to the operation of the business or industry. For the purposes of studying specialized property management, real estate can be divided into four major classifications namely Residential, Commercial Real-Estate, Industrial Property and Special purpose property. Residential real estate is the largest source of demand for the services of professional property managers and includes privately owned residences as well as government and institutional housing. Commercial real estate on the other hand includes various types of income producing properties such as office buildings, shopping centers, stores, petrol stations and parking lots while Industrial Property includes all lands and facilities used for heavy and light manufacturing for storage and for the distribution of goods. Finally, Special purpose property includes hotels, motels, clubs, resorts, theatres, schools, colleges, government institutions and places of worship (Kyle 2000)

1.2 Statement of the Problem

The Capital Market Authority in exercise of the powers conferred by section 11(3) (v) and 12 of the Capital Markets Act, issued guidelines on corporate governance practices in the year 2002 for observations by public listed companies in Kenya, in order to enhance corporate governance practices by such companies. These guidelines were developed in response to the growing importance of governance issues both in emerging and developing economies and for promotion of growth in both domestic and regional capital markets. It was also in recognition of the role of good governance in corporate performance, capital formation, maximization of shareholders value as well as protection of investor's rights. In Kenya, the private sector corporate governance Trust (March,1999) has developed the principles and sample code of best practice for corporate governance in all enterprises within the context of the trust guiding values, vision and mission, through training, research, education and awareness raising programmes and activities.

The failure of Kenya National Assurance Company was blamed on poor corporate governance and specifically mismanagement (Kenya Insurance Survey, 2004).Corporate governance is an important concept in the fight against wrong corporate behavior that often leads to collapse of many business enterprises (Stiles 1993).This survey seeks to establish whether the capital markets and the private sector corporate governance trust guidelines have been complied with by property management companies

A number of researches have been done on corporate governance in Kenya. Much has focused on the general corporate governance issues.e.g. Nganga (2007), conducted a survey on compliance with CMA guidelines among companies listed at the NSE with the goal of determining whether companies quoted at the NSE have complied with the CMA guidelines on corporate governance. The relative lack of research, which proposes and documents a link between corporate governance structures and performance in such an important industry as property management, therefore motivated this study.

The existing research also fails to control for non governance variables and endogeneity while linking governance variables to performance hence making them inconclusive and fragmented. Kenya is one country where corporate governance systems are in the evolutionary stages and therefore in addition to the findings of the existing research, this new findings will be useful for the property management industry.

The above issues therefore form the basis of this study to establish the relationship between corporate governance practices and financial performance of property management Companies in Kenya.

1.3 Research Objectives

a) To determine corporate governance practices of property management companies in Kenya
b) To examine relationship between corporate governance practices and financial performance of property management companies in Kenya

1.4 Importance of the Study

Researchers and Academicians

The study will be very useful to the Researchers and Academician in that it will add further insights to the existing studies in the area of relationship between corporate governance and financial performance as well as create challenges for further study.

Shareholders and Investors

The study will also help shareholders know the various mechanisms through which they can exercise their control. Potential investors will also benefit as they will be able to determine companies that are properly governed in making their investment decisions.

Stakeholders

Customers, supplier of goods and services and the general public want to associate with companies that are properly governed. This study therefore seeks to assist the public in determining such companies and their level of interaction based on their corporate governance record.

Management of the Company

This study is paramount in that it will enable directors and management appreciate the importance of corporate governance practices and assist them in rating their level of compliance against those of their competitors or the entire market, and in determining whether the corporate governance practices they employ are adequate to give them a competitive edge.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

The theoretical framework for this study is based on the relationship between corporate governance practices and financial performance of property management companies. The literature review covers the following areas: the theoretical perspectives, mechanisms of corporate governance, empirical studies and conclusion of literature review.

2.2 Theoretical Perspectives

The main theoretical perspectives that have affected the development of corporate governance are the agency theory, transaction cost economics, stakeholders theory and stewardship theory.

2.2.1 The Agency Theory

A significant body of work has built up in this area within the context of the principal-agent framework. The work of Jensen and Mecklin (1976) in particular and of Fama and Jensen (1983) are important. Agency theory identifies the agency relationship where one party, the principal, delegates work to another party, the agent. The agency relationship can have a number of disadvantages relating to the opportunism or self interest of the agent: For example, the agent may not act in the best interests of the principal, or the agent may act only partially in the best interests of the principal. There can be a number of dimensions to this including for example, the agency misusing his power for pecuniary or other advantage ,and the agent not taking appropriate risks in pursuance of the principals interests because he(the agent) views those risks as not being appropriate and the principal may have different attitudes to risks. There is also the problem of information asymmetry whereby the principal and the agent have access to different levels of information; in practice this means that the principal is at a disadvantage because the agent has more information.

In the context of corporations and issues of corporate control, agency theory view corporate governance mechanisms especially the board of directors, as being an essential monitoring device to try to ensure that any problems that may be brought about by the principal-agent relationship, are minimized. Blair(1996) states; managers are supposed to be the 'agents' of a corporations 'owners' but mangers must be monitored and institutional arrangements must provide some checks and balances to make sure they do not abuse their power. The costs resulting from managers misusing their position, as well as the costs of monitoring and disciplining those to try to prevent abuse have been called 'agency costs'. Much of agency theory, as related to corporations is set in the context of the separation of ownership and control as described in the work of Berle and Means(1932).In this context, the agents are the managers and the principals are the shareholders ,and this is the most important commonly cited agency relationship in the corporate governance context.

However it's useful to be aware that the agency relationship can also cover other relationships including those of company and auditor and of employer and employee.

2.2.2 Transaction Cost Economics

Transaction cost economics (TCE) as expounded by the work of Williamson (1975, 1984) is often viewed as closely related to agency theory. Transaction cost economics views the firm as a governance structure whereas the agency theory views the firm as a nexus of contracts. Essentially, the latter means that there is a connected group or series of contracts amongst the various players, arising because it is seemingly impossible to have a contract that perfectly aligns the interests of principal and agents in a corporate control situation.

As firms grow in size, whether caused by the desire to achieve economies of scale, or by technological advances, or by the fact that natural monopolies have evolved, they have increasingly required more capital which has needed to be raised from the capital markets and wider shareholder base has been established. The problem of the separation of ownership and control and the resultant corporate governance issues have thus arisen. Coase (1937) examines the rationale for the firm's existence in the context of a framework of the effectiveness of internal as opposed to external contracting. He states "the operation of a market costs something and by forming an organization and allowing some authority (an entrepreneur) to direct the resources, certain marketing costs are saved". The entrepreneur has to carry out his function at less cost, taking into account the fact that he may get factors of production at a lower price than the market transactions which he supersedes.

In other words, there are certain economic benefits to the firm itself to undertake transactions internally rather than externally. In its turn, a firm becomes larger the more transactions it undertakes and will expand up to the point where it becomes a cheaper or more efficient for the transaction to be undertaken externally. Coase therefore posits that firms may become less efficient the larger they become; equally, he states that all changes which improve managerial technique will tend to increase the size of the firm.

Williamson (1984) builds on the earlier work of Coase, and provides a justification for the growth of larger firms and conglomerates, which essentially provide their own internal capital market. He states that the costs of any misaligned actions may be reduced by judicious choice of governance structure rather than merely realigning incentives and pricing them out.

Hart (1995) states there are a number of costs to writing a contract between principal and agent, which include the cost of thinking about and providing for all the different eventualities that may occur during the course of the contract, the cost of negotiating with others, and the costs of writing the contract in an appropriate way so that it is, for example, legally enforceable. These contracts tend to mean that contracts are apt to be incomplete in some way and so contracts will tend to be revisited as and when any omissions or required changes come to light. Hart indicates that ,'in a world of incomplete contracts(where agency, problems are also present),governance structure can be seen as a mechanism for making decisions that have not been specified in the initial contract.

