

**THE EFFECT OF CORPORATE GOVERNANCE PRACTICES ON
FINANCIAL PERFORMANCE OF SMALL-HOLDER TEA
COMPANIES**

BY

FRANCIS KIPKOECH LANGAT

**A RESEARCH PROJECT REPORT SUBMITTED IN PARTIAL
FULFILLMENT FOR THE REQUIREMENTS OF THE MASTER OF
BUSINESS ADMINISTRATION DEGREE, SCHOOL OF BUSINESS,
THE UNIVERSITY OF NAIROBI**

2013

DECLARATION

I declare that this project as is my original work and has never been submitted anywhere for a degree or qualification of the same in any other University

Signature Date

FRANCIS KIPKOECH LANGAT

D61/61064/2011

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

Signature Date

WINNIE NYAMUTE (MRS)

DEPARTMENT OF ACCOUNTING & FINANCE

SCHOOL OF BUSINESS, UNIVERSITY OF NAIROBI

DEDICATION

I dedicate this work to my dear Mother Mrs. Martha C. Bunei and Late Father Paul K. Bunei who, despite not having gone to School has/had a lot of respect for education, believed in my capabilities, gave me foresight and the determination to achieve. Their strong convictions continue to inspire me every new day.

ACKNOWLEDGEMENT

My first and foremost gratitude goes to the Almighty God for the strength, knowledge and good health the entire journey and life.

This work has been made possible through valuable and constructive guidance of my Supervisor Winnie Nyamute (Mrs) and Moderator Mr. Herrick Ondigo for his useful critique of this research project, not forgetting the wise counsel of the Chairman of the department Dr. Josiah O. Aduda.

I am also grateful to my colleagues, and employees at the University of Nairobi. I am sincerely grateful to all my instructors at the School of Business. Special thanks are due to the staff at the Department of Accounting and Finance.

I thank most sincerely the Factory Accountants of KTDA who took time to fill the study questionnaire and in so doing gave their invaluable contribution in the success of this research project.

Last but not least I extend profound gratitude to my beloved wife Janeth, son Ryan Cheruiyot and daughter Joy Chelangat for their caring support, encouragement; patience and understanding that enabled me scale the heights comfortably. And to them; “you are the reason behind this achievement”.

To all involved in this Project, I give a big “Thank You”. May God bless you abundantly!

ABSTRACT

The study sought and analyzed the effect of corporate governance practices on financial performance of small-holder tea factory companies is attributed to 60% of the Kenyan tea hence a major contributor to the economic mainstay. Corporate stewardship is believed to contribute to performance and more so financial performance. This study was therefore guided by the following specific objective: To determine the effect of corporate governance practices on financial performance of small-holder tea factory Companies.

Descriptive survey design was used to structure the research and by administering a structured questionnaire on the persons in charge of finance to the 27 randomly sampled respondents of the 54 small-holder tea factory companies in Kenya as at 31st December 2012, which formed the study population. From the sample of 27, 20 responded a response rate 74% of the sample size and 37% of the entire population. The response rate of 37% is considered adequate and is deemed representative of the study population of 54 factory companies. Data collected was analyzed to determine the correlation between corporate governance and financial performance.

Regression analysis model was used to evaluate various variables in respect of components of Board composition that reflected varying results. These are; Age of board members reflected negative $r=-0.217$, education level positive $r=0.227$, gender diversity positive $r=0.173$ and experience $r=0.000$ in correlation coefficients. From the analysis the overall model found a positive correlation although low in significance between corporate governance and financial performance. The study recommends that corporate governance is important and impacts financial performance.

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ABBREVIATIONS AND ACCRONYMS

BCBS	Basel Committee on Banking Supervision
CEO	Chief Executive Officer
CFA	Component Factor Analysis
CIFAR	Center for Intentional Financial Analysis and Research
CMA	Capital Markets Authority
EATTA	East Africa Tea Traders Association
GDP	Gross Domestic Product
IT	Information Technology
KTDA	Kenya Tea Development Agency
NGOs	Non-Governmental Organizations
NSE	Nairobi Securities Exchange
OECD	Organization for Economic Co-operation and Development
PCA	Principle Components Factor
PWC	Price Water House Coopers
SCDA	Special Crops Development Authority
SHTF	Small Holder Tea Factories
SPSS	Statistical Package for Social Sciences
TBK	Tea Board of Kenya
US	United States
USD	United States Dollars

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CHAPTER ONE: INTRODUCTION

1.1 Background of the study

The issue of corporate governance has been a growing area of management research especially among large, publicly listed firms. For small-holder tea factory companies, corporate governance is about the respective roles of the shareholders as owners and the managers (the directors and other officers). In small-holder tea factory companies, the resources, stewardship and control offered by directors for instance may be very different from and more direct than in large corporations. The limited studies in the area with respect to small-holder tea factory companies have focused mainly on developed economies (Eisenberg, Sundgren and Wells, 1998; Bennett and Robson, 2004). The issue is of critical significance given the important role small-holder tea factory companies play in the Kenyan economy. Small-holder tea factory companies have been noted to make major contributions to employment generation and foreign exchange earnings.

1.1.1 Corporate Governance Practices

Corporate governance is the process and structure used to direct and manage the business affairs of the company towards enhancing business prosperity and corporate accountability with the ultimate objective of realizing long-term shareholder value, whilst taking into account the interest of other stakeholders (Keasey, Thompson and Wright (1997). According to Keasey *et al.* (1997), corporate governance includes the structures, processes, cultures and systems that engender the successful operation of the organizations. Corporate governance is seen as the whole set of measures taken within the social entity (enterprise) to favor the economic agents to take part in the productive

process, in order to generate some organizational surplus, and to set up a fair distribution between the partners, taking into consideration what they have brought to the organization. The Cadbury Committee defines a governance system as “the system by which companies are directed and controlled” (Cadbury, 1992).

Corporate governance systems may be thought of as mechanisms for establishing the nature of ownership and control of organizations 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). 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). Metrick and Ishii (2002) view corporate governance from the perspective of the investor as “both the promise to repay a fair return on capital invested and the commitment to operate a firm efficiently given investment”. This suggests that corporate governance has an impact on a firm’s ability to access the capital market.

1.1.2 Financial Performance

Hervani, Helms and Sarkis (2005) noted that several studies have investigated the universal principle of performance measurement. These studies came up with a number of conclusions related to performance measurement and their systems, which include: performance measurement systems may have either tangible or intangible measures; measures should be dynamic and present at multiple levels; products and processes need

to be included; systems and measures are best developed with a team approach with derivation from and links to corporate strategy; systems must have effective internal and external communications; accountability for results must be clearly assigned and be understood; systems must provide intelligence for decision makers and not just compile data; systems should be capable of linking compensation, rewards and recognition to performance measurement.

Firm performance was developed by Zhu, Sarkis and Lai (2005) with a focus on environmental performance, economic performance and operational performance. In this case, environmental performance includes: reduction of air emission, reduction of waste water, reduction of solid wastes, decrease of consumption for hazardous/harmful/toxic materials, decrease of frequency for environmental accidents, and improvement in a company's environmental situation. Economic performance consist of: decrease of cost for materials purchasing, energy consumption, and fee for waste treatment, waste discharge, and fine for environmental accidents. For purposes of this study, the following measures for firm performance were considered: environmental performance; competitiveness; operational performance; and financial performance (Net Income for 2006, 2007, 2008, 2009 and 2010).

1.1.3 Effect of Corporate Governance on Financial Performance

According to James Wolfensohn former World Bank Group President, Corporate governance is about promoting corporate fairness, transparency and accountability (Financial Times, 1999). Governance is a requisite for survival and a gauge of how predictable the system for doing business in any country is. In developing countries, the importance of governance is to strengthen the foundation of society and chip into the

global economy. International standards and guidelines on corporate governance have been established by many multilateral organizations including the OECD and the Basel Committee in the effort to ensure improved legal; institutional and regulatory framework for enhancing corporate governance in institutions (Kibirango, 2002). It is worth highlighting that, insufficient financial disclosure evidenced by high level of off-balance sheet items, lack of transparency resulting from gross mismanagement and dubious accounting actions as observed in cases of ICB, GBL (Yunusu, 2001) and TransAfrica Bank Ltd (B.O.U., 2002) are detrimental to interests of firms stakeholders. The firm's capital, asset and earnings values are affected and as a result the financial performance is questionable. This may be due to poor corporate governance.

Transparency, disclosure and trust, which constitute the integral part of corporate governance, can provide pressure for improved financial performance. Financial performance, present and prospective is a benchmark for investment. The Mckinsey Quarterly surveys suggest that institutional investors will pay as much as 28% more for the shares of well governed companies in emerging markets (Mark, 2000). According to the corporate governance survey 2002, carried out by the Kuala Lumpur stock exchange and accounting firm Price Water House Coopers (PWC), the majority of investors in Malaysia are prepared to pay 20% premium for companies with superior corporate governance practices.

1.1.4 Small-holder Tea Companies

Kenya's attainment of independence in 1963 saw the passing of various Land Reform Bills which have had far reaching impact on agriculture. Tea growing for instance was made open to the local farmers. The crop has since spread across the country and is

currently an important economic mainstay for many small-holder farmers. There are about 530,000 small-scale tea farmers in Kenya producing 60% of the Kenyan tea (Tea Board of Kenya statistics, 2012) and who have traditionally and by law been under the control of Kenya Tea Development Agency (KTDA) and served by 54 factory companies. The small-holder independent tea factory companies are managed by KTDA through a contractual agreement as a management agency where the factories pay agency fees/commission at a predetermined rate for the management services. The management arrangement is for efficient production, processing and marketing of quality teas. The agency agreement covers; factory unit management services, sales and marketing, financial services and tea management and consultancy services.

