

**THE EFFECT OF CORPORATE GOVERNANCE ON FINANCIAL  
PERFORMANCE OF TELECOMMUNICATIONS FIRMS IN KENYA**

**BY**

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## **DECLARATION**

This research project is my original work and has never been presented for examination in any university for an award of degree.

Signed.....Date.....

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This research project was done under my supervision as the university supervisor.

Signed.....Date.....

**MR. MIRIE MWANGI**

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## **DEDICATION**

I dedicate this project to most of all, to the Almighty God who gives me strength and good health and my family for the support for their great moral and also their enormous encouragement throughout my studies.

## ABSTRACT

Good corporate governance is to help firms gain access to foreign capital and foreign companies tend to gain investment opportunities providing portfolio diversification opportunities. It is also viewed that with good corporate governance practices a firm's performance is greatly improved. This study was guided by the main objective which was to establish the effect of corporate governance on the financial performance of telecommunication firms in Kenya. This study was based on an exploratory design. A quantitative method was used in data analysis. The target population was the four telecommunication firms in Kenya which are known as NFP Tier 1 and identified as national operators. The study used secondary data which was collected from various sources. For the financial analysis the data collected was from their financial statements.

Findings on the relationship between corporate governance variables and ROA indicated significant negative relationship. Board composition plays a crucial role in the financial performance of the company. The study findings indicated that there was significant negative relationship between board size and ROA which implied that large boards lead to low ROA of the firms under study. Similar trend of negative relationship was observed between the leverage and the board size, board composition and the size of the company. A strong relation was observed between ROA size of the company and the board size as indicated by the correlation coefficient and this implied that the larger companies experienced higher ROA as well the larger board size led to a higher ROA which is in contrast to the company's leverage which was influenced negatively. The coefficient of determination ( $R^2$ ) indicated that 68.9% of change in return on asset was accounted for by the explanatory variables while the adjusted R-squared of 57.8% further justifies this effect. Thus some variables excluded from the study accounted for the remaining 31.1%.

Firms leverage was critical in determination of its return on assets. Board composition (Ratio of non-executive directors against total board members) had a positive relationship to the ROA of the firms and thus firms should increase their boards' composition for better corporate governance. The leverage (Book value of debt divided by book value of total assets) led to lower ROA of the firms and thus the firms should limit the amount of the debts. From the findings on the effect of board size on financial performance which was negative and for boards to be effective in performing their roles, there is need to review the numbers of board members to avoid having large boards for all of the telecommunication firms in Kenya as well as other firms not under the study. On the firms' board composition, the firms should increase their number of non-executive directors against total board members as well as gender as this would ensure compliance with better corporate governance principles and this would lead to a better financial performance.

## TABLE OF CONTENTS

<b>DECLARATION.....</b>	<b>II</b>
<b>ACKNOWLEDGMENT .....</b>	<b>III</b>
<b>DEDICATION.....</b>	<b>IV</b>
<b>ABSTRACT.....</b>	<b>V</b>
<b>LIST OF TABLES .....</b>	<b>IX</b>
<b>LIST OF ABBREVIATIONS .....</b>	<b>X</b>
<b>CHAPTER ONE .....</b>	<b>1</b>
<b>INTRODUCTION.....</b>	<b>1</b>
1.1 Background of the Study.....	1
1.1.1 Corporate Governance .....	1
1.1.2 Financial Performance .....	3
1.1.3 Corporate Governance and Financial Performance.....	5
1.1.4 Telecommunication Firms in Kenya .....	7
1.2 Research Problem.....	8
1.3 Research Objective.....	10
1.4 Value of the Study.....	11
<b>CHAPTER TWO .....</b>	<b>12</b>
<b>LITERATURE REVIEW .....</b>	<b>12</b>
2.1 Introduction .....	12
2.2 Review of Theories .....	12

2.2.1 Agency Theory .....	12
2.2.2 Stakeholder Theory.....	14
2.2.3 Stewardship Theory .....	15
2.2.4 Transaction Cost Theory .....	16
2.2.5 Resource Dependency Theory.....	16
2.3 Determinants of Financial Performance of Telecommunications Firms .....	17
2.4 Review of Empirical Studies.....	19
2.5 Summary of Literature Review .....	22
<b>CHAPTER THREE .....</b>	<b>24</b>
<b>RESEARCH METHODOLOGY .....</b>	<b>24</b>
3.1 Introduction .....	24
3.2 Research Design.....	24
3.3 Population.....	24
3.4 Data Collection.....	25
3.5 Data Analysis .....	25
<b>CHAPTER FOUR.....</b>	<b>28</b>
<b>DATA ANALYSIS, RESULTS AND DISCUSSION.....</b>	<b>28</b>
4.1 Introduction .....	28
4.2 Response Rate .....	28
4.3 Descriptive Statistics .....	28
4.4 Correlations among the Variables .....	29
4.5 Regression Analysis .....	30
4.6 Discussion of Research Findings .....	32

<b>CHAPTER FIVE .....</b>	<b>35</b>
<b>SUMMARY, CONCLUSION AND RECOMMENDATIONS .....</b>	<b>35</b>
5.1 Introduction .....	35
5.2 Summary of the Findings .....	35
5.3 Conclusion.....	36
5.4 Recommendations .....	37
5.5 Limitations of the Study .....	38
5.6 Suggestions for Further Research .....	38
<b>REFERENCES.....</b>	<b>40</b>
<b>APPENDIX.....</b>	<b>48</b>
Appendix I: List of Telecommunications Firms .....	48
Appendix II: Corporate Governance: Board Size and Board Composition .....	48
Appendix III: Firms Performance ROA.....	48
Appendix IV: Firms Overall Performance .....	49
Appendix V: Summary.....	51



## LIST OF TABLES

Table 4.1: Correlations among the Variables .....	29
Table 4.2: Model Summary .....	30
Table 4.3: Descriptive Statistics .....	29
Table 4.4: ANOVA.....	32
Table 4.5: Coefficients.....	31

## **LIST OF ABBREVIATIONS**

AGM	Annual General Meeting
ANOVA	Analysis of Variance
ARPU	Average Revenue per User
CA	Communications Authority of Kenya
CCK	Communications Commission of Kenya
CMA	Capital Markets Authority
EBITDA	Earnings before Interest, Taxes, Depreciation and Amortization
FDI	Foreign Direct Investors
GoK	Government of Kenya
ITU	International Telecommunications Union
MVNO	Mobile Virtual Network Operators
NFP	Network Facilities Provider
NSE	Nairobi Securities Exchange
PSI	Public Sector Initiative
ROA	Return on Assets
ROCE	Return on Capital Employed
ROI	Return on Investment

# **CHAPTER ONE**

## **INTRODUCTION**

### **1.1 Background of the Study**

The telecommunications play an important role in today's society. Telecommunication basically is the transmission of signals over a distance for the purpose of communication. The technology involved in communicating over time has changed significantly to date. Like telecommunications itself, the telecommunications industry has broadened over the years creating a significant social, cultural and economic impact on the society (Venkatrum & Zhu, 2012).

According to ITU by the end of 2012, the telecoms recorded a 6.8 billion mobile cellular subscription compared to 6 billion in 2011. There are over 2.7 billion users of the internet globally, representing 39 per cent of the worlds' population. Plunkett Research Limited in its 2012, estimates placed the telecommunication industry's revenue at \$2.1 trillion or just under 3 percent of the gross world product The telecom industry is one of the world's fastest growing industries regardless of what the indicators being measured according to Wauschkuhn (2001).