Stiles and Taylor (2001) point out that both theories (TCE and agency) are concerned with manager's discretion, and both assume that managers are given to opportunism (self interest seeking) and moral hazard ,and that managers operate under bonded rationality….(and) both agency and TCE regard the board of directors as a instrument of control. In this context ,'bonded rationality' means that managers will tend to sacrifice rather than maximize profits(this of course ,not being in the best interests of shareholders.

2.2.3 Stakeholder Theory

In juxtaposition to agency theory is stakeholder theory. Stakeholder theory takes into account of a wider group of constituents rather than focusing on shareholders. A consequence of focusing on shareholders is that the maintenance or enhancement of shareholders' value is paramount whereas when a wider stakeholder group such as employees, providers of credit, customers, suppliers, government and the local community is taken into account the overriding focus on shareholder value become less self evident. Nonethless many companies do strive to maximize shareholders value whilst at the same trying to take into account the interests of the wider stakeholder group. One rationale for effectively privileging shareholders over other stakeholders is that they are recipients of the residual free cash flow (being the profits remaining once other stakeholders such as loan creditors, have been paid).This means that the shareholders have vested interest in trying to ensure that resources are used to maximum effect, which in turn should be to the benefit of the society.

Shareholder and stakeholders may favor different corporate governance structures and also monitoring mechanisms .We can, for example see differences in the corporate governance structure and mechanisms of the so called Anglo-American model ,with its emphasis on shareholder value and a board composed totally of executive and non-executive directors elected by shareholders, compared to the German model whereby certain stakeholder groups such as employees have a right enshrined in law for their representatives to sit on the supervisory board alongside the directors.

An interesting development is put forward by Jensen (2001) who states that stakeholders theory argues that the managers of a firm should take account of the interest of all stakeholders in a firm but because the theories refuse to say how the tradeoffs against the interests of each of these stakeholders groups might be made, there are no defined measurable objectives and this leaves managers unaccountable for their actions. Jensen therefore advocates enlighten value maximization which he says is identical to enlisted stakeholders theory. Enlighted value maximization utilizes much of the structure of stakeholder theory but accepts maximization of the long run value of the firm as the criterion for making the requisite trade-offs among its stakeholders….. and therefore solves the problems that arise from multiple objectives that accompany traditional stakeholder theory.

2.2.4 Stewardship Theory

Stewardship theory draws on the assumptions underlying agency theory and TCE. The work of Donaldson and Davis (1991) cautioned against accepting agency theory as given and introduced an alternative approach to corporate governance stewardship theory. The thrust of Donaldson and Davis paper was that agency theory emphasized the control of managerial opportunism by having board chair independent of the CEO and using incentives to bind CEO interests to those of shareholders.

Stewardship theory stresses the beneficial consequences of shareholders returns of facilitative authority structures which unify command by having roles of the CEO and chair held by the same person. The safeguarding of returns to shareholders may be along the track, not of placing management under greater control by owners, but of empowering managers to take autonomous executive action.

2.2.5 Theories in Context

The theories discussed above should be viewed in the light of a public corporation business form(a public quoted company).In the UK ,this type of business form generally has a dispersed shareholder base ,although there is concentration of shareholding amongst the institutional investors such as the pension and insurance companies. Agency theory together with the work of Berle and Means seems particularly relevant in this context.

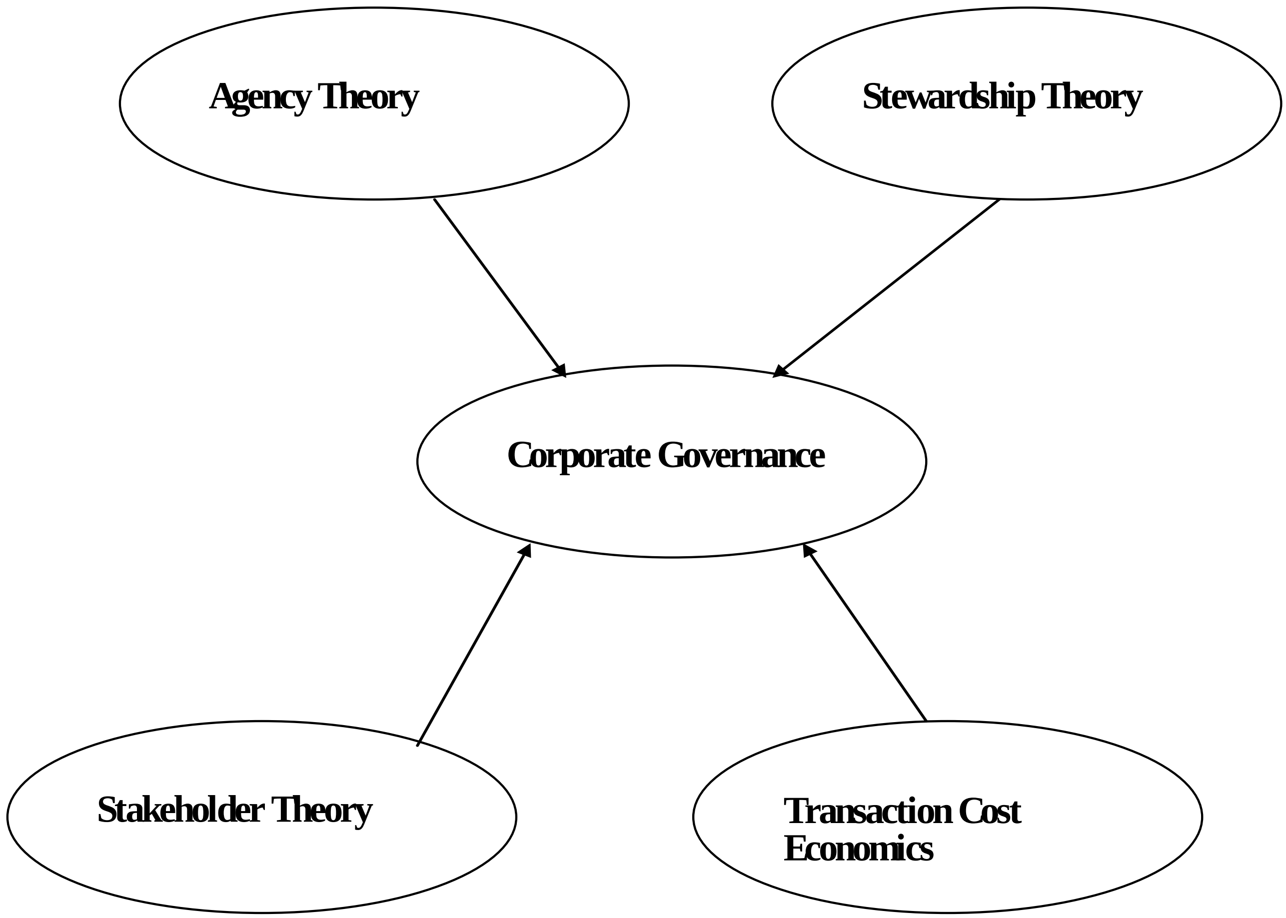

Fig 1.1 Main Theories influencing the development of Corporate Governance

2.3 Mechanisms of Corporate Governance

Corporate governance framework or system comprises several market based mechanisms including ownership concentration, bound member participation and executive compensation. In addition there're others non-market based mechanisms that fundamentally underpin or undercut corporate governance effectiveness. The various corporate mechanisms are categorized into market based, culture based and discipline based mechanisms.