1.2 Research Problem

Corporate governance has lately received much attention mainly within corporates. It is believed that stewardship of companies is vital to the performance of companies and hence better returns to shareholders. Corporate governance has become an issue of global significance (Donaldson, 2003). It has attracted worldwide attention because of its apparent importance for strategic health of organizations and society in general (Klein 2002). The importance of corporate governance practices cannot therefore, be understated as they are strong determinants in the survival or collapse of corporate bodies (Schilling, 2003). Improvement in corporate governance as found out by researchers such as Nam *et al* (2002) and Sanda *et al* (2005) results in improved performance. As a result, the need to strengthen corporate governance has become critical for promotion of sustainable development and self-dependence on the continent of Africa (Littlefield, 2003).

Transformation into self- sustaining organizations will mean the introduction of investors as major stakeholders in the industry which will increase the need for control and accountability (Wainaina, 2003). To attract capital flows, there is need for organizations to address the mechanism and ways of promoting corporate governance practices. If an organization does not have a reputation for strong corporate governance practices, capital will flow elsewhere, if investors are not confident with the level of disclosure, capital will flow elsewhere, and if a company opts for lax accounting and reporting standards capital will flow elsewhere (Knell, 2006). Despite the increasing awareness of corporate governance issues, little empirical studies exist on the corporate governance practices of small-holder tea factory companies in the emerging economies and their effect on financial performance. These empirical studies largely focused on developed economies with inconclusive results. Very little, however, has been done on corporate governance in Sub-Saharan Africa, especially with respect to small-holder tea factory companies.

A number of studies have been done on corporate governance practices for instance Tsamenyi *et al* (2007) observes that corporate governance studies in developing countries are limited and available only on an individual country basis. Studies related to corporate governance in Kenya include: A study by Manyuru (2005) on corporate governance and organizational performance of companies quoted in the NSE; Mutisya (2006) carried out a study on the relationship between corporate governance and financial performance of companies listed on the NSE; Kiamba (2008) surveyed the effect of corporate governance on financial performance of local authorities; Murage (2010) dealt with the relationship between corporate governance and financial performance of parastatals in Kenya; Ong'wen (2010) determined corporate governance and financial performance of

companies quoted in the NSE; Wandabwa (2010) studied the relationship between corporate governance and financial performance among broadcasting stations in Kenya; Kemei (2011) focused on corporate governance practices and performance of small scale tea processing companies in Kenya; Mwololo (2011) determined the relationship between corporate governance and financial performance of SACCos with front office services activity in Nairobi; Ombayo (2011) studied the effect of corporate governance on firm's financial performance, a case study of companies listed on the NSE; while Chirchir (2012) focused on the relationship between corporate governance and firm performance in the case of NSE.

It is clear from the above that most studies have focused on listed companies at the Nairobi Securities Exchange. Only one (Kemei, 2011) of the above studies addressed corporate governance practices and performance of small-holder tea factory companies in Kenya. The study however looked at the corporate governance practices and performance measurement factors that included; financial, customers and people, internal processes, innovation, learning and growth and quality. There is need to find out if financial performance of the small-holder tea factory companies is associated with the corporate governance practices of the factories. This study therefore attempted to determine the effect of corporate governance's component of Board's Composition specifically on financial performance as a parameter intending to bridge this gap in knowledge. Financial performance being critical in the survival of companies, thus this study sought to shade light on the effect of corporate governance on financial performance of small-holder tea factory companies, a sub-sector which is one of the major contributors to the Kenyan economy and was guided by the following research question: How do corporate

governance practices impact on financial performance of small-holder tea factory Companies?

1.3 Research Objective

The main objective of the study was to determine the effect of corporate governance practices on financial performance of small-holder tea factory Companies.

1.4 Value of the Study

The findings of this study, it is hoped, will be beneficial to various key stakeholders as discussed in the subsequent sections.

The **Small-holder Tea Factory companies** in Kenya will gain a better understanding of the key components of corporate governance framework that would facilitate successful organizations. Specifically, they will be able to understand the benefits derived from adoption of corporate governance by the small-holder tea factory companies. On the basis of the findings of the study, the small-holder tea factory companies in Kenya will implement corporate governance practices from a point of knowledge.

The **Small-Holder Tea Sector Policy makers** will gain insight of the crucial areas of support amongst small-holder tea factory companies that would facilitate adoption of effective corporate governance practices for improved financial performance.

The interdependent relationship between corporate governance in small-holder tea factories and their financial performance is a relatively new and unexplored concept. The **Academic world** should definitely consider the enormous potential of this strategic intersection. The study will make a significant contribution to the growing body of

research in support of adoption of corporate governance by small-holder tea factory companies.

The findings may also be used as a source of **reference for other researchers**. In addition, academic researchers may need the study findings to arouse further research in this area and as such form a basis of good background for further researches.

CHAPTER TWO: LITERATURE REVIEW

2.1 Introduction

In order to address the aim of the research, it is of importance to have established a sound literature base around which the study was built. This chapter presents a review of literature pertinent to the study as presented by various researchers, scholars' analysts and authors. Past studies are important as they guide the researcher on other studies done on the same. The review has been undertaken in order to eliminate duplication of what has been done and provide a clear understanding of existing knowledge base in the problem area. The literature review is based on authoritative, recent, and original sources such as journals, books and academic projects.

2.2 Theoretical Framework

Previous empirical studies have provided the nexus between corporate governance and firm performance (Claessens et al. 2002; Klapper and Love, 2002; Gompers et al. 2003; and Sanda et al. 2003). Others like (Bebchuk and Cohen, 2004; Becht et al, 2002) 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. There is a view that larger boards are better for corporate performance because they have a range of expertise to help make better decisions, and are harder for a powerful CEO to dominate. In recent times on the contrary, emphasis has geared towards smaller boards. Jensen (1993) and Littlefield et al (1992) contend that large boards are less effective and are easier for a CEO to control. The reason is that when a board get too big, it becomes difficult to co-ordinate and

process problems. Theoretical foundations for the present research in corporate governance come from the classic thesis, “The Modern Corporation and Private Property” by Berle and Means (1932). The thesis describes a fundamental agency problem in modern firms where there is a separation of ownership and control. Since the seminal work by Berle and Means (1932), different theories have been propounded in explaining the corporate governance issue. These include the agency theory, the stewardship theory, the resources dependence theory, and the stakeholder theory.

2.2.1 The Agency Theory

Jensen and Meckling (1976) define agency relationship and identify agency costs. Agency relationship is a contract under which “one or more persons (principal) engage another person (agent) to perform some service on their behalf, which involves delegating some decision-making authority to the agent”. Conflict of interests between managers or controlling shareholder, and outside or minority shareholders refer to the tendency that the former may extract “perquisites” (or perks) out of a firm’s resources and less interested to pursue new profitable ventures. Agency costs include monitoring expenditures by the principal such as auditing, budgeting, control and compensation systems, bonding expenditures by the agent and residual loss due to divergence of interests between the principal and the agent. The share price that shareholders pay reflects such agency costs. To increase firm value, one must therefore reduce agency costs. This is one way to view the linkage between corporate governance and corporate performance. Fama (1980) aptly comments that separation of ownership and control can be explained as a result of “efficient form of economic organization”.

The aim of corporate governance is to align, as much as possible, the interests of individuals, corporations and society. Attempting to achieve that objective raises a conflict of interest within the relationships, among the different parties identified above. This conflict is known as the principal-agency problem (Rossouw, 2009). McGuigan *et al.* (2006) describe the principal-agency problem as a situation where there is conflict between the interest of the stockholders and that of management. The interest of shareholders is to maximize shareholder wealth as the primary goal of the corporations; however, not all management decisions are consistent with this objective. This creates the agency problem in the relationship between management and owners of the entity since the principals (shareholders) often delegate the decision-making authority to the agent (management).

The Agency theory was extensively analyzed by Jensen and Meckling (1976) although its root can be traced to Smith (1776) and Berle and Means (1932). Smith explained that due to the nature of joint stock companies, where there are many owners (shareholders, directors should be appointed to manage the company on their behalf. The shareholders are referred to as the principals while the directors are the agents. This kind of arrangement has resulted to agency problem in modern firms where there is a separation between management and ownership and the question is how to ensure that managers follow the interests of shareholders in order to reduce cost associated with principal-agent theory. To do that, the principals have to deal with two-problems. First, they face an adverse selection problem: that is, they must select the most capable managers. Second, they are also confronted with a moral hazard problem: that is how to adequately motivate

the managers to put forth the appropriate effort and make decisions aligned with shareholders' interests (Berle and Means, 1932).

2.2.2 The Stewardship Theory

Davis, Schoorman & Donaldson (1997) developed the stewardship theory of management as a counter strategy to the agency theory. According to Olson (2008), the stewardship theory of management and the agency theory have both focused on the leadership philosophies adopted by the owners of an organization. He states that in nearly all organizations, an owner or principal runs and manages the business and eventually passes responsibility of the organization to a manager or agent who looks after and runs the organization. Olson (2008), points out to a critical decision the owner has to make as to how much authority and control he/she gives to the managers. The agency and stewardship theory of management explore this decision and examines the set of assumptions that the owner has regarding the manager, as well as, the effect those assumptions have on their decision making.

The stewardship theory suggests that managerial opportunism is not relevant (Donaldson and Davis, 1991; Muth and Donaldson, 1998). The aim of management is to maximize the firm's performance since that speaks of the success and achievements of management. Donaldson and Davis (1991) argue that managerial opportunism does not exist because the manager's main aspiration is "to do a good job, to be a good steward of corporate assets". This clearly replaces the lack of trust to which the agency theory refers with the respect for authority and inclination to ethical behavior.