#### **1.1.1 Corporate Governance**

Corporate governance is the process and structure used to direct and manage business affairs of the company towards enhancing prosperity and corporate accounting with the ultimate objective of realizing shareholders long-term value while taking into account the interests of other stakeholders (Capital Market Authorities Act, 2002). It is also defined as the system by which firms/companies are directed and controlled (Cadbury report, 1992).

The shareholders' role in governance is to appoint the directors and the auditors to satisfy themselves that an appropriate governance structure is in place. The responsibilities of the board include setting the company's strategic aims, providing the leadership to put them into effect, supervising the management of the business and reporting to shareholders on their stewardship. The board's actions are subject to laws, regulations and the shareholders in general meeting.

Several measures of corporate governance have been studied as well as their overall effect on the performance. The most common is board size and board composition, it is suggested that higher proportion of non-executive directors in the board helps to reduce the agency cost (Kee et al., 2003). The higher levels of non-executive directors on the board weaken the negative relationship between the firm's investment opportunities and firm's performance. Another measure is the separation of the role of CEO and chairman as a sign of good governance. Ownership concentration has also been used to measure corporate governance. One way of controlling managers' actions is to have concentrated shareholding in the company. Empirical evidence suggests that concentrated holding may mitigate a number of agency problems inherent in the company (Prowse, 1994).

Jensen and Meckling (1976) suggest that, shareholders benefit by making management want the same things as they do, that is, by making management benefit financially or otherwise, from an increase in the value of the company's common stock. In other words, giving managers shares in the company is one way of aligning managers' interest with those of the shareholders, thus reducing agency costs. Other measures include committee composition and managers remuneration. Companies should have audit committees to oversee the audit of the financial statements and a remuneration committee for setting

remuneration of executive officers and directors. The appointment of such committees is expected to have a positive effect on company financial performance. Empirical research focusing on the presence of an audit committee has associated companies with fewer financial reporting problems (McMullen, 1996). Also on managers remuneration empirical work shows that, the role of managers' remuneration in coordinating managers' and investors' interests is also present even though limited. Hutchinson and Gul (2003) find a positive role for managers' remuneration whereas Coles et al. (2001) find a negative relationship.

In the last decade a dramatic change in the ownership structure of telecommunications companies has taken place, from public (state-owned) monopolies to private companies. The rapid development of mobile telephone networks and video and Internet technologies has created enormous competitive pressure on the companies. As new competitors arise, companies need intelligent tools to gain a competitive advantage. Also, stock market expectations are enormous, and investors and financial analysts need tested tools to gain information about how companies perform financially compared to their competitors, what they are good at, who the major competitors are, etc. (Karlsson et al., 2001).

### **1.1.2 Financial Performance**

There are many different ways to measure financial performance, but all measures should be taken in aggregation. Line items such as revenue from operations, operating income or cash flow from operations can be used, as well as total unit sales. Furthermore, the analyst or investors may wish to look deeper into financial statements and seek out margin growth rates or any capital structure. It is important to note that not all financial ratios are significant to all businesses. Identifying the four to six key ratios for your business, in

addition to any lender required financial ratios, is the first step in measuring financial performance (Kiersten, 2011).

However to gauge the performance Price-to-sales ratio (price/sales) is probably the simplest of the valuation approaches: take the market capitalization of a company and divide it by sales over the past 12 months. No estimates are involved, the lower the ratio the better. Price/sales ratio is a reasonably effective alternative when evaluating telecom companies that have no earnings; it is also useful in evaluating mature companies.

Another popular performance yardstick is EBITDA. EBITDA provides a way for investors to gauge the profit performance and operating results of telecom companies with large capital expenses. Companies that have spent heavily on infrastructure will generally report large losses in their earnings statements. EBITDA helps determine whether that new heavy investment, for instance, is making money each month, or losing even more. By stripping away interest, taxes and capital expenses, it allows investors to analyze whether the baseline business is profitable on a regular basis. Investors should be mindful of cash flow.

EBITDA gives an indication of profitability, whereas cash flow measures how much money is actually flowing through the telecom operator at any given period of time. Is the company making enough to repay its loans and cover working capital? A telecom company can be recording rising profits year-by-year while its cash flow are declining. Cash flow is the sum of new borrowings plus money from any share issues, plus trading profit, plus any depreciation.

Other important measures of performance are Return on Asset and Return on Equity. ROA gives an idea as to how efficient management is at using its assets to generate earnings. ROA is calculated by dividing a company's annual earnings by its total assets. ROA is displayed as a percentage. Sometimes this is referred to as "return on investment". Some investors add interest expense back into net income when performing this calculation because they'd like to use operating returns before cost of borrowing. On the other hand Return on equity measures a corporation's profitability by revealing how much profit a company generates with the money shareholders have invested. ROE is expressed as a percentage.

### **1.1.3 Corporate Governance and Financial Performance**

Empirical evidence from the U.K. shows that companies that complied with the Cadbury Committee recommendation experienced improved performance in comparison to firms that did not (Dahya & McConnell, 2007). Good corporate governance is seen to help firms gain access to foreign capital and foreign companies tend to gain investment opportunities providing portfolio diversification opportunities (Sekhah, 2013). It is also viewed that with good corporate governance practices a firm's performance is greatly improved. A few researchers also find either negative relationship or no relationship between corporate governance norms and the firm performance.

At the end of every financial crisis academicians, regulators, governments tend to focus on the corporate governance more vigorously in order to enhance investors' confidence that would attract investments. In the US the Sarbanes–Oxley Act enacted on July 30, 2002, also called Sarbanes–Oxley, Sarbox or SOX set new and enhanced standards for all U.S. companies' boards, management and public accounting firms. Top management

must individually certify the accuracy of financial information. In addition, penalties were enhanced. It also increased the independence of the external auditors who review the accuracy of corporate financial statements and increased the oversight role of boards' of directors.

Notably there were few high profile failures in the telecoms sector. Cases such WorldCom in the United States & Satyam Computers in India are good examples of corporate failure in the sector. These failures have not been attributed to cyclical events nor changes in technology but to the failure of corporate governance. This has stressed the need for corporate governance. According to Krishna (2010) poor company financial performance, scandals and failures over the years has revealed that the board has not been effective in monitoring managerial behavior.

With globalization more countries are interconnected which has facilitated the flow of capital. The more the corporations finance themselves via global markets, the more questions of corporate governance become an issue of interest for those involved in capital markets as well as foreign investors. During the late 1980s, globalization of the world's economies and technological development created the conditions for the expansion of Foreign Direct Investment (FDI) in telecommunications (Cruz & Guillermo, 2009). Also, developing countries have received considerable inflows of FDI in telecommunications through multinational companies, headquartered in developed countries that either have purchased state-owned telecom providers or have entered mobile markets.



#### **1.1.4 Telecommunication Firms in Kenya**

The telecom firms in Kenya, just like the rest of the world, are going through profound changes. In the past decade, governance, technological advancement and regulatory restructuring have transformed the industry. This has resulted into some of the world's best known telecommunication service providers like Vodafone coming on board (PWC Kenya, 2013). Therefore this FDI brought changes in terms of interest, therefore creating necessities for corporate governance. On October 8, 1999 the corporate sector at a seminar organized by the Private Sector Initiative for corporate governance formally adopted a national code of best practice for Corporate Governance to guide corporate governance in Kenya. In 2002, the Capital Markets Authority issued guidelines for observance by public listed companies in Kenya, in order to enhance corporate governance practices by such companies (Gazette notice no. 3362).