2.3.1 Market Based Governance Mechanisms

In most publicly traded companies market based corporate governance mechanisms are as follows:-

a) **Ownership concentration**

This is defined by the number of large-block shareholders (i.e mutual funds, pension funds and trust funds) as well as by the proportions of shares they own. These institutional owners become increasingly active in their demands that corporations adopt effective governance mechanisms to control managerial decisions.

b) **Board Composition**

Board composition or the proportion of "inside" directors (Executive directors) versus "outside" directors (Non-executive directors) also has strong implications on corporate governance because the board is essentially the "guardian" of the principal interest. Insider directors participate in the decision processes and are able to access inside information. Because of their status, insider directors can be easily influenced by the CEO in the decision making process.

c) **Market discipline**

It's an external mechanism, namely an open market for corporate control which becomes active when a firms internal control fail, its performance is poor, and/or its management is inefficient. Market discipline may involve replacing incompetent CEO's, other key executives and/or board members, or it can come in the form of a takeover (especially a hostile one) by another corporation. Under a hostile takeover, both key executives and board members may be replaced by new management and new directors.

d) Board Chairmanship

Board chairmanship involves whether or not the firm CEO is also the board of directors chairperson. Because a central role of the chairperson is to monitor top management behavior, this sort of CEO duality is likely to hinder management accountability (Baliga,Moyer and Rao 1996) and may inhibit the board's ability to function properly as an independent body.

e) **Board Size**

Board size is an important factor of market based corporate governance since there are drawbacks when boards are either too small or too large. Too small implies a higher agency cost since the CEO is better able to influence board meetings and decisions; the board also suffers from a shortage of services and expertise. When a board is too large, despite having a higher and more diversified pool of expertise and resources, it is also likely to have factions that grows conflict (O'Reilly,Caldwell and Barnett 1989);it may also be inefficient in taking decisive action due to frequent interruptions or co-ordination difficulties(Shleifer and Visney 1997)

f) Board Remuneration

Management remuneration a market based governance mechanism can be either behavior based or outcome based (Eisenhardnt 1989) .It is a governance mechanism that seeks to align the interests of managers and owners through salaries, bonuses and long-term incentive compensation such as stock awards and options.

g) Interlocking Directorate

This is a case whereby two or more companies exchange board members. Often these companies are strategic partners such as those in long term supply agreement, research and development consortia, joint ventures or alliance groups.

h) Inbreeding

This is a practice whereby senior executives join the board after retiring from management. From a resource utilization perspective, this practice can enable a firm to continue to utilize and leverage the manager's expertise, experience and personal ties. This is conducive to continuity and stability of the firm evolution.

2.3.2 Culture-Based governance

Governance culture refers to the statements, visions, slogans, values, role models and social rituals that are unique to and used by board members and key executives at both the first and second tiers to engender corporate governance, transparency and accountability.

2.3.3 Discipline Based Governance

Discipline based governance entails the following:-

a) Executive Penalty

Poorly performing or ill behaved executives should be disciplined and penalized. Financial and non-financial penalties for non-performance can be alternatives or supplements to incentive schemes. A typical executive compensation package includes a basic salary, benefits in kind, an annual bonus, share options, other long term incentives schemes and pension rights. Penalties should be significant enough to really impact agent incentives and influence their behavior and performance. Penalties may include base salary reduction or freeze, bonus elimination, fine payment, power downsizing and total dismissal.

b) Independent Auditing

Independent auditing of corporate affairs is a pre-requisite for discipline based governance. Internal and external independent auditing can identify misconduct that can be penalized. An independent auditing committee comprising only independent and non-executive directors should be established as an important arm of the board and to form a nexus for the work of the internal auditor. External auditors should be appointed not by management but by shareholders in their Annual General Meeting. Both external and internal auditing should be independent such that the auditors are not intimidated by senior management or executives directors.

c) Conduct Code

Conduct codes make expectations about legal and ethical behavior clear, increase the likelihood of detection, assume the punishment of transgressions, reward desired behaviors and discipline those who engage in illegal behavior. The codes heighten executive awareness of corporate policy and enlist support in fighting misconduct.

d) Ethics Program

Ethics programs are organizational control systems that encourage shared ethical goals and rule compliance. Ethics and compliance training programs for board members and senior management officials should be held regularly.

2.4 Empirical Studies

A good number of empirical researches on the relationship between corporate governance practices and financial performances have been undertaken throughout the globe due to the continuing emphasis on this. However the results are mixed. Some examine only the impact of one governance mechanism on performance as Himmelberg et al did, while others investigate the influence of several mechanisms together on performance. None of them covers a complete set of governance mechanisms and we will briefly review some of the previous studies on the governance-performance relationship.

a) Board Meetings

The findings from a study by Mululu (2005) established that boards increase the frequency of their meetings following poor performance and as a consequence of such increase, the performance of firms improve as captured by the increase in firm value. Lang'at (2006) developed a regression model to test the hypothesis that there is a positive relationship between firm's financial performance of preceding year and frequency of board meetings. The value of the firm was proxied by the Tobin's Q or Book-to-Market ratios. The findings indicated that the test statistics obtained led to acceptance of the null hypothesis that there is a positive relationship between firm performance of preceding year and frequency of board meetings.

Jensen (2001) argued that boards of well run companies should be relatively inactive and exhibit few conflicts. Frequently scheduled board meetings generate opportunity costs in the form of management time consumed, and cash costs in the form travelling allowances and fees for board members. Real benefits can be derived from such meetings as directors have the opportunity to confer, set strategy and monitor management. Gathura(2007) further sought to determine the relationship between various components of corporate governance and performance of manufacturing firms listed at the NSE. The study had sought to determine the relationship between firm performance and frequency of board meetings in manufacturing firms listed in the NSE between 1996 and 2006.The findings revealed that there exists a perfect linear relationship between performance measures and the frequency of board meetings; among other governance structures. This was achieved through a regression-based F-TEST on each of the four performance measures (Tobin's Q;Return on Equity;Return on Assets;and price-to-earnings ratios) that were used.

In November of 1998,a seminar of some of the leading organizations with interest in corporate governance and financial performance of corporations with interest in corporate governance and financial performance of corporations which included the NSE ,CMA and ICPAK and other consultancy agencies was held in Nairobi in March 1999 where participants came up with developments that revealed that firms that had well established corporate governance systems in place exhibited good financial performance in terms of improved share prices. For the relationship between corporate governance and financial performance it was evident that the governance systems were reviewed regularly by management of the corporation. The study was initially limited to the corporations quoted at the Nairobi Stock Exchange. The same methodology was extended to state corporations and other corporate bodies. The same relationship was evidenced that where corporate governance systems existed and were reviewed regularly evidenced a relationship in the financial performance (Private sector corporate governance trust March 1999)

b) Board Composition

It is suggested that higher proportion of non-executive directors in the board helps to reduce the agency costs. Hutchison and Gul (2003) support this view by showing the higher levels of non-executive directors on the board weaken the negative relationship between the firm's investment opportunities and firm's performance. However Coles et al .(2001) dispute this by stating that there is no significant relationship between non-executive directors representation and performance.

c) Board Chairmanship

Although the CMA guidelines regarding the separation of the role of the CEO and Chairman are a sign of good governance, previous empirical analyses do not support it. For example Cole at al(2001) do not find any significant relationship between CEO duality and performance. Brickly et al(1997) observe that costs of separation are larger than benefits for most large US firms.

d) Audit Committees

For U.K. Companies, Conyon(1997) provides a thorough review of the workings of remuneration committees and shows that the firms with remuneration committees pay directors less remuneration.

e) Managers Remuneration

The empirical work shows that the role of manager's remuneration in co-ordinating managers and investors interests is limited. Hutchinson and Gul (2003) find a positive role for managers remuneration while Coles et al(2001) do not.

f) Board ownership

Hutchison and Gul(2003) report that management share ownership and managers remuneration weaken the negative relationship between the firm's investment opportunities and firms performance. In Contrast Coles at al(2001) do not find any contribution to performance by managerial ownership

g) Institutional Holding

The Cadbury code encourages institutions to take an active role in governance and we may expect a positive relationship between institutional holdings and firms performance. Unfortunately empirical evidence is not supportive of this recommendation. Both Faccio and Lasfer (1999,2000) find that major outside and industrial shareholders negatively influence the firm value,

h) Other Mechanisms

Kiamba (2008) sought to find out the effect of corporate governance on financial performance of local authorities in Kenya. The findings revealed that financial performances by local authorities in Kenya are influenced by their political compositions, the manner in which internal audits are conducted and managerial approaches by chief officers. However the findings by Matengo (2008) disputes this and points out that not all governance factors were important in influencing performance if analyzed individually. Ngugi (2007) revealed that the size of the board and insider holding on one hand have association with performance but does not find any evidence that external board, individual holding and institutional holding have any influence on performance while governance structures (Number of directors, external board membership (non-execuive directors), individual and family holding, insider holding and institutional holding had a mix of the expected impact on firm performance. Gitari J.M(2008) revealed that the key to improved financial performance lies with the development and implementation of the governance structures that are specific ,monitoring and review of the structures regularly in order to make changes where necessary to be in line with the internal and external environment ,reinforcement of the structures in place and the measuring of the overall performance of the corporation against the set objectives, mission and vision over an agreed time frame.