Schoorman & Donaldson (1997) defined a series of factors that describe the management philosophy of stewardship and they include: trust, open communication, empowerment, long-term orientation and performance enhancement. The dimension of trust is essential to building the type of relationships necessary to make stewardship work and is consistent with the work done by Mayer (1992).

2.2.3 The Resources Dependence Theory

The resource dependence approach, developed by Pfeffer (1973) and Pfeffer and Salancik (1978), emphasizes that non-executive directors enhance the ability of a firm to protect itself against the external environment, reduce uncertainty, or co-opt resources that increase the firm's ability to raise funds or increase its status and recognition. Firms attempt to reduce the uncertainty of outside influences to ensure the availability of resources necessary to their survival and development. The board is hence seen as one of a number of instruments that may facilitate access to resources critical to company success. There are four primary types of broadly defined resources provided by boards of directors. These are: (i) advice, counsel, and know-how; (ii) legitimacy and reputation; (iii) channels for communicating information between external organizations and the firm; and (iv) preferential access to commitments or support from important actors outside the firm (Pfeffer and Salancik, 1978). This resource role is played by board of directors mainly through their social and professional networks (Johannisson and Huse, 2000), and through interlocking directorates (Lang and Lockhart, 1990).

An organization can manage increasing dependency by adapting to or avoiding external demands, by executing the following Resources Dependence Theory (RDT) strategies: the first being altering organizational interdependence through integration, merger and

diversification; by secondly establishing collective structures to form a negotiated environment; and using legal, political or social action to form a created environment (Pfeffer & Salancik, 1978). Much of RDT is fixed upon Emerson's (1962) insight that power and dependency are intimately related as, Pfeffer & Salancik (1978) suggested and argued for specific sets of strategies to manage the external environment and discuss the conditions under which they are appropriate.

2.2.4 The Stakeholder Theory

The stakeholder approach considers the provision of resources as a central role of board members. The main resource stakeholder proponents refer to is consensus. According to this view, the board should comprise representatives of all parties that are critical to a company's success. This will result in the firm's ability to build consensus among all critical stakeholders. The board of directors is hence seen as the place where conflicting interests are mediated, and where the necessary cohesion is created (Donaldson and Preston, 1995; Luoma and Goodstein, 1999). 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. The representation of all stakeholder groups on boards is therefore necessary for effective corporate governance.

In spite of these arguments, there is a global concern for the application of corporate governance to SHTF. It is often argued that similar guidelines that apply to listed companies should also be applicable to SHTF. The ongoing tendency toward improving

board functions within publicly listed firms will extend to firms by mimicry and institutional pressures (Corbetta and Salvato, 2004). John and Senbet (1998) provided a comprehensive review of the Stakeholder theory of corporate governance. The main issue raised in the theory is the presence of many parties with competing interests in the operations of a firm. They also emphasized the role of non-market mechanisms such as the size of the board, committee structure as important to firm performance; Jensen (1993) critiques the Stakeholder theory for assuming a single -valued objective. They thus, propose an extension of the theory called an enlightened stakeholder theory. However, problems relating to empirical testing of the extension have limited its relevance and applicability in a modern day corporate entity (Sanda et al., 2003).

2.3 Components of Corporate Governance

The present empirical literature on corporate governance of organizations focuses on a number of factors including board size and composition, separation of ownership and control, independence of board of directors/management committee, and financial reporting and disclosure. This study will focus on the corporate governance aspect of Board composition in respect of; Ages of Board Members, Gender, Level of Education and their Experience.

2.3.1 Age Diversity of Board members

Within the firm as a whole, many corporations have already enshrined age diversity as a goal or as stated policy. In the UK, the first Code of Practice on Age Diversity in Employment was written in 1999 and provides a voluntary set of measures to improve the fairness and performance of the company across six topics: recruitment, selection,

promotion, training and development, redundancy and retirement. According to results from the UK drive towards greater age diversity, firms who are positive report higher staff morale, higher productivity and access to a wider customer base (Department for Work and Pensions, 2002). These topics and reports map to all three of the paradigms we have examined (discrimination/fairness, access/legitimacy and learning/effectiveness), of which we are particularly interested in the latter two - the ones most closely linked with the resource dependency theory and positive reports. These latter paradigms require more than statistical fulfillment of diversity quotas within the corporation.

Hong and Page (2004) applied a mathematical model to prove that “diversity trumps ability”, but this model disregarded the learning component and examined only a snapshot in time. Nevertheless, given a heterogeneous group of people and a hard problem - hard being defined as beyond the ability of any one person to solve - their model predicts that a random selection of problem-solvers will be more efficient than a similarly sized selection picked for having top scores in a relevant test. Their result rests upon the idea that as the population from which to choose grows, the top scoring problem-solvers will become more and more similar, causing the random selection to be more and more diverse, which improves the ability for decision making.

In particular, it would seem that age diversity is most helpful when the task at hand is of complex character. In a study performed by Wegge et al. (2008), the effect of age diversity upon performance was examined. Reviewing previous studies on age and gender diversity, they found the familiar mixed results. Based upon this they theorised that the complexity of the task could have a moderating effect upon the influence of diversity. Various theoretical frameworks from work psychology give reasons why

diversity could have negative as well as positive influences - the similarity-attraction and social identification models (the desire of the individual to emulate and become part of the group) both predict negative effects of diversity while the model for decision making in teams make the opposite predictions. Wegge et al. (ibid.) speculate that which one of these conflicting effects will be dominant depends upon the *task complexity*, defined as strong demand for complex decision making.

A field study was then conducted by Wegge et al. (ibid.) on work groups amongst some 4000 employees in the public sector. Age heterogeneity improved the ability of groups to solve tasks with high complexity. For groups working on simple tasks, however, age heterogeneity increased the number of self-reported health problems - which in turn indicates that groups of diverse ages should be utilised particularly for innovation or solving complex problems. We believe that these results can be extended to the board of a public company, considering the tasks at hand involve complex decision making. Wegge et. al (ibid.) further explain some of the positive results of age diversity as being the result of extended job tenure of the participants. Of course, in order to extend job tenure it is necessary to start early and stay around. The only empirical study of the relationship between age diversity on the board of directors and firm performance is McIntyre et al. (2007). Their review of relevant literature on the role and function of the board particularly notes the increasing use of organizational behavior theory to predict board function and improve board processes. From this they argue that governance research should concentrate on “creating and testing a theoretically sound model of Board effectiveness, rather than trying to relate team attribute variables to firm performance” (ibid., p550). McIntyre et al. (ibid.) hypothesize that a firm’s performance will be lower

in the case of low or high variation in the ages of directors than in the case of moderate variation, and that performance will also increase with the average age of directors.

2.3.2 Education Background of Board Members

Director's educational qualifications are central to effectively interpret and utilize the information generated by the management of particular types of business enterprise. Educational qualification is potentially important since the ability to seek and interpret appropriate information is essential for the efficient operation of the modern corporation and the effective control or guidance of management by boards of directors. Educational qualification affects the oversight and monitoring role of boards of directors (Gantenbein & Volonte, 2011).

Board of directors is vested with the responsibility of ensuring that the shareholders' money is not wasted, shareholders have a serious interest in ensuring that the board is staffed with well-educated and experienced directors (Gantenbein & Volonte, 2011). The human capital provided by its board of directors is vital given the corporate board is one of the mechanisms for overseeing the firm and it can arguably provide the knowledge needed to function in the new environment. Personal profile factors of directors such as education and experience is important for board efficiency.

2.3.3 Gender Diversity of Board Members

The gender diversity of board of directors and top management teams has attracted the interest of researchers in the past two decades. Compared to the diversity of other demographic attributes, gender diversity appears to be the most widely addressed in the literature (Erhardt et al., 2003). In numerous studies in the management, organization

science and psychology literature, scholars have examined the relationship between gender diversity and various aspects, such as managerial advancement (Tharenou et al., 1994), management style (Eagly et al., 2003; Rigg and Sparrow, 1994), occupational merit (Lobel and Clair, 1992), occupational pressures (Granleese, 2004), personal networks (Ibarra, 1993), and board effectiveness (Nielsen and Huse, 2010). In the accounting literature, previous studies have addressed the association between gender diversity and accounting earnings quality (Krishnan and Parsons, 2008; Ye et al., 2010), social responsibility (Coffey and Wang, 1998; Siciliano, 1996), and intellectual capital performance (Van der Zahn (2004)).

When gender diversity is associated with financial performance, prior studies show contradicting results. Based on a sample of US firms, researchers found that the proportion of women on the board is positively related to market performance based on Tobin's Q (Carter et al., 2003). Using accounting-based performance, a positive association is found between ROA and the fraction of women on the board (Erhardt et al., 2003). Addressing the fraction of female proportion in management teams, Krishnan and Park (2005) and Shrader et al. (1997) also indicated similar results. In contrast, Adams and Ferreira (2009) indicated that the percentage of women on the board of directors has a negative relationship with both Tobin's Q and ROA. From outside the USA, evidence of positive associations between the proportion of women in boardrooms or management teams and firm performance is provided by studies using samples of firms in Canada (Francoeur et al., 2008), Denmark (Smith et al., 2005), and Spain (Campbell and Minguez-Vera, 2008). Different results are suggested by Bohren and Strom (2007), which find that female representation on the board is negatively related to Tobin's Q,

based on Norwegian data. Indeed, some studies have failed to find a significant association between female proportion and financial performance. Using a sample of Scandinavian firms, Randoy et al. (2006) found that the proportion of women on the board has no significant association with either accounting or market performance. Eklund et al. (2009), Marinova et al. (2010), and Rose (2007) indicated similar results.