Through the process of the liberalization of the telecommunications sector in beginning of 1999 onwards, Kenya has seen fast mobile phone and internet growth. Of vital importance to the process was the establishment of the Communications Commission of Kenya (CCK) now Communications in February of that same year through the Kenya Communications Act, 1998. CCK's role is to license and regulate telecommunications, radio communication and postal services in Kenya. Since then a visible boost has gripped the industry. In 2004 the country saw significant changes in the country's telecom industry, with the incumbent operator Telkom largely owned by the Kenya Government losing its monopoly in the fixed-line and international bandwidth sectors.

Licenses were also issued to a regional carrier, third mobile operator and several new data carriers, thereby marking a significant change in the competitive landscape for telecom

services across the country. Kenya telecommunications industry is largely dominated by private ownership in terms of numbers. Currently Safaricom ltd is the only company listed in the Nairobi Securities Exchange and subject to the CMA guidelines on corporate governance. However due to the level of FDI in other companies like Airtel, YU and other the companies tend to comply with guidelines on corporate governance.

## **1.2 Research Problem**

The separation of ownership and control in publicly held corporations induces conflicts of interest between managers and shareholders (Berle and Means, 1932). Shareholders are interested in maximizing the value of the firm, but managers' objectives may also include the increase of perquisite consumption and job security. A number of governance mechanisms may help to align the interests of managers with those of shareholders. This includes equity ownership by managers (Jensen and Meckling, 1976), by outside block holders (Kaplan and Minton, 1994) and executive compensation (Mehran, 1995). In addition the board of directors may play a central role in monitoring managers (Fama, 1980). Board size, board composition and the leadership structure of the board are important characteristics that affect the effectiveness of the board in monitoring management (Jensen, 1993).

The telecommunications play an important role in today's society and the economy. From the above analysis we have found that it plays a very key role in the development of a country. Relationship between corporate governance and financial performance of firms has been an aggressively debated topic. More particularly, the direction of the relationship; whether better corporate governance leads to better financial performance or the vice versa has been often debated. This debate more often than not results into

showing that corporate governance is related and is positively related to financial performance.

According to a World Bank report of Kenya for 2011, Investment in telecoms in Kenya was measured at US Dollar \$518,600,000. Investment in telecom projects with private participation covers infrastructure projects in telecommunications that have reached financial closure and directly or indirectly serve the public. From observations the growth in telecommunication industry especially on mobile usage has had a very positive impact on the economy and has substantially benefited the people more than any other industry before. In terms of employment the sector employed approximately 3.5 million people, directly and indirectly from technical fields such as qualified engineers and administrators to indirect employment which has helped spread the wealth to those who don't have the benefit of education or the right connections (Naftal, 2009).

Pitabas and Supriti (2014) study in corporate governance and financial performance found that the average ROA of poorly governed firms increases by almost 70% if they become well governed. Some researchers have argued that corporate governance reduces information asymmetry between the investors and the firm (Elbadry et al., 2013). Since investors dislike information asymmetry, low information asymmetry should translate into high shareholders' value. This in turn has translated to better performance of companies.

According to Novaes and Zingales (1999) the choice of debt from the viewpoint of the shareholders differs from the choice of debt from the viewpoint of the managers. The conflict of interest between managers and shareholders over financing policy arises for three reasons. First, managers are less diversified than shareholders, that is, in addition to

holding stock and stock options of the company, their human capital is specific to the company (Fama, 1980). Second, a larger level of debt recommitments managers to work harder to generate and pay off the company's cash flows to outside investors. These studies show that leverage play a role in corporate governance.

It is also notable that telecommunication is one of the Kenya's largest contributors to GDP and there is need to stress the need for corporate governance enhancement in the sector. In the recent past there were few high profile failures in the telecoms sector as well as restructuring, takeovers mergers and acquisitions. The prime examples would be Telkom Kenya and Airtel which has seen them making losses year in year out. The concern is whether corporate governance is either being totally ignored or there are no strict rules being imposed and monitored by the regulatory authorities. Despite this, none of the studies done has focused on corporate governance and financial performance in the telecommunication firms in Kenya. The study established the various corporate governance systems in the telecoms firms in Kenya and their effects on financial performance. It also compared the existing systems with the empirical research. As the analysis is based on the corporate governance systems in Kenya, the research has also briefly discussed the corporate governance reports published in Kenya. The research answers the question, whether corporate governance affects the financial performance of the telecommunications firms in Kenya.

### **1.3 Research Objective**

To establish the effect of corporate governance on the financial performance of telecommunication firms in Kenya.

#### **1.4 Value of the Study**

The performance of an organization increases when it is better managed. To make relevance to the analysis various corporate governance systems are studied and theories are discussed in the research. The country's economy depends on the drive and efficiency of its firms. Thus the effectiveness with which their management discharge their responsibilities determines Kenya's competitive position.

How people govern depends on their beliefs, their ability to make decisions as well as their capacity to ensure effective implementation of decisions. The various corporate governance guidelines in Kenya were analyzed and discussed to check whether the telecommunication firms in Kenya are following them and/or having a good corporate governance system in place. This research has also shed light on the sector compliance with corporate governance systems and how they affect their financial performance.

## **CHAPTER TWO**

### **LITERATURE REVIEW**

#### **2.1 Introduction**

This chapter presents a review of the theories of corporate governance and how they influence how companies are managed and in turn the performance. In the empirical review the study also focuses on the board in terms of composition as well as size. Also the relevance of leverage/debt of the firm has also been reviewed in relation to corporate governance. A review of ROA and ROE has also been reviewed in relation to measuring financial performance of a firm.

#### **2.2 Review of Theories**

A number of different theoretical frameworks have been involved to explain and analyze corporate governance. Each of these frameworks uses different terminology and views corporate governance based on different disciplines. It is also notable that most failures which are neither cyclical nor systemic emanate from poor management. This has over the years seen the emergence of progressive regulation as well tools and indicators being developed. Often the financial performance of a company is used to measure its overall performance.

##### **2.2.1 Agency Theory**

Jensen and Meckling (1976) define an agency relationship as a contract under which one or more persons known as the principal engage another person known as the agent to perform some service/manage on their behalf. This involves delegating some decision making authority to the agent. Thus it raises the prospect that the executive as an agent

will serve their own interests rather than those of the owner/principal. To counter such problems the principal will have to incur agency costs. These are costs that arise from the need of creating incentives that align the interests of the executive with those of the shareholders. They are also composed of costs incurred by the necessity of monitoring executive conduct to prevent the abuse of owner interests (Roberts & Young, 2005).

In the Agency theory the owner delegates work to an agent and the agent handles the work. Though the agent handles the work, the principal was monitoring and controlling the organization and the decisions related to the organization was taken by the principal (Solomon et al, 2004). In some cases the agent also should be given some power but better institutional arrangements should be followed to avoid the abuse of power and resource. Improper monitoring has created major failures in some prominent organizations in many countries worldwide.

According to this theory there should be a contract between the principal and agent. When the organization grows it needs more capital and this has to be raised from the market, hence more principals' will come into the organization. When more principals come into the picture there was more complication hence the necessity for corporate governance. Though agency theory is a widely used method of corporate governance it is a method which is criticized much. The critics believe that agency theory doesn't carry contractual relationships most of the time and mutual arrangements.

In agency theory the managers (the agents) was more interested in short term profits. The higher agency cost problems and other problems arising can be eliminated or can be reduced if shareholders monitor the company (Solomon and Solomon, 2004). The

shareholders should control the company through AGM voting. Shareholders also have the option of diversifying their investments. Another way of overcoming the agency problems is having a face to face meeting occasionally between representatives from investment institutions and management (Weir et al, 2002). Another possible solution to the agency problem is to provide senior management with incentives to pursue wealth maximizing policies. The monitoring costs also increase when the number of shareholder increases.