2.5 Conclusions for Literature Review

Understanding the need for good corporate governance is the first step on the path the path to successful implementation of corporate governance mechanisms. There's need to understand the issues that each organization has and how good corporate governance mechanisms help achieve the maximum benefit. The effects of corporate governance on the firm's performance have been subject to numerous empirical studies in the literature review. Different studies highlighted have yielded mixed results. Nevertheless, the studies are characterized by a lack of standardization; they differ in terms of country focus, choice of governance mechanisms, data sources and the choice of the statistical methodology being applied.

Empirical studies in Kenya (Jebet 2001;Mwangi 2002,Mululu 2005;Langat 2006 and Gathura, 2007) have focused on corporate governance from firms listed at the Nairobi stock exchange .To fill the existing gaps, this study sought to establish the relationship between corporate governance practices and financial performance of institutions drawn from non-listed companies specifically property management companies.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This section looks at the research design, sample frame and sample design, data collection methods and data analysis techniques in the study.

3.2 Research Design

The study sought to establish whether there exist any relationship between corporate governance practices and financial performance of property management companies in Kenya. The study took a random sample of all property management companies in Kenya. This provided information on the various variables in corporate governance and how they impact on financial performance. Cooper and Emory(1985) contend that sampling enables the researcher to achieve some efficiency in time, resources and expense in the research process.

3.3 Population

The population for this study consisted of 170 property management companies in Kenya as listed in the Kenya Postel Directory 2010. (S*ee appendix II*).

3.4 Sample

The sample size was 25 companies selected from the total population. This sample size of 15% was used based on Cooper (2001) recommendation that 10%-20% of population size is sufficient sample size**.** The companies were arranged alphabetically and then using systematic random sampling one company was selected from one to six until the last one to come up with the sample size of 25 Companies. A 15% of the population is sampled to minimize within the limitation of cost and time, the gap between the values obtained from the sample and those prevalent in the entire population.

3.5 Data Collection

Both primary and secondary data were used in the survey. Primary data was collected using a self administered questionnaire consisting of both open-ended and closed ended questions. Questionnaires were distributed through hand-delivery and internet. Collecting questionnaire data via the internet is cost and resource efficient, allowing administration of questionnaires from one location to a wider audience. The questionnaires were used to elicit information on aspects that cannot be objectively obtained from annual reports. The respondents was the mainly Head of Finance and Company secretaries who have the necessary training to understand the full range of the underpinning operations of the organizations including corporate governance issues, management practices, corporate taxation, and corporate law among others. Secondary data was obtained from annual accounts and reports of the companies and any publications relating to corporate governance guidelines.

3.6 Research Model

a) Conceptual Model

The study model was based on two major components namely corporate governance and financial performance of property management companies. The study conceptualized that financial performance of property management companies is a function of a mix of corporate governance variables.

Equation (1) below presents the conceptual model in this relationship.

fPERF=f(Board, Committee, Audit, Size, Meetings, Ownership, Management)…..…(1)

Where:

fPERF=Financial performance

Board=Board of directors composition

Committee =Role of the audit committee

Audit=Role of internal audit

Size=Effect of the size of the board

Meetings=Frequency of meetings

Ownership=Ownership Concentration

Management=Role of the management

b) The Analytical Model

A multiple regression model of financial performance versus corporate characteristics was applied to examine the relationship between the variables. The model treats financial performance of property management companies as the dependent variable while the independent variables are the composition of the board of directors, role of the audit committee, the role of the internal audit, the size of the board, the frequency of the meetings, ownership concentration and the role of the management.

Equation (2) presents the algebraic expression of the analytical model to be applied

$(fPERF)_{it} = \beta_0 + \beta_1(Board)_{it} + \beta_2(Committee)_{it} + \beta_3(Audit)_{it} + \beta_4(Size)_{it} + \beta_5(Meetings)_{it} + \beta_6(Ownership)_{it} + \beta_7(Management)_{it} + \varepsilon_{it}$……………………………………………(2)

Where i indexes individual property management companies and t indexes financial years(t=1,2,3,4,5).The dependent variable is financial performance ($fPERF_{it}$ by the i^{th} property company on the t^{th} financial year ,while the independent variables are composition of the board(Board), role of the audit committee(Committee),role of internal audit(Audit),the size of the board(Size),the frequency of meetings(Meetings),ownership concentration(Ownership) and the role of the management(Management),ε_{it} is the error term.

Financial performance of property management companies is measured by the growth in revenue multiplied by the capital ratio plus surplus expressed as a function of the revenue or minus deficit expressed as a function of revenue over the five-year period 2004-2008. The capital ratio is the amount spent on capital projects expressed as a function of the total expenditure. Board composition is measured by taking the ratio of executive and non-executive directors, frequency of board meetings is measured by the number of meetings held by the board of directors within a given financial year, Ownership concentration will be measured by the number of large-block shareholders and proportion of shares they hold and Size will be measured by number of the board of directors sitting in a full board meeting. Finally, the role of the internal audit, audit committee, management and ownership concentration will be measured by computing an 'AUDIT,'AUDIT COMMITTEE,AND 'MANAGEMENT' indices based on the responses derived from the Likert-Scaled questions.

c) The Study Hypothesis

Using the model of equation (2) ,the study will test the following hypothesis:

H_0 There is no relationship between property Management Companies financial performance and corporate governance practices

H_1 There is a relationship between property Management Companies financial performance and corporate governance practices.

3.7 Diagnostic Tests

a) F-Test

In order to test the overall significance of the regression model,F-test will be used to estimate if all the individual coefficients together were statistically different from Zero at the 95% and 99% significance levels

b) T-Test

To establish the significance of individual variables in each of the models, T-Test will be applied at both 95% and 99% levels of confidence. T-test will be applied in determining whether to accept or reject the above hypothesis.

c) Test of Serial Correlation

The Durban –Watson statistics will be used to detect the presence of autocorrelation in the residuals from a regression analysis of equation (2)

d) Test for Multi-Collinearity

To test for multi-collinearity,equation (2) will be regressed and thereafter, each of the explanatory variables will be regressed against the other two in order to determine the high variance inflation factors(VIFS).Higher VIFS means more severe multi-collinearity. The rule of the thumb is that VIF values greater than 5 indicate severe multicollinearity. In some cases TOL (tolerance) statistic will be used. It is computed by taking a reciprocal of VIFs.

3.8 Data Analysis

Descriptive statistics which involved use of frequency tables, percentages, and mean scores was used to analyze data relating to the financial performance and corporate governance practices in place. Data which was qualitative in nature such as the one relating to directors, shareholders, internal control and audit will be analyzed using content analysis. Where appropriate, the Statistical Package for Social Science (SPSS) Version 12 was used to analyze and interprets the collected data. Data was presented in written text, frequencies, comparative bar and line graphs, pie charts and percentages for comparisons, explanations and clarity.

3.9 Data Reliability and Validity

The reliability and validity of data collected for research was controlled through formulation of relevant research questions by considering a research question that expresses a relationship between the variables, stating the question in unambiguous form and ensuring that the question can be tested empirically (Black 1993).

CHAPTER FOUR

ANALYSIS AND INTERPRETATION

4.1 Introduction

This chapter presents analysis and findings of the research. From the study population target of 25 respondents, 25 respondents filled and returned their questionnaires, constituting 100% response rate. Data analysis was done through Statistical Package for Social Scientists (SPSS). Frequencies and percentages were used to display the results which were presented in tables, charts and graphs.