In addition, there are also a growing number of studies that link gender diversity and firm profitability or financial performance. These studies, however, have been conducted in the context of a few developed economies, such as the USA (Adams and Ferreira, 2009; Krishnan and Park, 2005), Canada (Francoeur et al., 2008), Spain (Campbell and Minguez-Vera, 2008), The Netherlands (Marinova et al., 2010), and Denmark (Smith et al., 2005). While these studies focus only on gender diversity, other studies have focused on gender diversity along with other demographic attributes, such as race or ethnic background (Carter et al., 2003; Erhardt et al., 2003; Richard et al., 2004), nationality (Randøy et al., 2006), and age (Kilduff et al., 2000). Such studies in the context of developing economies are very rare. Hence, this study contributes to the literature by examining the link between gender diversity and financial performance for a developing economy that has a different economic and cultural environment to developed economies. This study investigates the association between gender diversity on the board of management and the financial performance. Empirical evidence reveals that the ratio of women on the top management team is negatively related to financial performance, providing evidence that the presence of female top executives does not necessarily improve firm value.

2.3.4 Business Management Experience

Business management experience of directors enables them to have better knowledge and understanding about business and enable to contribute effectively in the decision making process as well as in effectively monitoring the activities of management (Saat et al., 2011). Directors need to be competent and capable of understanding the business operation. Kroll, et al (2008) found that boards rich in appropriate experience are associated with superior returns. He argues that boards comprising directors with appropriate knowledge gained through experience can be not only better monitors, but also more useful advisors to top managers. According to Castanias et al. (2001) differences between firms in the human capital of boards of directors are related to differences in strategic actions and performance. However, empirical studies examining the effect of business experience of board members on firm performance is scarce.

Appointing directors with related and relevant skills and knowledge to perform task specific duties such as the firm's internal control and procedures will enhance the quality of information gathered and the solution to problems and of the views held and judgments made during the decision-making process (DeZoort, 1998 as cited by Saat, et al, 2011). Directors' specialist knowledge will be valuable to the creation of a strong and informed board (Saat et al., 2011). He claimed that experience of directors enables them to guide, steer and monitor the firm more effectively. In other words, their knowledge of the industry, its opportunities and threats and their connections to the industry participants based on their experience enables them to contribute substantively in the firm performance. However, empirical studies examining the effect of business management

and industry specific experience of board members on firm performance is scarce in the literature.

2.4 Measurement of Financial Performance

According to Harrington (1991), financial and non-financial measurements are fundamental tools of control and management. If management cannot measure it, management would not be able to control it and if it cannot control it, then management cannot manage it. If management cannot manage, then it is impossible for management to improve anything. An organization's measurement system strongly affects the behaviour of people both inside and outside an organization. Therefore, if companies are to survive and prosper in the information cut-throat competition age, they must use measurement systems derived from their strategic plans and capabilities (Kaplan, 1996). List (2000) refers to the shortcomings of the performance measurement systems by pointing out that business processes are not measured systematically and that business process performance measurements are often neglected. Where such is done, performance measurements take place at department or business unit levels and not at the level of all processes in the entire organization.

Measuring firm performance using accounting ratios is common in the Corporate Governance literature Demaetz and Lehn, (1985), Ang *et al* (2000), in particular, return on capital employed, return on assets, and return on equity. Similarly, economic value added can be as an alternative to purely accounting- based methods to determine shareholder value by evaluating the profitability of a firm after the total cost of capital, both debt and equity are taken into account (Copeland et al, 1995). Other measures of

financial performance in profit making organizations are Capital adequacy, Asset quality, Management, Earnings and Liquidity which are commonly known as CAMEL Model. The current study on Small-holder Tea Factory Companies will measure Financial Performance in terms of Actual revenue/budgeted revenue ratio (Revenue Collection Ratio), Actual Expenditure/budgeted expenditure ratio (Expenditure Ratio) and Actual revenue/ actual expenditure (Efficiency -Value for money ratio).

Performance measures help in achieving and fostering controls. According to Kaplan & Atkinson (1998), control refers to the tools and methods that organizations use to keep on track in terms of achieving their objectives. The process of control involves setting a performance target, measuring performance, comparing performance against that target, computing the difference (variance) between measured performance and the target, and taking action in response to the variance. There are two main reasons for the widespread use of financial performance measure as a tool to measure performance. The first reason is profit, because profit articulates directly with the organization's long-term objectives which are almost always purely financial. The second reason is that properly chosen financial performance measures provide an aggregate view of an organization's performance (Thomsen, & Pedersen, 2000).

2.5 Empirical Review

This section considers various empirical studies conducted as well as related literature to establish the effect of Corporate Governance on financial performance. Cornforth (2001) carried out a survey of charity boards in England and Wales and examined what influence board inputs, structures and processes have on Board Effectiveness. The findings

suggested that board inputs and three process variables are important in explaining board effectiveness, namely: board members have the time, skills and experience to do the job; clear Board Roles and responsibilities; the board and management share a common vision of how to achieve their goals; and the board and management periodically review how they work together.

Herman and Renz, (2000) asserts that little research on the relationship between board effectiveness and organizational performance has been done. There was a positive relationship between board effectiveness and organizational performance (Zahra, 1991). Masibo (2005) and Namisi (2002) revealed results that are consistent with earlier studies above that there was a positive relationship between board effectiveness and firm performance in listed profit making firms in Uganda. In nonprofit making organizations there were similar results that a positive relationship existed between board effectiveness and organizational performance (Jackson & Holland, 1998) and (Herman & Renz, 2000).

Locally, several studies have been done on the effect of corporate governance on organizational 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) studied 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 team to increase the level of disclosure also lowers the information asymmetry between managers and shareholders and lowers 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.

2.6 Summary of the Literature Review

Good Corporate governance is of utmost significance in all organizations irrespective of size or stage and/or level of growth or industry. It is argued that good corporate governance sets the ‘Tone at the Top’ which in turn impacts what transpires at the lower levels of the organization.

Most researchers conducted are on large organizations and largely ones that are public corporations. No known researchers have researched on a direct link between Corporate Governance and financial performance in the small-holder tea sub-sector. This study intended to bridge this gap in knowledge by establishing the effect corporate governance has on financial performance in the small-holder tea industry especially corporate governance component of Board’s composition.

CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Introduction

This chapter articulates methodology for the research. In the previous chapter, literature pertaining to the study was reviewed, the theories and models used when conducting the study were discussed and research gaps identified. This chapter discusses the criteria for determining the appropriate methodology for the study. The chapter explains the design of research, population of the study, data collection instruments used, the procedure used in data collection, analysis and presentation.

3.2 Research Design

This study adopted a descriptive survey design. Churchill (1991) contends that the descriptive survey design is appropriate where the study seeks to describe the characteristics of certain groups, estimate the proportion of people who have certain characteristics and make predictions. The study collected information on the effect of corporate governance practices on financial performance of small-holder tea factory companies. According to Mugenda and Mugenda (1999) the purpose of descriptive research is to determine and report the way things are and it helps in establishing the current status of the population under study. The design was chosen for this study due to its ability to ensure minimization of bias and maximization of reliability of data collected.

3.3 Population

Cooper and Schindler (2005) define a population as the total collection of elements about which the researcher wishes to make some inferences. Zikmund (2003) defines a population as “a complete group of entities sharing some common set of characteristics”.

The population of this study was all registered small-holder tea factory companies managed by Kenya Tea Development Agency, whose number stood at 54 as at 31st December, 2012.

3.4 Sample

A sample of 27 factory companies was selected using simple random sampling technique representing 50% of the entire population. A big sample was used to ensure that with only 18 respondents submitting their response to the researcher, which is 33% of the population and 67% response success rate on the sample; it will meet the threshold requirement for a sample to be deemed representative of the entire population.

3.5 Data Collection

The study relied on both primary and secondary data. A structured questionnaire was used to collect the primary data. The questionnaires are preferred in this study because respondents of the study, Head of Finance/ Factory Accountant at Factory Company unit are literate and quite able to answer questions asked adequately. The instrument contained a mix of questions, allowing for both open-ended and specific responses to a broad range of questions.

The questions were intended to elicit respondents' position on Board's composition in respect of Ages of board members, their education level, gender diversity and experience and the relationship of each variable with financial performance. Financial performance was represented by ROA, which is Net Incomes divided by Total Assets for five financial years between 2007/2008 – 2011/2012. This information was sourced from published financial statements of respective tea factory companies.

The researcher administered the questionnaire to 27 respondents targeted for this study out of which 20 responded. Secondary data was gathered from library material, and various internet search engines covering the effect of corporate governance practices on financial performance.

The researcher obtained an introductory letter from the University to that facilitated collection of data from the small-holder tea factory companies. The researcher posted the questionnaire to the targeted respondents and monitored their response rate by telephoning them to encourage them fill the questionnaire and post back to the researcher. The method was adopted due to the geographically distributed nature of factory companies. Only the person in charge of finance/factory Accountant was the respondent in this study. The same person provided approved financial statements' information for the period under review.

3.6 Data Analysis

After administering the questionnaire, coding was done and the data converted into numerical codes for statistical analysis. Statistical Package for Social Sciences (SPSS) version 20.0 was used for data analysis. Descriptive statistics was computed for all the variables to ensure quality of data. The result from the sample was used to generalize the population. Regression is the main tool used in measuring the relationship between the dependent variable and the independent variable. Correlation was used to measure the significance level of the relationship.