### **2.2.2 Stakeholder Theory**

Freeman (1984) designed the theory to address morals and values to address management in a firm. The theory is more substantial than the agency theory and other corporate governance theories. Stakeholder theory considers a wider group than just shareholders. The wider group involves the employees, customers, creditors, debtors, government and local communities. Stakeholder theory has broadened the group to whom the firm is held accountable (McGregor, 2000). The shareholder values are respected in this method by efficiently using the resources of the organization and making shareholders' aware of it. The purpose of good governance is always to increase the shareholder value.

The theory focuses on managerial decision making and recognizes that interests of all stakeholders have intrinsic value, and no set of interests is assumed to dominate the others (Shankar et al, 2002). However the problem with this theory is that it doesn't clearly explain what the tradeoff is made against the interest of each group of stakeholders. The managers are not clear and are not willing to be accountable for their actions. As there is a wide group of people involved in an organization it's apparent that the expectations differ from one person to the other, hence the necessity for Corporate Governance.



### **2.2.3 Stewardship Theory**

Donaldson and Davis (1991), note that, stewardship theory focuses less on the differences between owners and agents, and more on their shared fate. The stewardship theory has its roots from psychology and sociology (letting et al, 2012). The theory argues and looks at different forms of motivation for managers drawn from organizational theory. Managers are viewed as loyal to the company and interested in achieving high performance. The dominant motive, which directs managers to accomplish their job, is their desire to perform excellently. Specifically, managers are conceived as being motivated by a need to achieve, to gain intrinsic satisfaction through successfully performing inherently challenging work, to exercise responsibility and authority thereby gaining recognition from their peers and bosses.

Therefore, the stewardship theory indicates/implies that there are non-financial motivators for managers (Hamid, 2011). The directors was the stewards of company assets and was carrying out the business of the firm according to the interest of the shareholders. Unlike agency theory, stewardship theory stresses on the role of top management being as stewards, integrating their goals with those of the organization. Firms that embrace stewardship place the CEO and chairman responsibilities under one executive, with a board comprised mostly of in-house members.

This allows for intimate knowledge of organizational operation and a deep commitment to success (Flynn, 2013). The model has proved to be adaptable to prevailing changing situations (McGregor, 2000). The shareholders was selecting the directors to act as stewards. The directors need to identify the interests of the shareholders in order to serve

them. Though the directors have to consider the interests of the employees, customers, suppliers and other legitimate stakeholders, shareholders are their first priority.

#### **2.2.4 Transaction Cost Theory**

Coase (1937) argues that firms evaluate the relative costs of alternative governance structures (spot market transactions, short term contracts, long-term contracts, vertical integration) for managing transactions. This theory is an interdisciplinary alliance of law, economics and organizations. It attempts to view the firm as an organization comprising people with different views and objectives. Transaction cost theory concentrates on the relative efficiency of different exchange processes. The underlying assumption of this theory is that firms have become so large that, they in effect substitute for a market in determining the allocation of resources (Vannoni, 2002). In other words, the organization and structure of a firm can determine price and production. The unit of analysis in transaction cost theory is the transaction. The combination of people with transaction suggests that managers are opportunists and arrange firms' transactions to their interests. Transaction costs in this case will refer to the costs of negotiating, monitoring, and governing exchanges between people internally and externally.

#### **2.2.5 Resource Dependency Theory**

Aldrich and Pfeffer (1976) assume that organizations are not able to generate all the resources required to survive internally. It concentrates on the role of board of directors in providing access to resources needed by the firm (Abdullah & Valentine, 2009). It focuses on the role that directors play in providing or securing essential resources to an organization through their linkages to the external environment. Resource dependency theorists provide focus on the appointment of representatives (directors/board) of

independent organizations as a means for gaining access in resources critical to firm success it links the firm to the environment (Pugh & Hickson, 1997).

In other words outside directors who are partners to a law firm provide can legal advice, either in board meetings or in private communication with the firm executives that may otherwise be more costly for the firm to secure. The provision of resources enhances organizational functioning, firm's performance and its survival. Directors bring resources to the firm, such as information, skills, access to key constituents such as suppliers, buyers, public policy makers, social groups as well as legitimacy. Directors can be classified into four categories of insiders, business experts, support specialists and community 'influentials'.

### **2.3 Determinants of Financial Performance of Telecommunications Firms**

According to OECD (1990) performance indicators for telecommunications are network size, penetration rates, revenues and traffic. However, it is hard to avoid the conclusion that size matters in telecom. It is an expensive business contenders need to be large enough and produce sufficient cash flow to absorb the costs of expanding networks and services that become obsolete seemingly overnight. Transmission systems need to be replaced as frequently as every two years. Big companies that own extensive networks especially local networks that stretch directly into customers' homes and businesses are less reliant on interconnecting with other companies to get calls and data to their final destinations. For smaller operators hoping to grow big someday, the financial challenges of keeping up with rapid technological change and depreciation can be monumental.

The largest driver for telecommunications revenue continues to be mobile telephony, but due to advances in network technology, this is changing. Telecom is less about voice and increasingly about data (money transfer, text and internet). Competitors in the telecommunications industry rely heavily on pricing strategy to increase its earnings. However factors such as brand name and heavy investment in efficient systems also play a crucial part (Mani, 2008). Competitive tariffs and a battle of promotions continue to drive performance, while telecom companies try to make a bigger push for increased market share through its new networks and mobile money services (Gendall & Aarsal, 2013).

Other telecom operators also make boost their performance by providing network connectivity to other telecommunication companies that need it, and by wholesaling circuits to heavy network users like internet service providers and large corporations. Also notably is that telecommunications multinationals, for instance, spend heavily on telecom infrastructure to support widespread operations into very underdeveloped areas. Therefore it is hard to avoid the conclusion that size matters in telecom. It is an expensive business firms need to be large enough and produce sufficient cash flow to absorb the costs of expanding networks and services that may become obsolete seemingly overnight.

The average revenue per unit (ARPU) is a term used frequently used in measuring performance in the telecommunications industry. According to CCK the mobile subscription stand at 30.7 million which is about 77% of the country's population and this figure keeps climbing every year. It reflects the average amount of sales a company generates per subscriber (or unit) in a given time period. The ARPU provides an idea of

how much the business brings in per customer. The higher this figure is the better the overall performance of the firm.

## **2.4 Review of Empirical Studies**

Corporate governance issues have gained worldwide attention in the last decade. With the spectacular collapse of Enron, leading to the boards of directors of many underperforming firms were reluctantly thrust into the spotlight (Tricker, 2009). Many scholars have sought to establish whether various corporate governance mechanisms affect firm's financial performance.

In this regard, research has proved that the board composition has become significant as the primary responsibility in keeping the board independent (Zahra & Pearce II, 1989). The board has been at the core of corporate governance systems. The effectiveness of the board in monitoring managers is associated with board composition, in other words, board independence. Non-executive directors i.e. outside directors are viewed as professional referees who can objectively assess managerial performance, determine their remuneration, and replace them if necessary (Boeker, 1992).

Yermack (1996) found an inverse relationship between company financial performance and board size measured by Tobin's Q. Also Hossain et al. (2001) found similar results for companies in New Zealand. Since board size has a negative effect on financial performance, the long term effect of this was a decline in board members. This means that bigger companies will have bigger boards and smaller companies will have smaller boards. Organizational behavior research suggests that as group sizes grow larger, total productivity exhibits diminishing returns (Hackman, 1990).