4.2 Analysis and Interpretation

4.2.1 Analysis of General Information

The researcher requested the respondent to indicate their company and from the findings the study established that respondent were from Chester House Ltd, Far Fax Consult, Anglo African Property Holding, Gardregal Ltd, Dunlop Industries, Terestaern Properties, Karume Investment, Integer, Kipsirgoi Investment ,Amalgamated Properties, Lesmat, and Forest Road Flats among others. The sector companies were from the property sectors, real estates and property developer. The position held by the respondent in the organization was Property Manager, Record Keeper, Finance and Administration Manager, Chief Accountants and Finance Managers.

Financial performance index was computed as a sum of the product of the revenue growth rate and the capital ratio plus (or minus) the surplus or deficit expressed as a percentage of the annual revenue.

4.2.2. Revenue productivity

The table below present findings regarding the various level of revenue productivity within the sample of property management companies over the sample period. The findings indicate that a cumulative majority of the companies were collecting revenues below Ksh70M in a year. Specifically 88% in 2004,92% in 2005,92% in 2006,96% in 2007 & 92% in 2008.

Table 4. 1: Revenue productivity in 2004-2008

Financial Year	Category	n	%
2004/2005	Below 50M 50-60M 60-70M Above 70M	6 5 11 3	24 20 44 12
	N	25	100
Financial Year	Category	n	%
2005/2006	Below 50M 50-60M 60-70M Above 70m	5 5 13 2	20 20 52 8
	N	25	100
Financial Year	Category	n	%
2006/2007	Below 50M 50-60M 60-70M Above 70m	3 4 16 2	12 16 64 8
	N	25	100
Financial Year	Category	n	%
2007/2008	Below 50M 50-60M 60-70M Above 70m	4 3 17 1	16 12 68 4
	N	25	100
Financial Year	Category	n	%

2008/2009	Below 50M 50-60M 60-70M Above 70m	2 3 18 2	8 12 72 8
	N	25	100

Source: Field Data 2009

4.2.2 Rating Internal Audit

Table 4. 2.1: Respondent Level of Agreement with Various Aspect of Audit Committee

	strongly disagree	Disagree	Not sure	Agree	Strongly agree	Mean	Std deviat
The audit committee meets often enough to discuss matters raised by the internal auditor adequately	0	4	1	10	10	4.0400	1.05987
Members of the audit committee are informed, vigilant and effective oversees of the financial reporting process and the company internal control	2	2	0	16	5	3.8000	1.11803
The audit committee has adequate resources and authority to discharge its responsibilities	2	2	7	9	5	3.5200	1.15902
The audit committee is independent and deals with issues raised by the internal auditor conclusively and professionally	2	4	0	13	6	3.6800	1.24900
External auditors reports are tabled in audit committees and queries raised discussed	0	2	4	9	10	4.0800	.95394
Members of the audit committee are conversant with prudent financial management practices	0	4	0	11	7	3.8400	1.02794

Source: Field Data 2009

On the respondent level of agreement with various aspect of audit committee, the study found that most of the respondent agreed that external auditors reports are tabled in audit committees and queries raised discussed as shown by mean of 4.08. The audit committee meets often enough to adequately discuss matters raised by the internal auditor as indicated by mean of 4.04. The study also revealed that members of the audit committee are conversant with prudent financial management practices as shown by mean of 3.84 and that member of the audit committee are informed, vigilant and effectively oversees of the financial reporting process and the company internal control as shown by mean of 3.8. The audit committee is independent and deals with issues raised by the internal auditor conclusively and professionally as indicated by mean of 3.68 and that the audit committee has adequate resources and authority to discharge its responsibilities as shown by mean of 3.52.

The study revealed that the ways in which the internal audit affects the financial performance of the company was through enabling the company to maintain financial transparency and accountability due to existences of strict internal audit measures, it monitors the work of internal auditor hence make their work more reliable, reviewing arising issues done well in advance for corrective action and advice, including strategies, they ensure cost are minimized which give room for higher profit margin and audit committee has the mandates of policy formulation for auditors which has as direct relationship with financial performance.

4.2.3 Rating Internal Audit in Regard to Financial Performance

Table 4.3: Respondent level of agreement with various aspect of internal audit in regard to financial performance

	strongly disagree	Disagree	Not sure	Agree	Strongly agree	Mean	Std deviation
The company appoints to its management, internal auditors with a balanced mix of proficient individuals who are able to add value and bring independent judgment to bear in the decision making process	0	0	0	14	11	4.4400	.50662
The company exercises regular review of systems, processes and procedures to ensure the effectiveness of internal systems of control so that decision making capability and the accuracy of reporting and financial results are always maintained at the highest	0	2	0	11	12	4.3200	.85245
The company conducts regular assessment of its performance	0	0	1	13	11	4.4000	.57735
The company has competent staff to advise the management of various risks	0	2	1	15	7	4.0800	.81240
The company has effective internal audit functions that have the respect and co-operation of both the board and management	0	2	2	10	11	4.1200	1.12990
In line with the Institute of internal Auditors code of practice, the head of internal audit report to the BOD, and have ready and regular access to the Chairman and the chairperson of the audit committee	0	2	4	12	7	3.9600	.88882

	strongly disagree	Disagree	Not sure	Agree	Strongly agree	Mean	Std deviation
Internal audit function of your company is co-ordinated with internal and external providers of assurance to ensure proper coverage of financial, operational and compliance controls	0	0	2	16	7	4.2000	.57735

Source: Field Data 2009

The study sought to know the respondent level of agreement with various aspect of internal audit in regard to financial performance. From the findings most of the respondent agreed that the company appoints to its management internal auditors with a balanced mix of proficient individuals who are able to add value and bring independent judgment to bear in the decision making process as shown by mean of 4.44. The company also conducts regular assessment of its performance as indicated by mean of 4.4 and exercises regular review of systems, processes and procedures to ensure the effectiveness of internal systems of control so that decision making capability and the accuracy of reporting and financial results are always maintained at the highest as shown by mean of 4.32.

The internal audit function of the company is coordinated with internal and external providers of assurance to ensure proper coverage of financial, operational and compliance controls as shown by mean of 4.2. The study revealed that company has an effective internal audit functions that has the respect and co-operation of both the board and management as shown by mean of 4.12. The company has competent staff to advise the management on various risks as shown by mean of 4.08 and in line with the Institute of Internal Auditors code of practice. The head of internal audit report to the BOD and have ready and regular access to the Chairman and the chairperson of the audit committee as indicated by mean of 3.96.

On the ways the internal audit affects the financial performance of the company, the study revealed that internal audit affects the financial performance of the company through counterchecking their accounting departments in order to ensure financial success of the company. Further it helps in minimizing the irregularities and ensures compliance to the budget and forecast of financial information, functioning internal controls which facilitates internal monitoring and functioning of the company, hence everything is in place and the organization delivers services in better way to the client and it help in perspiration of report which assist in proper financing decision making.

4.2.4 Rating Management

Table 4. 4: Respondent Level of Agreement with Various Aspects of Management or Chief Officers

	strongly disagree	Disagree	Not sure	Agree	Strongly agree	Mean	Std deviation
The Chief officers are proficient with ICT matters and embrace ICT in operations	0	2	2	9	12	4.2400	.92556
Chief officers regularly attend refresher courses to keep embrace with new developments	0	4	8	7	6	3.6000	1.04083
The company regularly conducts training needs assessments and implements its recommendation	2	2	3	14	4	3.6400	1.11355
The company sets aside enough time and resources to appraise performance in its budget	0	2	2	5	16	3.4000	.95743

	strongly disagree	Disagree	Not sure	Agree	Strongly agree	Mean	Std deviation
The Chief officers possess the requisite skills to execute their respective functions	0	0	2	11	12	4.4000	.64550
Management adopts a consultative approach to decision making	0	2	7	7	9	3.8400	1.17898
Management tables in the relevant committees any issues which have financial implications	0	2	1	20	2	3.8800	.66583
Management turnover and staff transfers have been minimal	0	0	2	19	4	4.0800	.49329

Source: Field Data 2009

On the respondent level of agreement with various aspects of management or chief officers, the study found that most of the respondent agreed that the Chief Officers possess the requisite skills to execute their respective functions as shown by mean of 4.4. The Chief Officers are proficient with ICT matters and embrace ICT in operations as shown by mean of 4.24. Management turnover and staff transfers have been minimal as indicated by mean of 4.08 and the management tables in the relevant committees any issues which have financial implications as shown by mean of 3.88. Further the Management adopts a consultative approach to decision making as shown by mean of 3.84, the company regularly conducts training needs assessments and implements its recommendation as shown by mean of 3.64 and Chief Officers regularly attend refresher courses to keep embrace with new developments as shown by mean of 3.6. Respondent were not sure on the company sets aside enough time and resources to appraise performance in its budget as shown by mean of 3.4.