3.6.1 The Analytical Model

After the study, the four aspects Board Composition as a factor of corporate governance that may affect financial performance of small-holder KTDA managed tea factory companies was reduced to three variable. The following model has been rewritten to reflect the findings of the study. The regression equation will take the following reduced form:

$$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \varepsilon \dots \dots \dots i$$

Where:

Y = Financial Performance represented by Return on Assets (ROA), that is Net Income/ average Total Assets.

X_1 = Education of Board members

X_2 = Gender Diversity of Board members

X_3 = Experience of Board members

ε = Error term

The measure of the dependent variable is determined by the financial performance of the factories in time, transparency and accountability. The dependent variable in this case is denoted as Y and is a representative of the organization's financial performance represented by Return on Assets. The expected relationship is that better governance structures enhance the small-holder tea factory companies' capability to improve financial performance and enhances accountability. The tests were conducted at 95% level of confidence ($\alpha=0.05$).

3.6.2 Data Reliability and Validity

Validity indicates whether the items measure what they are designed to measure (Borg and Gall 1989). The study used content validity to examine whether the instruments answer the research questions. Adjustments and additions to the research instrument consultations and discussions with the supervisor were done to establish content validity.

Instrument reliability is the dependability, consistency or trustworthiness of a test. Cronbach's Coefficient Alpha approach was used to measure internal consistency of the research instruments. This approach is recommended by Cohen, Manion and Morrison, (2007) for its ability to give average split-half correlation for all possible ways of dividing the test into two parts. Cronbach's Coefficient Alpha is a scale measurement tool appropriate in measuring internal consistency in descriptive survey researches.

The study employed close monitoring of data collection process to ensure that the unintended people do not fill the questionnaire.

CHAPTER FOUR: DATA ANALYSIS, RESULTS AND DISCUSSION

4.1 Introduction

This chapter focuses on the analysis and interpretation of data that was collected for the study on corporate governance and financial performance. According to De Vos (2008), data analysis entails the analyst breaking down data into constituent parts to obtain answers to research questions and to test hypotheses. The analysis of research data does not in its own provide the answers to research questions. The purpose of interpreting the data is to reduce it to an intelligible and interpretable form so that the relations of research problems can be studied and tested, and conclusions drawn. When the researcher interprets the research results, he/she studies them for their meaning and implications.

The sample size consisted of 27 respondents, 20 questionnaires were returned, hence return rate of 74%, and 37% of the targeted population. The respondents, Factory Accountants, completed the specially designed questionnaire largely based on the Likert Scale. The SPSS Version 20.0 was used by the researcher to analyze the data.

4.2 Descriptive Analysis

4.2.1 Age Bracket Distribution of the Board Members

The age bracket of board members was analyzed. The findings revealed that 95% of the board members are between 41-50 years while only 5% are 51 years and above. None of the current respondents' sample population board members is below 40 years. The results are presented in Table 1 below.

Table 1: Age Bracket Distribution

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	41-50 yrs	19	95.0	95.0	95.0
	51 yrs and above	1	5.0	5.0	100.0
	Total	20	100.0	100.0	

4.2.2 Voters Age Consideration of the Board Members

With regard to voters' consideration of board member's age during voting, it is evident that most voters consider age when electing board members. This is according to the findings results that 55% of the respondents believe that voters consider age while 45% believe that it is not always the case. The small variation means that age is not a determining factor for qualification according to the voters. Table 2 below reveals the findings.

Table 2 : Voters Age Consideration Distribution

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	yes	11	55.0	55.0	55.0
	no	9	45.0	45.0	100.0
	Total	20	100.0	100.0	

Sources: Survey 2013

4.2.3 Age of Board Member and its Effect on Financial Performance

Respondents were asked to indicate the extent at which age of the board member can affect financial performance of their organization. From the findings, it is believed that age can affect at a moderate extent the financial performance of the organization. This is evident by 45% who believed that age affects moderately, 25% great extent while 30% believe that it has no effect. This means that age could not be the overall determinant of the financial performance of the board members. Table 3 below shows the findings.

Table 3: Board Members' Age and its Effect on Financial Performance Distribution

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid great extent	5	25.0	25.0	25.0
moderate extent	9	45.0	45.0	70.0
no extent	6	30.0	30.0	100.0
Total	20	100.0	100.0	

Source: Survey 2013

4.2.4 Opinion on Younger Average age on Financial Performance

Respondents were asked to give their opinion regarding the possibility of younger age average of the board members could increase financial performance of the company. The results show that a younger age average could increase financial performance of the company as evident by 95% of the respondents. Only 5% was of the contrary that it does not increase. This could mean that the mixture of the board members' age both old and young could assist in increasing financial performance. Table 4 below shows the results.

Table 4: Younger Average Age of Board Members and Financial Performance

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid yes	19	95.0	95.0	95.0
no	1	5.0	5.0	100.0
Total	20	100.0	100.0	

Sources: Survey 2013

4.2.5 Board Members Education Background

A check on the educational background of the board members reveals that most of the board members reached diploma level of education as indicated by 70% of the respondents. 25% reached certificate level and only 5% reached a degree level. This can

be concluded to show that most of the board members could do the basic management functions of the board and can guarantee financial performance of the company.

Table 5: Education Background of Board Members

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Certificate	5	25.0	25.0	25.0
	Diploma	14	70.0	70.0	95.0
	Degree	1	5.0	5.0	100.0
	Total	20	100.0	100.0	

Sources: Survey 2013

4.2.6 Board Members' Education and its Effect on Financial Performance

Education of the board members is a vital factor which can affect financial performance of the company. Respondents were asked to indicate the extent at which education of the board member can affect financial performance of their organization. From the findings, it is believed that education can affect at a very great extent the financial performance of the organization. This is evident by 55% who believed that education affect at a very great extent, 25% great extent while 20% believe that it has moderate extent. This means that education is the most determining factor of the financial performance of the board members. Table 6 below shows the findings.

Table 6: Board Members' Education and its Effect on Financial Performance

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Very great extent	11	55.0	55.0	55.0
	great extent	5	25.0	25.0	80.0
	moderate extent	4	20.0	20.0	100.0
	Total	20	100.0	100.0	

Sources: Survey 2013

4.2.7 Board Members' Education and Capabilities to Overcome Challenges

Board members capability to overcome challenges of monitoring financial performance in the organization was analyzed. The findings reveal that education of the board members could in a great extent help in overcoming monitoring of financial challenges in the organization as indicated by 55% of the respondents. 15% believe that it very greatly affect while 30% believe that it has a moderate effect. Table 7 shows the findings.

Table 7 : Board Education Background and Capabilities to Monitor Financial Performance Challenge

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	moderate extent	6	30.0	30.0	30.0
	great extent	11	55.0	55.0	85.0
	very great extent	3	15.0	15.0	100.0
	Total	20	100.0	100.0	

Sources: Survey 2013

Also communication and coordination problem was analyzed to find the reflection of board members education background. The findings revealed that education background help board members to overcome communication and coordination problems as provided by 50% of the respondents. 30% believe it has a very great extent while 20% said that it has a moderate extent. This means that for board members to communicate and coordinate activities, they have to get basic education. Table 8 shows the findings.

Table 8: Board Education Background and Capabilities to Overcome Communication and Coordination Challenges

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	moderate extent	4	20.0	20.0	20.0
	great extent	10	50.0	50.0	70.0
	very great extent	6	30.0	30.0	100.0
	Total	20	100.0	100.0	

Source: Survey 2013

4.2.8 Extent to which Board Education can handle Company Activities

Respondents were asked to indicate the extent to which board education can handle company activities outlined. The results are presented in Appendix I below.

From the Table in Appendix I it is evident that board education has an impact in discharging company activities as outlined in the table. The ability to review financial statements prepared by the top management is directly linked to education background of the board members. 45% of the respondents agree to the statement. The ability to review the cash flows is also linked to the education as indicated by 35% neutral, 30% agree and 25% strongly agree.

The board's ability to monitor strategic decision made by the top management is also influenced by board education as indicated by 30% and 25% agree and strongly agree respectively. Moreover, the ability of the board to evaluate performance of top management on a regular basis is not linked to education as shown by 50% of the respondents who disagree to the statement. Generally most of the respondents agree to the statement that board education capabilities can handle most of the company activity.

4.2.9 Women Composition in the Board

The findings from the analysis reveal that most of the companies have 11-20% women representatives in board as indicated by 80% of the respondents. However few companies have less than 10% of the women representation in board. Table 9 below summaries the result.

Table 9: Women Board Composition Distribution

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	1-10%	4	20.0	20.0	20.0
	11-20%	16	80.0	80.0	100.0
	Total	20	100.0	100.0	

Source: Survey 2013

4.2.10 Gender Diversity and its Relation to Financial Performance

Respondents were asked to indicate the extent to which gender diversity could affect financial performance of the organization. The findings indicate that most of the respondents indicated that gender diversity has a moderate extent on the financial performance while 20% indicate that it has no extent on financial performance. This means that gender diversity could in one way or another affect financial performance of the organization. The findings are shown in Table 10 below.

Table 10: Gender Diversity and Financial Performance Distribution

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Moderate extent	12	60.0	60.0	60.0
	no extent	8	40.0	40.0	100.0
	Total	20	100.0	100.0	

Source: Survey 2013

4.2.11 Perception of Women in Board Room Regarding Financial Performance

The perception of women in board room regarding financial performance is diverse as presented in Table 11. The table revealed that 50% of the respondents believe that women are less corrupt, 30% believe that they are more analytical and 20% believe that they follow budget expenditure.

Table 11: Perception of Women in Board Room

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid analytical	6	30.0	30.0	30.0
budget expenditure	4	20.0	20.0	50.0
less corrupt	10	50.0	50.0	100.0
Total	20	100.0	100.0	

Sources: Survey 2013

4.2.12 Factors Hindering Women Involvement in Corporate Governance

The researcher was also interested in knowing what hinders women in corporate governance given that less women are involve in board membership. The feedback is as tabulated in Appendix II below.