Hossain et al., (2001) found a positive relationship between board composition and company financial performance. This is to mean that board composition plays a crucial role in the financial performance of the company. If a firm has more non-executive directors on its board will perform better than one that does not. This study is also supported by Hermalin and Weisbach (1991) but they found a very weak relationship using the Tobin's Q measure of performance in their study. Therefore, suggesting that an increase in non-executive directors may increase board vigilance on the management. In contrast, Agrawal and Knoeber (1996) found a negative relationship between board composition and company financial performance using Tobin's Q. This view is also supported by Klein (1998) who found a significant negative relationship between a change in market value of equity and the proportion of independent directors, but an insignificant relationship for ROA.

According to Miring'u and Muoria (2011), there is a positive relationship between ROE and board size and board compositions. The study sought to examine how corporate governance affects financial performance in commercial state corporations in Kenya. They sampled 30 state corporations analyzed using regression technique. This study supports that well-governed firms have higher firm performance. Therefore with improved governance systems firms' financial performance was boosted. These research findings are consistent with earlier research by Kihara (2006) who observes that unlike inside directors, outside directors are better and able to challenge the CEO.

Aduda et al (2012), in a study to determine corporate governance practices, and the effect of corporate governance on financial performance, of broadcasting stations in Kenya. Data was collected from heads of various departments in thirty five (35) broadcasting

stations in Kenya. Using a multiple regression model it was found that there was no relation between the proportion of outside directors and various financial performance measures however better corporate governance is correlated with better financial performance and market valuation. Further the splitting of the roles of chairman and chief executive affected the financial performance of the companies.

Halder et al (2013) examines the efficacy of the presence of independent directors on firm value in Indian companies using both market based performance measure Tobin's Q and accounting based ratios Economic Value Added ROA and ROE. They considered 200 firms listed in India and collected data of period between 2004–2007. They found that independent directors insignificantly affect firm value except in the case of ROE. Generally they noted that that independent directors positively impact financial performance (ROE) when they are in majority and When they are in minority, instead of adding value, independent directors have a negative impact on firm values.

A study by Khurelbaatar and Bavuudorj (2013) on corporate governance mechanisms and firm performance in the Mongolian Stock Exchange revealed that determinants of corporate governance are not correlated to the performance measures of the organization. The model showed that corporate governance don't affect companies return on equity and return on assets. This analysis mainly focused on the relationship between return on equity (ROE) and return on assets (ROA) and the total corporate governance index. The results of the study provide evidence that the corporate governance measures are negatively related with ROE and ROA which were used as the financial performance measures.

Locally, a research by Rambo (2013) aimed at determining the influence of CMA's guidelines on good corporate governance on the financial performance of Kenyan commercial banks. Data was collected from 16 banks 7 of which were listed in the NSE for the period between May and June 2010. Using a one-way Analysis of Variance (ANOVA), Pearson's Correlation Coefficient and multiple regression models to analyze the data. He found that that listed banks recorded better financial performance than those unlisted, an achievement that was attributable to conformity and alignment with the guidelines. From this it is noted that good corporate governance leads to positive financial performance.

A study by Olweny and Wanyama (2013) aimed at investigating the effects of corporate governance on the financial performance of listed insurance companies in Kenya. The study examined board size, board composition, CEO duality and leverage and their effects on the financial performance of listed insurance Companies in Kenya. Performance was measured using ROA and ROE based on data between 2007-2011. This study adopted a descriptive research design. The study found that a strong relationship existed between the corporate governance practices and the firms' financial performance. Board size was found to negatively affect the financial performance whereas there was a positive relationship between board composition and firm financial performance. Similarly, leverage was found to positively affect financial performance.

## **2.5 Summary of Literature Review**

The research findings related to governance mechanisms and company financial performance have been mixed. So far, research on Boards of Directors has been limited in terms of scale and scope and it is considered to be at an early stage of development. This



was mainly the result of inconsistencies relating to the measurement of variables, differences in data used, different performance measures used and different methodologies employed. Corporate governance research conducted focuses mainly on listed companies where the focus has been on establishing whether there exists any relationship between corporate governance mechanisms and company financial performance.

This research aims to extend existing corporate governance literature by focusing on the effect corporate governance practices in telecommunication firms and effect they have had on financial performance in Kenya. In addition, this study explores the size and industry effect of corporate governance practices on firm's financial performance and provides insight into the governance practices of telecommunication companies. Little is known about the corporate governance of telecommunication companies in Kenya and its effect on financial performance. Hence, this study will contribute to new knowledge and facilitate a comparative analysis of governance practices applied in telecomm sector and other sectors in Kenya.

## **CHAPTER THREE**

### **RESEARCH METHODOLOGY**

#### **3.1 Introduction**

The methodology presents a description of how the study was approached. It presents the plan of the research, that is, the research design, how data was collected and from whom, and the data analysis technique that was adopted to analyze the data in order to generate the findings of the study.

#### **3.2 Research Design**

This study is based on an exploratory design. A mixed qualitative-quantitative method was used in data analysis. Mixed-method research works particularly well for exploratory research since it allows the researcher to take the rich empirical data yielded from subjects and apply either quantitative or qualitative methods to the data (Kitchenham et al, 2009). Kitchenham et al, goes on to say that in this manner, qualitative data can be quantified or quantitative data can be ‘qualitized’ to extract meaning from the data sets that might otherwise be hidden.

#### **3.3 Population**

According to the licensing framework of the Communications Authority of Kenya the key firms in the industry are known as NFP Tier 1 and identified as national operators. These will form the target population i.e. all the 4 telecommunication firms in category 1 in the Communications Authority list as at 30th June 2014. All the 4 firms in the category was included in the research therefore being a census.

### **3.4 Data Collection**

Researchers collect either or both of these data to answer the research question (s) and objectives. As financial sector is a much secured sector it is not possible to collect primary data at all times. So in this research secondary data collection from various sources is used. For the corporate governance system variables; the board size was the number of directors in the firm and this information is contained in the annual reports as well as their annual returns to CA as required under the licensing conditions. For the financial analysis the data collected from their annual reports (Financial statements) and company websites was used. This study concentrates on secondary data, mainly because of the nature of the topic and because of easy accessibility when collecting data as compared to primary data as well as time and budget constraints in completing this study.

### **3.5 Data Analysis**

The research problem in this study is whether corporate governance affects the financial performance of telecommunications firms. Corporate governance is a wide issue and very qualitative, for this reason it's hard to link it directly to the performance of a company. Looking at just one financial data it is not easy to categorize a firm has good or bad performance. Analyzing various financial aspects of the organization is very important to check whether the firm's corporate governance changes the performance.

The research problem is analyzed using the quantitative secondary data as the primary data is not available and not easy to obtain. This research problem is a common problem in most organizations. For this reason this research has narrowed down to Kenya' telecommunications industry and various aspects of the financial data from the selected

(Revenue/ Sales, ROA and Debt) and firm' in the telecommunications companies are used.

A comparative kind of method is used to compare the corporate governance in the selected firms. The analysis covers a comparative study on the corporate governance in terms of board size and composition in each organization. The financial analysis of the performance is based on the Revenue, Debt and ROA. Five years data is collected from various sources to analyze the performance and the data is presented in a tabular format. The data is analyzed using statistical method, and results are displayed using tables.

Descriptive statistics were used to show central tendencies such as the mean and measures of dispersion such as the standard deviation. The inferential statistic was used to show the nature and magnitude of relationships established between the independent and dependent variable using regression analysis. This was done by using computer software referred to as “statistical package for the social sciences (SPSS) version 17.