The study revealed that management affects the financial performance of the company through ensuring that those who are recruited in the finance department are qualified employees. Also they undertake timely strategies and decisions which ensures the financial stability of the firms. The management directly makes the financial decisions and thus is a major player of financial decisions. The management has role of managing the company day to day in order to ensure overwhelming financial success and ensure profitability of the company through providing management in all sectors of the company and the management strictly control the financial performance of the company.

4.3 Regression Analysis

Table 4. 5: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.895(a)	.800	.718	.59353

The adjusted R^2 is known as coefficient of determination and it tell variation in dependent variable due to changes in independent variable, from the above table the adjusted R^2 was 0.718 which tell us there was a 71.8% variation in performance of the firms due to changes in board size, committee ,audits, size ,ownership, meeting and managements.

Table 4. 6: ANOVA

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	24.011	7	3.430	9.737	.001(a)
	Residual	5.989	17	.352		
	Total	30.000	24			

From the above table the significance was 0.001 which mean that this model was statistically significant.

Table 4. 7: Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	.684	1.457		.470	.645
	Board	.330	.225	.369	1.466	.161
	Committee	.352	.209	.300	1.681	.111
	Audit	.437	.249	.226	1.759	.097
	Size	-.341	.197	-.248	-1.732	.101
	Meetings	.306	.282	.310	1.088	.292
	Ownership	.044	.172	.035	.256	.801
	Management	.641	.289	.331	2.218	.040

From the above table of regression coefficient the established regression equation was;

PERF = 0.684 + 0.330Board + 0.352 Committee + 0.437Audit - 0.341Size+ 0. 306Meetings + 0.044Ownership + 0.641Management

From the above regression equation holding board, committee, audit, size, meetings, ownership and management performance would be 0.684. Unit increase in board would lead increase in performance by factor of 0.33, unit increase in committee would lead to increase in performance by factor of 0.352, unit increase in internal audit would also lead to increase in performance by factor of 0.437, also unit increase in size would lead to decrease in performance by factor of 0.341, unit increase in meeting would lead to increase in performance by factor of 0.306,further unit increase ownership would lead to increase in performance by factor of 0.044 and unit increase management would lead to increase in performance by factor of 0.641.

CHAPTER FIVE:

DISCUSSIONS, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

From the analysis and data collected, the following discussions, conclusions and recommendations were made. The responses were based on the objectives of the study. The researcher had intended to investigate corporate governance practices of property management companies in Kenya and to examine relationship between corporate governance practices and financial performance of property management companies in Kenya.

5.2 Summary of Findings and Conclusions

On the various aspect of aspect of audit committee, the study found that external auditors reports are tabled in audit committees and queries raised discussed. Also the audit committee meets regularly to discuss adequately matters raised by the internal auditor. Members of the audit committee are conversant with prudent financial management practices and that are well informed, vigilant and effective overseers of the financial reporting process and the company internal control. The audit committee is independent, deals with issues raised by the internal auditor conclusively and professionally and that it has adequate resources and authority to discharge its responsibilities. The study also revealed that audit committee has the mandates of policy formulation for auditors which has as direct relationship with financial performance.

The study revealed that the ways in which the internal audit affects the financial performance of the company was through enabling the company to maintain financial transparency and accountability due to existences of strict internal audit measure. The study also revealed that internal audit counterchecks their accounting departments in order to ensure financial success of the company. This helps in minimizing the irregularities and ensures compliance to the budget and forecast of financial information, functioning internal controls which facilitates internal monitoring and functioning of the company. In addition, they ensure costs are minimized which give room for higher profit margin.

The study found that internal auditors with a balanced mix of proficient individuals are able to add value and bring independent judgment to bear in the decision making process. The company conducts regular assessment of its performance and exercises regular review of systems, processes and procedures to ensure the effectiveness of internal systems of control so that decision making capability and the accuracy of reporting and financial results are always maintained at the highest standards. Also the Internal audit function of the company is coordinated with internal and external providers of assurance to ensure proper coverage of financial, operational and compliance controls. Besides the company has effective internal audit functions that have the respect and co-operation of both the board and management and that the company has competent staff to advise the management of various risks and in line with the Institute of internal Auditors code of practice, the head of internal audit report to the BOD, and have ready and regular access to the Chairman and the chairperson of the audit committee.

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On the respondent rating of various aspects of management or chief officers, the study found that most of the respondent agreed that the Chief Officers possess the requisite skills to execute their respective functions. The Chief Officers are proficient with ICT matters and embrace ICT in operations. The management turnover and staff transfers have been minimal and that the management tables in the relevant committees any issues which have financial implications. In addition management adopts a consultative approach to decision making. Also the company regularly conducts training needs assessments and implements its recommendation and Chief Officers regularly attend refresher courses to keep embrace with new developments. Respondent were not sure if the company sets aside enough time and resources to appraise performance in its budget.

The study revealed that management affects the financial performance of the company through ensuring that those who are recruited in the finance department are qualified employees through ensuring timely strategies and decision are made which ensures the financial status of the firms. The management also direct makes the financial decision and is a major player of financial decision. The management has role of managing the company on day to day basis in order to ensure overwhelming financial success thus ensuring the profitability of the company. The management also provides key management in all sectors of the company and strictly controls the financial performance of the company.

The adjusted R^2 is known as coefficient of determination and it tell variation in dependent variable due to changes in independent variable, from the above table the adjusted R^2 was 0.718 which tell us there was a 71.8% variation in performance of the firms due to changes in board size, committee ,audits, size ,ownership, meeting and managements. The established regression equation was;

PERF = 0.684 + 0.330Board + 0.352 Committee + 0.437Audit - 0.341Size+ 0. 306Meetings + 0.044Ownership + 0.641Management

From the above regression equation holding board, committee, audit, size, meetings, ownership and management performance would be 0.684. Unit increase in board would lead increase in performance by factor of 0.33, unit increase in committee would lead to increase in performance by factor of 0.352, unit increase in internal audit would also lead to increase in performance by factor of 0.437, also unit increase in size would lead to decrease in performance by factor of 0.341, unit increase in meeting would lead to increase in performance by factor of 0.306,further unit increase ownership would lead to increase in performance by factor of 0.044 and unit increase management would lead to increase in performance by factor of 0.641.

From the discussion that researcher concludes that properties management companies have adopted various corporate governance practices which include internal audits and proper management, right capital structure and ownership of the company. The study further concludes that there exist a relationship between corporate governance practices and financial performance of property management companies in Kenya. Corporate governance practices influence the performance of property companies in Kenya. The study further concludes that the established regression equation between performance and corporate governance was;

PERF = 0.684 + 0.330Board + 0.352 Committee + 0.437Audit - 0.341Size+ 0. 306Meetings + 0.044Ownership + 0.641Management

5.3 Limitations of the study

The study focused on 25 property management companies in Nairobi. This was occasioned by lack of huge resources and time on the side of the researcher which would be required to cover the entire population of 170 property management companies in Kenya. The study had other limitations which includes limited access to information especially secondary data from the finance departments, non-response from some of the targeted respondents, support from organizations and participants, selection bias, sampling technique and analysis methodology.

5.4 Recommendations for further Research

More research can be carried out in other firms operating in the rest of the country to gather adequate information that can be used to formulate a sustainable framework on the relationship between financial performance and corporate governance practices. The study also recommends an in-depth study on factors affecting implementation of corporate governance practices by property companies in Kenya.