From the table, it shows that women lack mentoring opportunities to be part of the board members as indicated by 55% of the respondents who agree. Women are less tied up with personal or family responsibilities to participate in board election as shown by 45% of the respondent who believe in not at all. Also exclusion from informal network of communication is also not a factor which hinders women from involvement in corporate governance. Moreover, women lack of role model in corporate governance is believed to be a factor which contributes to failure of women to be engaged in corporate governance as shown by 50% of the respondent. Failure of senior leadership to assume accountability

for women's advancement, stereotyping and preconception of women abilities, and lack of opportunities to take on visible/challenging assignment are some of the major factors which hinders women from corporate governance. In conclusion it can be said that if women are exposed to such factors, women representation in corporate governance will increase.

4.2.13 Voter's consideration of candidate experience during voting

Respondents were asked to indicate if voters consider candidate experience during election of board members. The results were rather interesting as both those who believe and who are against had the same response rate of 50%. This could mean that in every election, it is not a mandatory requirement for the voters to select their board members according to experience. This is illustrated in the Table 12 below.

Table 12: Voters Consideration of Candidate Experience during Voting

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Yes	10	50.0	50.0	50.0
	No	10	50.0	50.0	100.0
	Total	20	100.0	100.0	

Sources: Survey 2013

4.2.14 Board members experience in relation to its valuable and benefits

Regarding the importance of board member's experience, respondents were asked to indicate whether board member's experience has any value and benefit to the organization. The response universal as all the respondents believe that board member's experience is indeed valuable and beneficial to the organization. This is shown in Table 13 below.

Table 13: Experience and its Value and Benefits to the Organization

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Yes	20	100.0	100.0	100.0

4.2.15 Skills Possessed by Most of the Board Members

Skills possessed by board members form part of the researcher interest in the study. It is revealed that most board members have leadership skills as indicated by the universal agreement of the respondents as indicated by 100% response rate. This means that business management skills and industrial skills are lacking which are very essential in achieving financial performance as tabulated in Table 14 below.

Table 14: Kind of Skills Board Members' Posses

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	leadership skills	20	100.0	100.0	100.0

Sources: Survey 2013

4.2.16 Relation of Skills and Experience in Regard to Financial Performance

The respondents were asked to indicate if skills and experience of the board members has guaranteed organizational financial performance in the current year. The findings revealed that 75% believe that skills and experience has guarantee the organization financial performance and 25% don't believe so. This means that leadership and experience of the board members has helped organizations to perform better in the current financial year. The results are as per Table 15 below.

Table 15: Skills and experience in relation to financial performance

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Yes	15	75.0	75.0	75.0
	No	5	25.0	25.0	100.0
	Total	20	100.0	100.0	

Source: Survey 2013

4.3 Correlation Analysis

Correlation analysis was carried out test the analytical model of the study. The results are presented in Table 16 below. The results indicates that there is a negative relationship of $r=-0.217$ between Age of Board members and financial performance. The Board composition component variable of Level of Education in relation to financial performance is a positive correlation coefficient $r =0.227$, although also low in significance. On the variable of Gender Diversity relationship with financial performance is positive correlation of $r =0.173$.

On the last variable of Board members' Experience, the findings were that there is a correlation coefficient of $r=0.000$. This means that there is no relationship between experience of Board members and financial performance.

The overall model reflects a positive relationship of $r=0.133$ although insignificant, is consistent with previous studies. However, the Board's composition variables of education and gender diversity contribute to financial performance. A change on any of these variables therefore would affect financial performance.

Table 16: Relationship between corporate governance variables and rate of return on assets

		Age and financial performance	Education and financial performance	Gender diversity and financial performance	Voters and candidate experience	ROA
age and financial performance	Pearson Correlation	1	-.249	.071	.130	-.217
	Sig. (2-tailed)		.289	.767	.584	.357
	N	20	20	20	20	20
Education and financial performance	Pearson Correlation	-.249	1	-.103	-.821**	.227
	Sig. (2-tailed)	.289		.665	.000	.336
	N	20	20	20	20	20
gender diversity and financial performance	Pearson Correlation	.071	-.103	1	.204	.173
	Sig. (2-tailed)	.767	.665		.388	.466
	N	20	20	20	20	20
voters and candidate experience	Pearson Correlation	.130	-.821**	.204	1	.000
	Sig. (2-tailed)	.584	.000	.388		1.000
	N	20	20	20	20	20
ROA	Pearson Correlation	-.217	.227	.173	.000	1
	Sig. (2-tailed)	.357	.336	.466	1.000	
	N	20	20	20	20	20

** . Correlation is significant at the 0.01 level (2-tailed).

4.4 Discussion and Interpretation of Findings

The various corporate governance components aspects of Board composition were analyzed and the outcome is as shown in Table 16 above. The results in the table shows that there is a negative relationship of $r = -0.217$ between Age of Board members and Return on Assets. This implies that when the average Age of Board members is high, financial performance is low and the vice versa. This tendency of the two variables to

move in tandem negatively is a matter that needs to be examined in relation to other factors and not in isolation to clearly deduce the relationship. This outcome therefore is that Age is not one of the main factors in corporate governance that affect financial performance.

On the variable of education level in relation to financial performance, the positive relationship as shown by correlation coefficient of $r=0.227$, although low in significance, implies that, the level of education of Board members has an impact on financial performance.

The relationship between Gender Diversity and financial performance is a positive correlation coefficient of $r=0.173$ which is equally low in significance. This also implies that a Board that is diverse in terms of gender would have better returns on assets than one that is monopolized by one gender. However, from the respondents' feedback, all the small-holder tea factory companies are composed of only 20% female in the Board of Directors. This situation implies that full benefits of gender diversity currently may not be enjoyed.

On Board members' experience, the result is a correlation coefficient of $r= 0.000$. The zero indicates a lack of correlation between the variable of Board members' Experience and financial performance. It therefore implies that, looked at in isolation, changes on the dependent variable, Boards Experience, will not affect financial performance.

It can therefore be deduced in the overall model that the positive relationship of $r =0.133$ although insignificant, is crucial and in line with findings of other previous studies. However, the Board's composition variables of education and gender diversity contribute

to financial performance. A change on any of these variables therefore would affect financial performance.

In Conclusion, the study found that there is a positive relationship between corporate governance component of Board composition on the aspects of level of education and gender diversity in relation to financial performance. Affecting any of these two variables therefore would affect financial performance. From the results of the study, it can be concluded that corporate governance component of Board composition has an impact on financial performance.

CHAPTER FIVE: SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

This chapter presents the summary of findings, conclusions and recommendations of the study on corporate governance and its effect on financial performance of the organization. The Recommendations have their foundation in the key study findings. Suggestions for further investigation are also provided.

5.2 Summary

The study investigated the relationship between corporate governance component of Board's composition and financial performance. As found by previous researches, that recorded positive relationship between corporate governance and financial performance, the researcher in this study, also established that there is positive correlation between the tested variables of corporate governance and financial performance although the same is insignificant. The overall model equally is consistent with previous studies where a positive relationship was established between corporate governance and financial performance.

The variable of Age diversity was found to have negative correlation coefficient of - 0.217. This could be attributed to inconsistencies on the respondents' assertions to questions as to whether voters age in electing directors where "yes" was 55% and as to whether age of board member has effect on financial performance those reporting "to a great extent" were only 25% and lastly, respondents' opinion on younger average age effect on financial performance recorded a 95% "yes" verdict. Responses to these aspects therefore do not reveal consistency and may explain the negative correlation coefficient

in respect of age in relation to financial performance. This outcome therefore disagrees to the results of some of the previous studies which suggested that older CEOs or Board chairman is positively associated with higher financial performance. For instance, Cheng et al. (2010) indicate that older chairmen in China have significant impacts on some performance measures, namely ROA, cumulative returns, and abnormal returns. Older executives tend to have richer experiences and practices, which accumulate into skill-based competencies (Reed and Defillippi, 1990).

Board members educational qualification has a positive effect on financial performance of the companies. Board members educational qualification explains the variations of the financial performance of small-holder KTDA managed tea factory companies with a coefficient of 0.227. The result indicate that a higher proportion of directors with college degree or higher sitting on the board would have a significant positive influence on the financial performance of small-holder tea factory companies and vice versa. This suggests that the presence of qualified directors on the board plays an important role in carrying out the board's monitoring responsibility and in improving financial performance.

From the outcome it can be concluded that there is a significant positive relation between board members educational qualification and financial performance. This result supports the finding revealed by Amran (2011) and Yasser (2011). They argues that directors with higher education are better in managing the business operation and controlling agency problem than less educated counterparts this reduce agency cost. Educational qualification affects the oversight and monitoring role of boards of directors. The result support the view that educational qualification is potentially important since the ability to

seek and interpret appropriate information is essential for the efficient operation of the companies and the effective control or guidance of management by boards of directors. The qualification of directors as measured by the percentage of directors who had college degree or higher significantly influences company's performance.

Respondents were asked to reflect their view as to whether they feel that educational qualification of directors have any significant effect on their monitoring and controlling efficiency. 80% of the respondents agreed that education levels of Board members "to a very great extent" and "to a great extent" has an effect on financial performance. Boards of directors make decision after analyzing and carefully understanding the technical documents submitted by management as board papers. In addition, they stated that education plays a key role not only in the evaluating top management performance but also shaping organization strategy. Thus, educational qualifications of directors play a great role in board decision making.