The study uses a multiple regression model to determine the relationship between corporate governance and financial performance. The results were tested on a significance level of 0.05. The regression analysis has taken the following model:

$$Y_{it} = \beta_0 + \beta_1 X1_{it} + \beta_2 X2_{it} + \beta_3 X3_{it} + \beta_4 X4 + \beta_5 X5 + \mu_{it}$$

$Y_{it}$  = Return on Asset (ROA measure by ratio net income over total assets).

$X1_{it}$  = Board size (Total number of board member)

$X2_{it}$  = Board Composition (Ratio of non-executive directors against total board members)

$X3_{it}$  = Size of the company i at time t (Measured by Natural log of total assets)

$X4_{it}$  = Leverage for company  $i$  at time  $t$  (Book value of debt divided by book value of total assets)

$X5_{it}$  = Ratio of Growth for company  $i$  at time  $t$  (Growth rate of revenue)

$\beta_0$  = Constant

$\beta_1 - \beta_5$  = Coefficients of Independent variables.

$\mu_{it}$  = Error Term

$i = 1 - 4$  companies

$t = 2009 - 2013$

This paper does not include all dimensions of the corporate governance and firm's performance but limited to the following variables above. The findings from the financial data and the corporate governance structure are combined to produce the result in the discussion part to provide the reply for the research problem. The discussion part describes the nature of the analysis and the findings from the analysis.

## CHAPTER FOUR

### DATA ANALYSIS, RESULTS AND DISCUSSION

#### 4.1 Introduction

The purpose of this study was to assess the effects of corporate governance on financial performance of telecommunication firms. This chapter covers data analysis, interpretation and discussion of the findings. The data is analyzed and presented in tabular form.

#### 4.2 Response Rate

The data from the four firms required were the financial statements and report for the years between 2009 and 2013. From one of the firms (Safaricom ltd) the annual reports were published in their website as part of the investor information thus the data was publicly available. The other three firms (Essar Telecom Kenya Ltd, Telkom Kenya Ltd and Airtel Kenya Ltd) a request was made to the telecommunications regulator (Communications Authority of Kenya). Through the regulatory filings by the firms to the regulator the annual reports and financial statement of the three firms were provided.

#### 4.3 Descriptive Statistics

**Table 4.1: Descriptive Statistics**

	N	Minimum	Maximum	Mean	Median	Std. Deviation
ROA	20	-.49	.15	-.1670	-.2150	.21580
Board Size	20	4	11	7.30	7.50	2.536
Board Composition	20	.33	1.00	.8555	.9450	.19896
Size of the company	20	16.24	18.67	17.4295	17.4050	.77351
Leverage	20	.11	1.29	.5270	.5150	.38008
Ratio of Growth	20	-.08	9.51	.6390	.0950	2.12248
Valid N (listwise)	20					

The Table 4.1 above presents the descriptive statistics of the four telecommunication firms in Kenya, on the study variables. The minimum number of the board size was four members while the highest was eleven board members, minimum return on asset was -.49 while highest was 0.15. On board composition one of the firms had almost half the ratio of non-executive directors against total board members while one company had 75% of non-executive directors against total board members. The minimum book value of debt divided by book value of total assets of 0.11 was obtained while a maximum of 1.29 was obtained as presented above. One of the firms had a high ratio of growth of 2.93 and this indicated low leverage and high ROA.

#### 4.4 Correlations among the Variables

**Table 4.2: Correlations among the Variables**

	ROA	Board Size	Board Composition	Size of the Firm	Leverage for Firm	Ratio for firms growth
ROA	1					
Board Size	-.691*	1				
Board Composition	.062	.327	1			
Size of the company	.677**	.803**	.036	1		
Leverage for company	-.458**	-.231	-.285	-.394	1	
Ratio of Growth for Firm	-.164	-.367	.199	-.273	-.088	1
*. Correlation is significant at the 0.05 level (2-tailed).						
**.Correlation is significant at the 0.01 level(2-tailed).						

A significant negative relationship can be seen between board size and ROA ( $r = -.691$ ) implying that a large board size led to low ROA. A similar trend of negative relationship was observed between the leverage and the board size, board composition, and the size of the company ( $r = -.231, -.285$  and  $-.394$ ). This implied that company's leverage was not influenced by the board size, its board composition and the company's size. This is

consistent with earlier studies by Lipton and Lorsch (1992); Jensen (1993); Yermack (1996); Bennedsen et al, (2006). They all argued that a large board is ineffective as compared to smaller boards.

There was strong relation between ROA, size of the company and the board size as indicated by the correlation coefficient (r) of .881 and .571 respectively. This implied that the larger firms experienced higher ROA as well the bigger board size led to a higher ROA which is in contrast to the firm's leverage which was influenced negatively (r = -.458).

#### 4.5 Regression Analysis

In this study, a multiple regression analysis was conducted to test the influence among predictor variables. The study used the ROA as the dependent variable and board size, board composition, size of the company and ratio of growth as the independent variables. The research used statistical package for social sciences (SPSS) to code, enter and compute the measurements of the multiple regressions. The regression model summary is summarized below:

**Table 4.3: Model Summary**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.830 <sup>a</sup>	.689	.578	.14018

a. Predictors: (Constant), Ratio of Growth for company , Leverage for company , Board Composition , Size of the company , Board Size

Coefficient of determination explains the extent to which changes in the dependent variable can be explained by the change in the independent variables or the percentage of variation in the dependent variable. The result from the regression equation is shown in Table 4.2. The coefficient of determination ( $R^2$ ) indicates that about 68.9% of



change in return on asset is accounted for by the explanatory variables while the adjusted R-squared of 57.8% further justifies this effect.

**Table 4.4: ANOVA**

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	.610	5	.122	6.206	.003 <sup>b</sup>
	Residual	.275	14	.020		
	Total	.885	19			

a. Dependent Variable: ROA

b. Predictors: (Constant), Ratio of Growth for company , Leverage for company , Board Composition , Size of the company , Board Size

A linear relationship between the following, ROA, leverage, ratio of growth, board composition, size of company, and board size was tested at 5% level of significance (F = 6.206, Sig = 0.003). From these findings five predictor variables explain variation in the dependent variable (ROA).

**Table 4.5: Coefficients**

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-2.454	1.522		-1.613	.164
	Board Size	-.009	.029	-.108	-.318	.049
	Board Composition	-.058	.224	.198	-.261	.039
	Size of the company	.339	.206	.531	1.649	.011
	Leverage for company	-.301	.103	.530	-2.912	.017
	Ratio of Growth for company	-.010	.018	-.095	-.539	.044

a. Dependent Variable: ROA

Size of the company (Beta = 0.531) explained more to the ROA, followed by leverage (Beta = 0.530), board composition (Beta = .198). This implied that increase in leverage, board composition and size of the company led to increase in ROA of the telecommunications firms in Kenya. Board size however, negatively impacted on the ROA (Beta = -0.108). This implied that increase in the size of the board led to a reduction in ROA of firms in Kenya. Moreover the same was observed in ratio of growth (-.095)

Thus the regression equation becomes

$$Y_{it} (\text{ROA}) = -2.454 - 0.108 X_{1it} + 0.198 X_{2it} + 0.531 X_{3it} + 0.530 X_{4it} - 0.095 X_{5it}$$

According to the regression equation established, taking all factors into account (leverage, ratio of growth, board composition, size of company, and board size) constant at zero, the ROA of the four firms is -2.454. The data findings analyzed also showed that taking all other independent variables at zero, a unit decrease in board size led to a .108 decrease in ROA of the firms; a unit increase in board composition led to a 0.198 increase in firms ROA; a unit increase in size of the company led to a .531 increase in ROA of the firms, a unit increase leverage led to a 0.530 increase in ROA, and a unit decrease in the ratio of growth led to 0.095 decrease in ROA.