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APPENDICES

Appendix I: Questionnaire

QUESTIONNAIRE FOR THE STUDY OF THE RELATIONSHIP BETWEEN CORPORATE GOVERNANCE PRACTICES & FINANCIAL PERFORMANCE OF PROPERTY MANAGEMENT COMPANIES IN KENYA

Section A: Company Information

Name of the company…………………………………………

Sector………………………………………………………

Respondent………..

Position in the Organization……………………………………

Section B:

AUDIT COMMITTEE

In the questions below specify the extent to which you agree (disagree) with various aspects of audit committee in regard to financial performance of your company

5 = Strongly agree 4 =Agree 3=Not sure 2= Disagree 1=Strongly disagree

1. The audit committee meets often enough to discuss matters raised by the internal auditor adequately.

5 [ ] 4 [ ] 3 [ ] 2 [ ] 1 [ ]

2. Members of the audit committee are informed, vigilant and effective oversees of the financial reporting process and the company internal control

5 [ ] 4 [ ] 3 [ ] 2 [ ] 1 [ ]

3. The audit committee has adequate resources and authority to discharge its responsibilities

5 [ ] 4 [ ] 3 [ ] 2 [ ] 1 [ ]

4. The audit committee is independent and deals with issues raised by the internal auditor conclusively and professionally.

5 [ ] 4 [ ] 3 [ ] 2 [ ] 1 [ ]

5. External auditors reports are tabled in audit committees and queries raised discussed

5 [ ] 4 [ ] 3 [ ] 2 [ ] 1 [ ]

6. Members of the audit committee are conversant with prudent financial management practices

5 [ ] 4 [ ] 3 [ ] 2 [ ] 1 [ ]

7. In what ways does the audit committee affect the financial performance of your company?

____

____

____

____

____

____

Section C:

INTERNAL AUDIT

In the questions below specify the extent to which you agree (disagree) with various aspects of internal audit in regard to financial performance of your company

5 = Strongly agree 4 =Agree 3=Not sure 2= Disagree 1=Strongly disagree

1. The company appoints to its management, internal auditors with a balanced mix of proficient individuals who are able to add value and bring independent judgement to bear in the decision making process

5 [ ] 4 [ ] 3 [ ] 2 [ ] 1 [ ]

2. The company exercises regular review of systems,processes and procedures to ensure the effectiveness of internal systems of control so that decision making capability and the accuracy of reporting and financial results are always maintained at the highest level.

5 [ ] 4 [ ] 3 [ ] 2 [ ] 1 [ ]

3. The company conducts regular assessment of its performance?

5 [ ] 4 [ ] 3 [ ] 2 [ ] 1 [ ]

4. The company has competent staff to advise the management of various risks.

5 [ ] 4 [ ] 3 [ ] 2 [ ] 1 [ ]

5. The company has effective internal audit functions that have the respect and co-operation of both the board and management

5 [ ] 4 [ ] 3 [ ] 2 [ ] 1 [ ]

6. In line with the Institute of internal Audtors code of practice,the head of internal audit report to the BOD, and have ready and regular access to the Chairman and the chairperson of the audit committee

5 [ ] 4 [ ] 3 [ ] 2 [ ] 1 [ ]

7. Internal audit function of your company is co-ordinated with internal and external providers of assurance to ensure proper coverage of financial, operational and compliance controls.

5 [ ] 4 [ ] 3 [ ] 2 [ ] 1 [ ]

8. In what ways does the internal audit affect the financial performance of your company?

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Section B:

MANAGEMENT (CHIEF OFFICERS)

In the questions below specify the extent to which you agree (disagree) with various aspects of Management or chief officers of your company

5 = Strongly agree 4 =Agree 3=Not sure 2= Disagree 1=Strongly disagree

1.The Chief officers are proficient with ICT matters and embrace ICT in operations

5 [ ] 4 [ ] 3 [ ] 2 [ ] 1 [ ]

2.Chief officers regularly attend reflesher courses to keep embrace with new developments

5 [ ] 4 [ ] 3 [ ] 2 [ ] 1 [ ]

3. The company regularly conducts training needs assessments and implements its recommendation

5 [ ]   4 [ ]   3 [ ]   2 [ ]   1 [ ]

4. The company sets aside enough time and resources to appraise performance in its budget.

5 [ ]   4 [ ]   3 [ ]   2 [ ]   1 [ ]

5. The Chief officers possess the requisite skills to execute their respective functions

5 [ ]   4 [ ]   3 [ ]   2 [ ]   1 [ ]

6. Management adopts a consultative approach to decision making

5 [ ]   4 [ ]   3 [ ]   2 [ ]   1 [ ]

7. Management tables in the relevant committees any issues which have financial implications

5 [ ]   4 [ ]   3 [ ]   2 [ ]   1 [ ]

8. Management turnover and staff transfers have been minimal

5 [ ]   4 [ ]   3 [ ]   2 [ ]   1 [ ]

9. **5 [ ]   4 [ ]   3 [ ]   2 [ ]   1 [ ]**

9. In what ways does the management affect the financial performance of your company?

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Appendix II: List of Property Management Companies in Kenya

	NAME	Tel No	Location
1	Accord Properties		
2	Adnoc Properties	3751330	Ojijo Road
3	Aebha Properties	7121575	Kitsuru Road
4	Africa Reit Ltd	2710320	Upper Hill
5	Anchor Investments Ltd	2222950	Interfina House Tom Mboya
6	Anglo African Property Holdings Ltd		
7	Apex Property Developers	2222950	Mfangano street
8	Anpemu Ltd	2020565	George Padmore Road
9	Amalgamated Properties Ltd	340666	Hughes Bldg Kenyatta Avenue
10	Ark Consultants Ltd	2726870 / 1	NAS Apartments Milimani
11	Austen Agency Ltd	444 5180	Karuna Road
12	Awi Enterprises Ltd	3751180	3rd Parkland Avenue
13	Baraka Housing Investments	2240622	Kirinyaga Road
14	Beshmon Ltd	2241223	Phoenix Hse Kenyatta Avenue
15	Bodo Holdings Ltd	550118	Mombasa Road
16	Bonage Properties Ltd	3744235	Ngara Road
17	Brick Court Ltd	4448455	BrickCourt Mpaka Road
18	Brixton Properties Ltd	4441402	Rhapta Road
19	Caanan Properties	559095	South 'B'South Gate Center
20	Capital Hill Towers Ltd	2712065	Cathedral way
21	Carnation Properties Ltd	3755070	
22	Casrom Commercial Agencies Ltd	783101	Buru Buru Arcade
23	Centenary Valuers & Property Consultants	2217536	Loita House 15th Floor
24	Chal Developers Ltd	787102	Mumias South Road
25	Castleland Property Consultants	2240622	Caxton Hse Koinange Street
26	Century properties Ltd	4451954/5/6	Ground Floor Purvi House
27	Chancery Properties Ltd	2213663	Rehani House 5th Floor
28	Chester House Ltd		
29	Chronicle Properties		
30	C K Shah & Others	375 14 49	
31	Citiscope Scope	2240084	Olympic House
32	City and Country Management	2714848	Hurlingham Theta Lane
33	City Development	312754	Armstrong Hse Kenyatta Avenue
34	City Estate Corp Ltd	2227601	Transnational Plaza 4th floor
35	Cleandeal Properties Ltd	2249037	
36	Colburns Holdings Ltd	3872236	Marakwet House
37	Contea Ltd	3867921	Ngong Road