The relationship between board gender diversity and financial performance is a positive coefficient in relation to return on assets. This study do agree with previous studies that documented a positive effect of the role of women on boards and find that women enhance the quality of decision making and firm performance (Bathula, 2008; Erhardt et al., 2003). This study therefore finds positive association between gender diver directcity and financial performance. This result does not contradict the notion that women's presence on boards may be useful and positive in general. Nevertheless, the low number of women on the boards of sampled Small-holder Tea Factory Companies does not give them sufficient monitoring power. Other studies that examined the association between proportion of women on boards and firm performance found insignificant result (Rose,

2007; Habbash, 2010). In the quantitative question majority of respondents “to a moderate extent” agreed that gender diversity has an effect on financial performance. But, simply the presence of female board members may not improve company’s operation and performance unless it is considered with other factors such as experience, education and assertiveness of female board members.

The study revealed that experience of board members is has a zero correlation ($r = 0.000$) with financial performance. However, most respondents indicated Board members’ leadership skills are essential. This is expected since board members’ role is stewardship. This result implies that experience should not be considered in isolation but with other factors.

5.3 Conclusions

This study investigated the impact of corporate governance on firms' financial performance using 20 tea factory companies with data covering five years for the financial periods from 2007/2008 – 2011/2012. Based on the results of the descriptive statistics, correlation and regression analysis the researcher made the following conclusions.

The correlation analysis indicates that most of the tested corporate governance variables on Board composition of the sampled small-holder tea factory companies have a correlation with the financial performance. The regression results show that Age of Board members has negative effect on return on assets. This negative relationship implies that there is a converse relationship between the average Ages of Board members and financial performance. However, this relationship is subject to interpretation of other

various aspects relating to the Board members. This subsisting position from the results of this study need to be further evaluated.

On the other hand, level of education and gender diversity of Board members has a positive relationship respectively to financial performance as measured by return on assets. However, Board members' experience has a zero correlation/no relationship, $r = 0.000$ to financial performance.

Accordingly, the researcher concludes that Board members educational qualification and gender diversity are positive ingredients that affect financial performance of the sampled tea factory companies. The presence of qualified directors on the board plays an important role in carrying out the boards monitoring responsibility and in improving financial performance. Equally, gender diversity brings complementary benefits as evident by the respondents' feedback on women that; 50% indicated women are less corrupt, 30% analytical and 20% good at managing budgets.

In general, the findings suggest that small-holder tea factory companies' corporate governance component of Board's composition has an impact on financial performance. Although not all corporate governance in respect of Board's composition variables positively affect financial performance. The various Board members' attributes complement each other. However, the positive relationship between corporate governance and financial performance is crucial in improving return on assets for small-holder tea grower; the owners of Small-holder KTDA managed tea factory companies.

5.4 Limitations of the Study

The study encountered a couple of limitations. First, only 20 respondents were able to return filled questionnaire out of those forwarded to a selected sample of 27 small-holder tea factory companies. To achieve this level of response, it required a lot of interventional measures that included frequent follow ups through making mobile calls and exchanges of emails.

Secondly, the section in the questionnaires on financial performance of factory companies was not received flexibly. Financial reports from some factory companies were not easily accessible due their perceived sensitivity. Some respondents in the first instance made enquiries on why the need to fill this section and it took a lot of assurance and emphasis on confidentiality of the data obtained from the researcher to the person in charge of finance to allow access to the financial reports.

The study was also constrained by time due to the delays in submission of filled questionnaires. The targeted respondents, factory accountants, cited exigencies of duty at the time of data collection especially their engagement in preparation of their annual financial statements reports that were to be used as a basis of declaring the second payment, popularly known as tea bonus.

Fourthly, technological challenges were experienced where emailed questionnaires bounced back 24 hours later for failure to be delivered to some of the intended recipients. Subsequent attempts faced similar challenges with indications that the domain servers of the recipients were unavailable. However, this was overcome by requesting recipients to provide alternative personal email addresses to facilitate effective communication.

Challenges were also experienced where the filled, scanned and returned questionnaires failed to open. It took an effort of requesting the respondents to resend after saving on a different computer application.

In the process of analyzing data and the results thereof, the regression model that reflected a negative correlation coefficient between Age diversity of Board members and financial performance may have had a link to respondents' inconsistency on responses to related aspects. It is worth noting that structuring of the final data collection tool should be after pre-testing to establish risk of inconsistencies and therefore realign it to ensure it assures of reliability.

Despite the above limitations, the researcher collected sufficient data for the study and was able to come up with results that answered the study research objectives and contribute unto the body of knowledge.

5.5 Recommendations

This study examined the impact of corporate governance mechanisms on firms' financial performance by taking evidence from sampled factories. On the basis of the findings and conclusions reached, the following recommendations are forwarded.

This study revealed that the board members are dominated by male who are at least 80% and hence gender diversity is very limited in all factory companies. Thus, there is much to be done to improve the gender balance of boards in Small-holder KTDA managed Tea Factory Companies with a great care about their qualification and competency. A positive relationship between gender diversity and financial performance is a matter that should elicit concern of policy makers and electors of directors alike on how to address the

current skewed position of board's male dominance. This concern is to be geared towards how to increase women representation and hence tap from the benefits of diversity as evident from the results of this study.

5.5.1 Policy Recommendations

From the study, it is clear that education level of Board members is critical in determining financial performance of tea factory companies. Apparently, from the results of the study, 95% of Board members have academic qualification below degree level. Despite that, a total 80% of respondents believe to “a great extent” and “very great extent” that education level of board members has an effect on financial performance. It is for this reason that I recommend to policy makers to relook at legal instruments that include Articles of Association and consider amendments to include an Article on requisite minimum qualification of candidates for position of Board member. This would thrust the average level of education to at least the minimum level set and hence impact on financial performance.

Further, policy makers which include KTDA, the managing agency should evaluate corporate governance structures in place with an aim of enhancing them for the benefit primarily for the small-holder tea growers due to improved and probably sustained financial performance of their small-holder tea factory companies.

5.5.2 Suggestions for Further Research

By taking this study as a standing point, it could be possible to come up with a better insight and several extensions to this study are possible. Considering the available time and resource the outcome of this study can be more robust, if future researchers conduct a

study on this area. First, by further increasing the study population and the sample size to cover the whole tea sector, both the small-holder and large holder tea sector. Use of a census may be considered to clearly bring out an evaluation of corporate governance factors in relation to financial performance.

The relationship between corporate governance mechanisms and firms' financial performance can also be further explained if future researchers conduct study including more corporate governance variables besides composition of the Board.

The use of email communications though cost effective and time saving may have challenges in conveying the importance of accurate filling of the questionnaires by the respondents. To facilitate improved response rate, self-administered questionnaires may be explored by subsequent researchers to correct the limitation of inconsistency of responses as well as response rate.

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APPENDICES

APPENDIX I: COMPANY ACTIVITY TABLE DISTRIBUTION AND BOARD EDUCATION CAPABILITIES

	Strongly agree		Agree		Neutral		Disagree		Strongly Disagree	
	Frequ ncy	%	Frequ ncy	%	Frequ ncy	%	Frequ ncy	%	Frequ ncy	%
Financial statements are prepared by top management and reviewed by the board	5	25	6	30	8	40	1	5	0	0
Cash flows are regularly reviewed by board	5	25	6	30	7	35	0	0	0	0
The board closely monitors top management strategic decision making	5	25	6	30	4	20	5	25	2	10
The board formally evaluates performance of top management in regularly held feedback meetings	0	0	9	45	1	5	10	50	0	0
The board is actively involved in shaping organizations strategy	5	25	9	45	1	5	5	25	0	0
The board and top management meet often to discuss organization's future strategic choices	5	25	10	50	0	0	5	25	0	0
Board give top management sufficient counsel on organizations strategy	5	25	6	30	7	35	1	5	1	5
Directors provide counsel to top management in discussions outside board meetings	5	25	5	25	6	30	1	5	3	15

**APPENDIX II: FACTORS HINDERING WOMEN INVOLVEMENT IN
CORPORATE GOVERNANCE**

	Strongly agree		Agree		Neutral		Disagree		Strongly Disagree	
	Freque ncy	%	Freque ncy	%	Freque ncy	%	Freque ncy	%	Freque ncy	%
Lack of mentoring opportunities	0	0	11	55	9	45	0	0	0	0
Commitment to personal and family responsibilities	6	30	0	0	5	25	0	0	9	45
Exclusion from informal networks of communications	0	0	0	0	5	25	0	0	15	75
Lack of women role models	0	0	6	30	10	50	0	0	4	20
Failure of senior leadership to assume accountability for women's advancement	5	25	0	0	9	45	0	0	6	30
Stereotyping and preconceptions of women's abilities	9	45	0	0	11	55	0	0	0	0
Lack of opportunities to take on visible/challenging assignments	0	0	1	5	19	95	0	0	0	0
Lack of significant general management or line experience	4	20	1	5	0	0	0	0	15	75

APPENDIX III: LETTER OF INTRODUCTION TO RESPONDENTS

Dear Respondent,

RE: RESEARCH PROJECT

I am a student pursuing a Master of Business Administration programme at the University of Nairobi. The second Part of the course requires me to conduct a research project on a specified topic on my field of study. Consequently, I am carrying out a study on “The Effect of Corporate Governance Practices on Financial Performance of Small-Holder Tea Companies” I will therefore be grateful if you provide me with the information requested in the attached questionnaire. This information will be treated with confidentiality and will solely be used for the purposes of this study.