#### **4.6 Discussion of Research Findings**

There was significant negative relationship between board size and ROA and implied that big board size led to low ROA of the firms under study. Similar trend of negative relationship was observed between the leverage and the board size, board composition, and the size of the company. This implied that company's leverage was not influenced by the board size, its board composition and the company's size. This is consistent with

earlier studies by Lipton and Lorsch (1992); Jensen (1993); Yermack (1996); Bennedsen et al (2006). They all argued that larger board is ineffective as compared to smaller boards.

A strong relation was observed between ROA and size of the company and the board size as indicated by the correlation coefficient and this implied that the bigger companies experienced higher ROA as well the bigger board size led to a higher ROA which is in contrast to the company's leverage which was influenced negatively. The on the regression equation model, it employed return on asset as its dependent variables while board size, board composition, size of the company , leverage and ratio of growth are the independent variables.

Size of the company (Beta = 0.531) explained more to the ROA, followed by leverage (Beta = 0.530), board composition (Beta = .198). This implied that increase in leverage, board composition and size of the company led to increase in ROA of the telecommunications firms in Kenya. Board size however, negatively impacted on the ROA (Beta = -0.108). This implied that increase in the size of the board led to a reduction in ROA of firms in Kenya. Moreover the same was observed in ratio of growth (-.095)

On the board composition and the performance of the firms under study, the study was in contrast with Aduda et al (2012), who found that there was no relation between the proportion of outside directors and various financial performance measures however better corporate governance is correlated with better financial performance and market valuation but the results were in tandem with the findings of Hossain et al., (2001) who found a positive relationship between board composition and company financial performance.

On the board size, the findings were in contrary with the findings of Miring'u and Muoria (2011), which cited there is a positive relationship between ROA and board size and board compositions. This was further shown by the findings of Olweny and Wanyama (2013) who cited board size negatively affected the financial performance whereas there was a positive relationship between board composition and firm financial performance.

## CHAPTER FIVE

### SUMMARY, CONCLUSION AND RECOMMENDATIONS

#### 5.1 Introduction

This chapter discusses the summary, conclusions and recommendations of the findings of the study. The discussion is presented based on the research objective used in the study

#### 5.2 Summary of the Findings

The objective of the study was to establish the effect of corporate governance on the financial performance of telecommunication firms in Kenya. The study findings indicated that there was significant negative relationship between board size and ROA and implied that big board size led to low ROA of the firms under study. Similar trend of negative relationship was observed between the leverage and the board size, board composition, and the size of the company. A strong relation was observed between ROA and size of the company and the board size as indicated by the correlation coefficient and this implied that the bigger companies experienced higher ROA as well the bigger board size led to a higher ROA which is in contrast to the company's leverage which was influenced negatively. The on the regression equation model, it employed return on asset as its dependent variables while board size, board composition, size of the company, leverage and ratio of growth are the independent variables. The coefficient of determination ( $R^2$ ) indicated that 90.4% of change in return Size of the company (Beta = 0.531) explained more to the ROA, followed by leverage (Beta = 0.530), board composition (Beta = .198). This implied that increase in leverage, board composition and size of the company led to increase in ROA of the telecommunications firms in Kenya. Board size however, negatively impacted on the ROA (Beta = -0.108). This implied that

increase in the size of the board led to a reduction in ROA of firms in Kenya. Moreover the same was observed in ratio of growth (-.095). On the board composition and the performance of the firms under study, the study was in contrast with Aduda et al (2012), who found that there was no relation between the proportion of outside directors and various financial performance measures however better corporate governance is correlated with better financial performance and market valuation but the results were in tandem with the findings of Hossain et al., (2001) who found a positive relationship between board composition and company financial performance. Leverage of the firms under study had a strong negative relationship with the ROA which was contrarily to the findings of Olweny and Wanyama (2013) who indicated leverage was found to positively affect financial performance.

### **5.3 Conclusion**

Findings on the relationship between corporate governance variables and ROA indicated significant negative relationship. Board composition plays a crucial role in the financial performance of the company. If a firm has more non-executive directors on its board will perform better than one that does not. On the board size, a smaller is more preferable to a larger one.

Company's/ firms leverage was critical in determination of its return to asset/ equity. Board composition (Ratio of non-executive directors against total board members) had a positive relationship to the ROA of the firms and thus firms should increase their boards' composition for better corporate governance. The leverage led to higher ROA of the firms and thus the firms should limit the amount of the debts. The larger firm (Safaricom)

experienced higher ROA and this is attested to the fact that these firms have higher leverage ratios.

Also noted from the empirical evidence gathered from this study is mixed and gives little evidence for the shape of an optimal governance structure. One explanation is that the existing theories have not been sufficiently complete to include all major determinants of good corporate governance. Perhaps there will be no optimal governance structure because no two firms, two markets, two legal regimes or two authorities that are exactly the same, resulting in highly complex issues of corporate governance. Ultimately corporate governance is determined by a combination of the above factors and their dynamics. The way forward is examining corporate governance for telecommunication firms in Kenya, perhaps might be increasing the focus on Shareholder interests and concerns, rather than trying to find some specific mechanisms which are universally applicable for effective corporate governance.

#### **5.4 Recommendations**

From the findings on the effect of board size on financial performance which was negative and for boards to be effective in performing their roles, there is need to review the numbers of board members to avoid having large boards for all of the telecommunication companies in Kenya as well as other firms not under the study.

On the firms' board composition, the firms should increase their number of non-executive directors against total board members as well as gender as this would ensure compliance with better corporate governance principles and this would lead to a better financial performance. The firms should also maintain manageable leverage as this would enhance its overall stand in terms of its size and better financial performance as it was observed that a company's size affected its ROA.

### **5.5 Limitations of the Study**

The study was faced with some challenges. This was particularly in data collection as some of the information on the variables was not publicly available and thus the researcher made appointment with the key personnel and institutions seeking the information and some of respondents were not readily available and this led to delays in data collection and analysis.

This study centered in the relationship between corporate governance and firm performance in telecommunications firms in Kenya. The study did not consider any other factors that inevitably affect performance regardless of corporate governance such as Political, environmental and social-economic and technological. There is the possibility of omission of governance variables that may be relevant in the performance equation or with strong relations to other governance mechanisms. For instance, the extent to which some telecommunications firms rely on executive compensation that may help them reduce agency problems between managers and shareholders, and possibly rely less on other governance mechanisms. Therefore, the system of equations may be mis-specified.

### **5.6 Suggestions for Further Research**

This study has examined effect of corporate governance on the financial performance of telecommunication firms in Kenya. To this end therefore, the same study should be carried out in another industry using the same variables to find out if the same results would be obtained. This will be of value in order to iron out the different findings by various researchers and ascertain whether it can be summarized to give one general conclusion on how corporate governance affects financial performance especially in Kenya.



The study used five variables as the measures of corporate governance in determining financial performance and these were Leverage, Ratio of Growth, Board Composition, size of company, and board size. Further studies in determining the relationship between corporate governance and financial performance should use other variables such as the CEO duality, board roles, contingency and board effectiveness.