	NAME	Tel No	Location
38	Crown Homes management	2737888/9	Unipen Apartments Hurlingham
39	Crystal Valuers Ltd	312023/4	Bruce House
40	Dodhan Properties Ltd	3747326	1st parklands avenue
41	Dunlop Industries Ltd	2252334	Hazina Towers
42	Elite Ventures Ltd	310896	Teleposta Towers
43	Farjax consultant	4450893/4	Westlands Arcade
44	Finkay Lease Services Ltd	2712122	Ralph Bunche Road
45	Fixed Abode Enterprises Ltd	318386	Norwich Union House
46	Florin Enterprises Ltd	2228289	Lengo House Tom Mboya Street
47	Fortune Properties Ltd	4442694	Sound plaza 4th floor Woodvale Groove
48	Gardregal(Kenya) Ltd	2240622	Harambee Plaza Uhuru Higway
49	Gimco Ltd		
50	Githere Investments Ltd	224 67 73	Uchumi House 8th Floor
51	Greenhills Investments Ltd	7122344	Village Market
52	Gimu Development(K) Ltd	34 12 53	Afya Centre 10th Floor
53	Guardian properties	2211325	Afya Centre 10th floor
54	Hass Consult Ltd	4446914	ABC Place Waiyaki Way
55	Henry management Ltd		
56	Hewton Ltd	4180612-7	Waiyaki way
57	Integer Ltd	2728965	Chancery building 1st Floor Valley road
58	International House Ltd	313833	International House 11th floor
59	Jaribu Holdings Ltd	2724014	Hurlingham Court
60	Jimly Properties Ltd	2242804	Contrust Hse 4th floor
61	Kahuho Holdings Ltd	882154/4450539	Andes Court or Waiyaki way
62	Kaiwi Agencies Ltd		
63	Kamuti Properties Ltd	607517	
64	Karume Investments Ltd	224 99 97	Cianda House 2nd Floor
65	Knight Frank Ltd	4440174/5/6,	Lion Place Waiyaki Way
66	Kugeria Investments Co Ltd	340660	Giwa House Moi Avenue
67	Kipsirgoi investment ltd	374 76 19	Ngara Road
68	Komassai Plantations Ltd	223 04 98	Gaturi Building Biashara Street
69	La Casa Development Ltd	3744923	
70	Le Buneei Diversy Ltd		
71	Lesmat Ltd	2221536	View Park Towers
72	Liberty Homes Ltd	4440975	AACC Hse Waiyaki Way
73	Lloyd Masika		
74	Lustman & Co(90) Ltd	2712113	Rose Avenue Argwings Kodhek Road
75	Manclean Management Ltd	311311	Hughes Building
76	M Gonella Co Ltd	376 52 03	
77	Metrocosmo Valuers Ltd	244218	Hughes Building
78	Mpaka Road Development Co	2224948	Vedic House

	NAME	Tel No	Location
	Ltd		
79	Mwangi Ben N	444 66 68	Old westlands Building
80	Munyaka Kuna Co Ltd	3162 01	Racecourse
81	Mugi Properties Ltd	2210805	Marsabit Flat Argwings kodhek
82	Metropolitan Investment Co Ltd	221 29 44	Continental Building 4th Floor
83	N W Realite Ltd	2728778	Jumuia Place II 1st Floor
84	Ninty Nine Enterprises	224 31 72	
85	Mosica Properties Ltd	310657	
86	Nairuti & Associates	8562236	Zimma mall Kabete Road
87	Neema Management Ltd	3864556	Kilimani Kirichwa Road
88	Nelleon Development Co Ltd	4449342	Nelleon place Rhapta Road
89	Neptune shelters Ltd	4451131/2	Mpaka Plaza Westlands
90	Nginyo Investments		
91	Ngummo Kenya Ltd	2245709	Fourway Towers
92	Opus Properties Ltd		
93	Ositum Investments Ltd	3747914	International Business Centre
94	Paramount Apartments	3743022	Muranag Road
95	Pega Services Ltd	2222135	Ruprani House 1st Floor
96	Pickwell Properties Ltd	2718898	State house Road
97	Pinnacle Properties Consultants	4451939	Waumini building 6th floor
98	Primelands Holdings		
99	Primrose Properties Ltd	3878057	
100	Prestige Estate Ltd	71201 39	
101	Proper Properties	2247354	Standard building 6th floor
102	Property Development & Management Ltd(PDM)	316122	IPS building 12th Floor
103	Property Memory Ltd	2214220	
104	Property World Ltd	4451290/1	2nd Floor Jetro Chambers,Mpaka Road
105	Prudential Real Estate Limited	2472011,	Shelter Afrique Center
106	Queensway Properties	2211793	Tom Mboya
107	Rameshchandra Properties ltd	3745028	Desai Road
108	Rank Global management Ltd	310277	
109	Raza Properties Ltd	3748741	Limuru Road
110	Real Management Ltd	226193	Twiga Towers
111	RealMast Limited	4440448	Bekim House westlands
112	Regal Plaza Ltd	3748741	Limuru Road
113	Regent Management	2734900	Regent House upper hill
114	Rial House Ltd	315254	Shankardas 5th Floor
115	Ricnel Properties	317384	
116	Rajdip Properties Ltd	444 04 50	
117	Robert Yawe	202214248	
118	Ring Kenya Ltd	224 48 73	

	NAME	Tel No	Location
119	Rial House Ltd	315254	
120	Ricnel Properties	317384	
121	Ridge Ltd	2718839	Hurlingam Shopping Centre
122	Rihal Investments Ltd	3746810	3rd parklands Avenue
123	Safari land Home Management	2219199	Meru South 3rd Floor
124	Sato Properties Ltd	3745360	Shamneel Court
125	Samji Kala Properties Ltd	67644 30	Forest Road
126	Seb Estates Ltd	312157	Anniversary Towers
127	Sheikh AG	2222077	Transnational Plaza
128	Shela House Management		
129	Shelter Investments	2221684	Posta sacco
130	Shelter Scanners Ltd	2244088	Jubilee Exchange
131	Shelter Properties	316177	Hughes Building
132	Shelter Solutions	2717426	Rose Avenue
133	Sielei Properties Ltd	4440711	Matundu lane
134	Skyhomes Enterprises	2712095	Golf Course Commercial Centre
135	Sparclyn Ltd	2211388	Bruce House
136	Stegic Enterprises Ltd	444 11 95	
137	Strategic property Management	315391	Commerce House 5th Floor
138	Suburbia Ltd	22415 55	Hughes Building
139	Tafuta Development Co Ltd	3751957	2246295
140	Tagaka Holdings Ltd	3751957	Lower Kabete Road
141	Tantalite Hodlings Ltd	8563605	Baba Dogo Road
142	Tazama Development co ltd	2245615	Uniafric House
143	Terestan Enterprises	2241758	Viewpark Towers
144	Thingira Muranga Ltd	2249140	
145	Thiomi Ltd	2710116	Liasion House
146	Ticali Ltd	651222	
147	Tsavo Road Trade Centre	2250826	
148	Tysons Ltd	2222011 /310660 / 310666 / 310884	Jubilee Insurance House
149	Twiga Properties Ltd	224 3616	Twiga Towers
150	Uganda Property Holdings Ltd		
151	Underwoods Ltd	2226731	Beaver House
152	Urban Chartered Properties Ltd	341952	Unifric House
153	Urban Properties Consultant & Developers	2241298	Kimathi House
154	Valley Hill Consult	22490 05	Luthuli House
155	Vapa Ltd	444 00 54	Ring Road
156	Venture Property Investment Kenya	3870100	Santack Estate Ngong Road
157	Venture Properties Lltd	2243807	Consolidated Bank
158	Villa Care	4447444	New Rehema House
159	Standard Shelters Ltd	4454285	Fedha Towers

	NAME	Tel No	Location
160	Villa Plus Ltd	2730186	Marcus Garvey Argwings Kodhek
161	Vision Investment Co Ltd	2215451	Vedic Hse 2nd floor
162	Waterways Africa Ltd	2727989	Milimani / Ralph Bunche
162	Myspace Properties(K) Ltd	722794457	
163	Karengeta Property Management	2059718	
164	Kenya Prime Properties Ltd	726341993	Shukrani House Outering Road
165	Legend Management ltd	2713445	NHIF Building 3rd Floor
166	Value Zone Ltd	317287	Ambank House 13th Floor
168	Vine Yard Properties Ltd	55 0287	
169	Vinodeep Investments Properties Ltd	535522	
170	Wathiomo K Co Ltd	6766089	