Thank you in advance for your co-operation

Yours faithfully,

Francis K. Langat

APPENDIX IV: STRUCTURED QUESTIONNAIRE

This questionnaire has been designed to collect information from the persons in charge of Finance of respective small-holder tea factory companies managed by KTDA and is meant for academic purposes only. The questionnaire is divided into two sections. Please complete each section as instructed. Do not write your name or any other form of identification on the questionnaire. All the information in this questionnaire will be treated in confidence.

SECTION I: FACTORY INFORMATION

For my information, would you please provide the following answers?

Factory Information

1. Name of factory (Optional) :
2. Location:
3. Size of the factory (Number of registered tea growers):
4. Period of operation:

SECTION II: AGE DIVERSITY OF BOARD MEMBERS

5. What is the average age of the board members in your own view?

30 years and below [] 31-40 years [] 41-50 years [] 51 years and above []

6. Does voters consider age of board member during election? Yes [] No []

7. To what extent does age of the board members affect financial performance of an organization?

To a very great extent [] To a great extent []
To a moderate extent [] To a little extent []
To no extent []

8. In your own opinion, do you think a younger average age of the board members will increase financial performance of the company? Yes [] No []

SECTION III: EDUCATION OF BOARD MEMBERS

9. In your own opinion, what is the majority education background of the board members in your Company?

Certificate [] Diploma [] Degree [] Masters []
PhD []

10. To what extent does board member education background affect the financial performance in the Company?

To a very great extent [] To a great extent []
To a moderate extent [] To a little extent []
To no extent []

11. To what extent does the board members education background help to overcome the following challenges that affect the financial performance of the organization? 1= to no extent, 2= to a little extent.....5= to a very large extent

Challenges	1	2	3	4	5
Challenges in monitoring financial performance in the organizations					
Communication and coordination problems					
Other (specify)					

12. To what extent do you agree with the following statement regarding the board's Education in handling the following activities in your Company? Use a scale of 1 to 5 where 1 is strongly disagree and 5 is strongly agree.

Statement about board's Education	1	2	3	4	5
Financial statements are prepared by top management and reviewed by the board					
Cash flows are regularly reviewed by board					
The board closely monitors top management strategic decision					
The board formally evaluates performance of top management in regularly held feedback meetings					
The board is actively involved in shaping organizations strategy					
The board and top management meet often to discuss organization's future strategic choices					
Board give top management sufficient counsel on organizations strategy					
Directors provide counsel to top management in discussions outside board meetings					

SECTION IV: GENDER DIVERSITY

13. What is the women composition in your company Board?

0-10% [] 11-20% [] 21-30% [] 31-40% [] 41-50% []

51% and above []

14. To what extent does gender diversity composition of the board affect financial performance of the organization?

To a very great extent [] To a great extent []

To a moderate extent [] To a little extent []

To no extent []

15. Research has shown that women involvement in board composition influence firm performance. To what extent do you agree with this statement with regard to the effects of gender diversity on the financial performance of the organization?

Strongly agree [] Agree []

Neutral [] Disagree []

Strongly disagree []

16. What is your perception of women in the board room regarding financial performance of the company?

Women have financial skills than men []

Women are more analytical than men []

Women are follow budget on expenditure than men []

Women are less corrupt as compared to men []

17. To what extent does the following factors hinders women involvement of women in corporate governance in your organization?

Factors	Very great extent	Great extent	Moderate extent	Little extent	Not at all
Lack of mentoring opportunities					
Commitment to personal and family responsibilities					
Exclusion from informal networks of communications					
Lack of women role models					
Failure of senior leadership to assume accountability for women's advancement					
Stereotyping and preconceptions of women's abilities					
Lack of opportunities to take on visible/challenging assignments					
Lack of significant general management or line experience					

SECTION V: BOARD MEMBERS EXPERIENCE

18. Does the voter's choose board members according to the candidate's experience?

Yes [] No []

19. Does the experience of board member bring valuable skills and benefit to the Company?

Yes [] No []

20. What kind of skills and experience do most of the board members possess?

Business management skills [] Industrial skills [] Leadership skills []

21. Does skills and experience mention above has guaranteed the organization financial performance in the current financial year?

Yes [] No []

SECTION VII: FINANCIAL PERFORMANCE OF SMALLHOLDER TEA FACTORY COMPANIES

Please complete the data sheet below

22. Liquidity - Working Capital of SHTF over the last Five (5) Years

Year/Working Capital Variable	2007/2008	2008/2009	2009/2010	2010/2011	2011/2012
Inventories (A)					
Accounts Receivables (B)					
(Accounts Payable) (C)					
Working Capital (D = A+B-C)					

23. Performance of SHTF over the last Five (5) Years)

Year/Performance measure	2007/2008	2008/2009	2009/2010	2010/2011	2011/2012
Total Revenue					
Total Costs					
Net Income					
Total Assets (Current + Non-Current Assets)					

24. Please give suggestions/recommendations towards the effects of corporate governance practices on financial performance of small-holder tea Factory Company.

I sincerely appreciate your time and effort to respond to the questions above. Your responses will be treated in strict confidence.

I would like to receive a summary of the results from this research Yes [] No []

THANK YOU VERY MUCH FOR YOUR COOPERATION!

APPENDIX V: LIST OF KTD A MANAGED FACTORIES

Zone	Name	Physical Location
1	Kambaa Tea Factory co. Ltd	Githunguri Division, Kiambu County
	Mataara Tea Factory co. Ltd	Chania Division, Kiambu County
	Gachege Tea Factory co. Ltd	Thika District, Kiambu County
	Theta Tea Factory co. Ltd	Gatundu Division, Kiambu County
	Kagwe Tea Factory co. Ltd	Lari division, Kiambu County
2	Makomboki Tea Factory co. Ltd	Kigumo division, Murang'a County
	Nduti Tea Factory co. Ltd	Thika, Kiambu County
	Gacharage Tea Factory co. Ltd	Kigumo division, Murang'a County
	Ikumbi Tea Factory co. Ltd	Kigumo division, Murang'a County
	Ngere Tea Factory co. Ltd	Gatanga division, Kiambu County
3	Njunu Tea Factory co. Ltd	Gatanga division, Kiambu County
	Gatunguru Tea Factory co. Ltd	Mathioya Division, Murang'a County
	Githambo Tea Factory co. Ltd	Kahuro, Murang'a County
	Kanyenyaini Tea Factory co. Ltd	Kangema Division, Murang'a County
	Kiru Tea Factory co. Ltd	Mathioya Division, Murang'a County
4	Iriaini Tea Factory co. Ltd	Othaya Division, Nyeri County
	Chinga Tea Factory co. Ltd	Othaya Division, Nyeri County
	Gathuthi Tea Factory co. Ltd	Othaya Division, Nyeri County
	Gitugi Tea Factory co. Ltd	Othaya Division, Nyeri County
	Ragati Tea Factory co. Ltd	Mathira Division, Nyeri County
5	Mununga Tea Factory co. Ltd	Kirinyaga County
	Ndimba Tea Factory co. Ltd	Kirinyaga County
	Kangaita Tea Factory co. Ltd	Kerugoya, Kirinyaga County
	Kimunye Tea Factory co. Ltd	Gichugu Division, Kirinyaga County
	Thumaita Tea Factory co. Ltd	Gichugu Division, Kirinyaga County
6	Kathangariri Tea Factory co. ltd	Manyatta division, Embu County
	Rukuriri Tea Factory co. ltd	Embu-Meru highway, Embu County
	Mungania Tea Factory co. Ltd	Runjenyes North Division, Embu County
7	Kiegoi Tea Factory co. Ltd	Igembe Division, Meru County
	Kionyo Tea Factory co. Ltd	Near Meru town, Meru County
	Michimikuru Tea Factory co. Ltd	Nyambene Hills, Meru County
	Imenti Tea Factory co. Ltd	Meru Central, Meru County
	Githongo Tea Factory co. Ltd	Meru Central, Meru County
	Kinoro Tea Factory co. Ltd	Igoji division, Meru County
	Weru Tea Factory co. Ltd	Meru South, Meru County
8	Tegat Tea Factory co. Ltd	Belgut division, Kericho County
	Litein Tea Factory co. Ltd	Litein town, Kericho County
	Kapkatet Tea Factory co. Ltd	Kapkatet Division, Kericho County
	Momul Tea Factory Co. Ltd	Sigowet division, Kericho County
	Kobel Tea Factory co. Ltd	Konoin Division, Bomet County.
	Tirgaga Tea Factory Company Ltd	Near Bomet, Bomet County.
9	Mogogosiek Tea Factory co. Ltd	Konoin Division, Bomet County.
	Kapset Tea Factory co. Ltd	Konoin Division, Bomet County.
	Kapkoros Tea Factory co. Ltd	Bomet, Bomet County.
10	Kebirigo Tea Factory Co.Ltd	Nyamira division, Nyamira County
	Gianchore Tea Factory co. Ltd	Near Kisii Town, Kisii County
	Tombe Tea Factory co. Ltd	Nyamira County
	Nyankoba Tea Factory co. Ltd	Borabu division, Kisii County
	Nyansiongo Tea Factory co. Ltd	Borabu division, Kisii County
	Sanganyi Tea Factory co. Ltd	Ekerenyo Division, Nyamira County
11	Nyamache Tea Factory co. ltd	Nyamache Division, Kisii County
	Kiamokama Tea Factory co. Ltd	Nyaribari Central, Kisii County
	Ogembo Tea Factory co. Ltd	Gucha, Kisii County
12	Kapsara Tea Factory co. Ltd	Kaplamai Division, Trans- Nzoia County
	Chebut Tea Factory co. Ltd	Kapsabet Division, Nandi County
	Mudete Tea Factory co. Ltd	Mudete township, Vihiga County
	Kaptumo Tea Factory co. Ltd	Near Kapsabet, Nandi County