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## APPENDIX

### Appendix I: List of Telecommunications Firms

	NAME
1	Safaricom Ltd
2	Telkom Kenya
3	Essar Telecom Kenya Ltd
4	Airtel Kenya Ltd

### Appendix II: Corporate Governance: Board Size and Board Composition

Corporate Governance						
Telecommunications Firm	2009	2010	2011	2012	2013	Average
<b>Board Size</b>						
Safaricom Ltd	9.00	9.00	9.00	9.00	11.00	9.40
Telkom Kenya Ltd	10.00	10.00	10.00	10.00	10.00	10.00
Essar Telecom Kenya Ltd	5.00	4.00	4.00	5.00	5.00	4.60
Airtel Kenya Ltd	5.00	5.00	5.00	5.00	6.00	5.20
<b>Board Composition</b>						
	2009	2010	2011	2012	2013	Average
Safaricom Ltd	0.89	0.89	0.89	0.89	0.82	0.87
Telkom Kenya Ltd	1.00	1.00	1.00	1.00	1.00	1.00
Essar Telecom Kenya Ltd	1.00	1.00	1.00	1.00	1.00	1.00
Airtel Kenya Ltd	0.60	0.60	0.60	0.60	0.33	0.55

### Appendix III: Firms Performance ROA

Firms Performance ROA					
Telecommunications Firm	2009	2010	2011	2012	2013
Safaricom Ltd	0.11	0.15	0.12	0.10	0.14
Telkom Kenya Ltd	-0.21	-0.19	-0.42	-0.18	-0.22
Essar Telecom Kenya Ltd	0.13	-0.28	-0.36	-0.41	-0.44
Airtel Kenya Ltd	-0.19	-0.49	-0.23	-0.25	-0.22

## Appendix IV: Firms Overall Performance

### Safaricom Limited

	Y		Y	X1	X2	X3	X4	X5	
2013	Profits	17,539,810.00	0.14	11	0.82	128,856,157.00	0.16	124,287,856.00	0.16
	Total Assets	128,856,157.00							
2012	Profits	12,627,607.00	0.10	9	0.89	121,899,677.00	0.16	106,995,529.00	0.13
	Total Assets	121,899,677.00							
2011	Profits	13,158,973.00	0.12	9	0.89	113,854,762.00	0.13	94,832,227.00	0.13
	Total Assets	113,854,762.00							
2010	Profits	15,148,038.00	0.15	9	0.89	104,120,850.00	0.16	83,960,677.00	0.19
	Total Assets	104,120,850.00							
2009	Profits	10,536,760.00	0.11	9	0.89	91,682,324.00	0.12	70,479,587.00	0
	Total Assets	91,682,324.00							
			0.62	47.00	4.37	560,413,770.00	0.73		0.61
			$Y_{it}$	$X1_{it}$	$X2_{it}$	$X3_{it}$	$X4_{it}$		$X5_{it}$
			0.12	9.40	0.87	112,082,754.00	0.15		0.15

### Telkom Kenya Limited

	Y		Y	X1	X2	X3	X4	X5	
2013	Profits	(9,133,000.00)	-0.22	10	1.00	42,018,000.00	0.49	9,461,000.00	(0.03)
	Total Assets	42,018,000.00							
2012	Profits	(7,998,000.00)	-0.18	10	1.00	43,715,000.00	0.19	9,786,000.00	0.06
	Total Assets	43,715,000.00							
2011	Profits	(18,459,000.00)	-0.42	10	1.00	44,434,000.00	1.18	9,243,000.00	(0.08)
	Total Assets	44,434,000.00							
2010	Profits	(9,201,000.00)	-0.19	10	1.00	48,487,000.00	0.84	10,001,000.00	(0.03)
	Total Assets	48,487,000.00							
2009	Profits	(8,911,000.00)	-0.21	10	1.00	42,175,000.00	0.62	10,294,000.00	0
	Total Assets	42,175,000.00							
			-1.22	50.00	5.00	220,829,000.00	3.33		-0.08
			$Y_{it}$	$X1_{it}$	$X2_{it}$	$X3_{it}$	$X4_{it}$		$X5_{it}$
			(0.24)	10.00	1.00	44,165,800.00	0.67		(0.02)

## Essar Telecom Kenya Limited

	Y		Y	X1	X2	X3	X4	X5	
2013	Profits	(5,665,596.00)	-0.44	5	1.00	12,757,652.00	0.56	2,991,521.00	0.36
	Total Assets	12,757,652.00							
2012	Profits	(6,134,960.00)	-0.41	5	1.00	15,029,420.00	0.97	2,204,521.00	0.14
	Total Assets	15,029,420.00							
2011	Profits	(6,672,992.00)	-0.36	4	1.00	18,595,814.00	0.79	1,930,057.00	1.71
	Total Assets	18,595,814.00							
2010	Profits	(4,769,433.00)	-0.28	4	1.00	17,126,936.00	0.33	712,507.00	9.51
	Total Assets	17,126,936.00							
2009	Profits	1,441,997.54	0.13	5	1.00	11,276,467.00	0.11	67,820.31	0
	Total Assets	11,276,467.00							
			-1.36	23.00	5.00	74,786,289.00	2.76		11.71
			$Y_{it}$	$X1_{it}$	$X2_{it}$	$X3_{it}$	$X4_{it}$		$X5_{it}$
			(0.27)	4.60	1.00	14,957,257.80	0.55		2.93

## Airtel Kenya

	Y		Y	X1	X2	X3	X4	X5	
2013	Profits	(5,843,181.00)	-0.22	6	0.33	26,459,001.00	1.29	15,376,338.00	0.02
	Total Assets	26,459,001.00							
2012	Profits	(7,192,449.00)	-0.25	5	0.60	28,351,717.00	1.01	15,064,755.00	0.34
	Total Assets	28,351,717.00							
2011	Profits	(7,194,038.00)	-0.23	5	0.60	31,186,935.00	0.62	11,250,645.00	0.15
	Total Assets	31,186,935.00							
2010	Profits	(10,424,814.00)	-0.49	5	0.60	21,062,496.00	0.54	9,807,364.00	0.02
	Total Assets	21,062,496.00							
2009	Profits	(4,894,567.00)	-0.19	5	0.60	25,386,156.00	0.27	9,569,068.00	0
	Total Assets	25,386,156.00							
			-1.39	26.00	2.73	132,446,305.00	3.74		0.53
			$Y_{it}$	$X1_{it}$	$X2_{it}$	$X3_{it}$	$X4_{it}$		$X5_{it}$
			(0.28)	5.20	0.55	26,489,261.00	0.75		0.13

## Appendix V: Summary

ROA	Board Size	Board Composition	Size of the company(Nat log)	Leverage	Ratio of Growth
0.14	11.00	0.82	18.67	0.16	0.16
0.10	9.00	0.89	18.62	0.16	0.13
0.12	9.00	0.89	18.55	0.13	0.13
0.15	9.00	0.89	18.46	0.16	0.19
0.11	9.00	0.89	18.33	0.12	0.00
-0.22	10.00	1.00	17.55	0.49	-0.03
-0.18	10.00	1.00	17.59	0.19	0.06
-0.42	10.00	1.00	17.61	1.18	-0.08
-0.19	10.00	1.00	17.70	0.84	-0.03
-0.21	10.00	1.00	17.56	0.62	0.00
-0.44	5.00	1.00	16.36	0.56	0.36
-0.41	5.00	1.00	16.53	0.97	0.14
-0.36	4.00	1.00	16.74	0.79	1.71
-0.28	4.00	1.00	16.66	0.33	9.51
0.13	5.00	1.00	16.24	0.11	0.00
-0.22	6.00	0.33	17.09	1.29	0.02
-0.25	5.00	0.60	17.16	1.01	0.34
-0.23	5.00	0.60	17.26	0.62	0.15
-0.49	5.00	0.60	16.86	0.54	0.02
-0.19	5.00	0.60	17.05	0.27	0.00