CORPORATE GOVERNANCE AND FIRM PERFORMANCE OF LISTED FAMILY-OWNED FIRMS IN KENYA

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DECLARATION

This research project is my original work and has not been presented for a degree in this or any other University.

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I acknowledge my supervisors for the great support throughout this exercise.

DEDICATION

This project is dedicated to my beloved wife Wangechi, our kids Wairimu and Moche, my mother, my sister, my family and my entire friends for your encouragement, prayers and support.

ABSTRACT

Corporate Governance is concerned with the establishment of an appropriate legal, economic and institutional environment that would facilitate and allow business enterprises to grow, thrive and survive as institutions for maximizing shareholder value while being conscious of and providing for the well-being of all other stakeholders and society. Globally family owned business makes up at least two thirds of all businesses in the world. Family owned businesses are fundamentally different in corporate governance from widely held public companies. Family ownership concentrates control and allow greater agency in governance. The question is, is there any relationship between corporate governance and firm performance.

This study analyzes whether there is any relationship between corporate governance structures and firm performance of listed family-owned businesses in Kenya. In particular, we examine the corporate governance structures measured using shareholding, board composition, board functioning, control mechanisms and disclosures and compare this to firm performance measured using Return on Equity, Sales Growth, Net Margins and Tobin q.

The results of the study enable us to conclude that corporate governance is not related to firm performance for listed family-owned business. Using inferential statistics in analysis of data, it is noted that the results are not statistically significant. The study was limited by the sample size which is comprised of 14 companies which meet the definition of listed family-owned company as a business where the person who established or acquired the firm (share capital) or their families or descendants possess twenty five per cent of the decision-making rights mandated by their share capital.

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CHAPTER ONE: INTRODUCTION

1.1 Background of the Study

Globally, the concept of corporate governance has taken center stage due to the worldwide wave of privatization of the past two decades, increased pension fund reform, the growth of private savings, the takeover wave of the 1980s, deregulation and the integration of capital markets, global financial crisis of 1998 and a series of recent USA scandals and corporate failures for companies such as Adelphia, Enron and WorldCom (Becht, Bolton, & Röell, 2005). In line with the global trends, corporate governance has been an important topic of policy reform and discussion in Kenya for almost two decades (Capital Markets Steering Committee on Corporate Governance, 2014).

Corporate Governance is concerned with the establishment of an appropriate legal, economic and institutional environment that would facilitate and allow business enterprises to grow, thrive and survive as institutions for maximizing shareholder value while being conscious of and providing for the well-being of all other stakeholders and society (Private Sector Initiative for Corporate Governance, 1999). Good corporate governance structures in a business will attract investors; create competitive and efficient companies and business enterprises; enhance the accountability and performance of those entrusted to manage corporations; and promote efficient and effective use of limited resources. Corporate Governance is essential in underpinning entrepreneurship in all kinds of enterprise.

Family owned businesses can be small, medium sized or large, listed or unlisted. In order to appreciate the role of family businesses business, it will be important to have a clear definition of a family owned business. European Commission (2008) defines a family owned business as a firm where firstly, the majority of decision-making rights is in the possession of the natural person(s) who established the firm, or in the possession of the natural person(s) who has/have acquired the share capital of the firm, or in the possession of their spouses, parents, child or children's direct heirs; Secondly the majority of decision-making rights are indirect or direct; Thirdly, at least one representative of the family or kin is formally involved in the governance of the firm; and lastly, a listed companies meet the definition of family enterprise if the person who established or acquired the firm (share capital) or their families or descendants possess twenty five per cent of the decision-making rights mandated by their share capital.

Family owned business systems have been observed to have an enduring advantage over all other kinds of enterprise in large part because of their long-term goals, plans, and commitments (Davis, 2014). In a family owned business a significant percentage, though not necessarily a majority, of the stock, and family members were actively involved both on the board and in management (Nicolas, 2012). By family being in control of the business enables them to ensure their strategy is focused on protecting their people, embedding relationships and securing loyalty from clients and being flexible enough to respond to changing market conditions (KPMG Family Business , 2014).

Globally family owned business makes up at least two thirds of all businesses in the world (Davis, 2012). One-third of all companies in the S&P 500 index and 40 percent of the 250 largest companies in France and Germany are defined as family businesses, meaning that a family owns a significant share and can influence important decisions, particularly the election of the chairman and CEO (Caspar, 2010). Some of the wellknown family owned businesses include: Salvatore Ferragamo, Benetton and Fiat Group in Italy; L'Oreal, Carrefour Group, LVMH and Michelin in France; Samsung, Hyundai Motor and LG Group in South Korea; BMW and Siemens in Germany; Kikkoman and Ito-Yokado in Japan; and finally Ford Motors Co, News Corp. and Wal-Mart Stores in the United States (IFC, 2011). In Kenya some of the listed family owned businesses include NIC Bank, Sameer Africa, Athi River Mining, Rea Vipingo, Sasini, Longhorn, UAP Insurance, Bidco, Mabati Rolling Mills and UAP Insurance and among others.

In most countries round the world including Kenya both listed and non-listed companies operate as closely held companies with concentrated ownership (Opondo, 2010). In Kenya a number of companies are owned by substantial shareholder who is either institution investor or a family that started the business or have accumulated the shares over time. The family owned businesses whether listed or unlisted recognizes that whilst control of the business is important to them and has an influence on their success, the need for good governance structures is just as important (KPMG, 2014). Close to thirty percent of companies listed on the Nairobi Securities Exchange meet the definition of family owned business where families or descendants possess twenty five per cent of the decision-making rights mandated by their share capital.

The Capital Markets Authority developed Guidelines on Corporate Governance Practices by Public Listed Companies in Kenya in 2002 and they are currently being reviewed with the development of a Draft Code of Corporate Governance Practices for Public Listed Companies in Kenya. The objective of the guidelines is to strengthen corporate governance practices by listed companies in Kenya and to promote the standards of selfregulation so as to bring the level of governance in line with international trends (CMA, 2002).

1.1.1 Corporate Governance Characteristic for Family Owned Business

Family owned businesses are fundamentally different in corporate governance from widely held public companies. This difference derives primarily from the discrete nature of their ownership. Family ownership concentrates control and allow greater agency in governance. The family can play many roles across the business system, often facilitating and simplifying decision-making processes. This can both lower the costs of governance and enable unconventional, but strategically advantageous, decisions. In addition, the governance practices of family businesses often evolve, reflecting the stages of development in the business and the family. This need to adapt governance overtime is both an opportunity and a challenge of family business. Renewing effective ownership agency at different stages in family business development is one of the keys to sustaining family business advantage in performance (Ward, 2004).

There are three stages of growth in family owned businesses. During these three stages the businesses governance structure requirements for the business are varied due to the extent of controls in the business. The first stage of the business is where the business entirely owned and managed by the founder(s) which is characterized by relatively simple governance structure. The second stage is called siblings partnership where the where management and ownership have been transferred to the children of the founder(s). As more family members are now involved in the company, governance issues tend to become relatively more complex. The final phase of the business is called the cousin confederation and the business' governance becomes more complex as more family members are directly or indirectly involved in the business, including children of the siblings, cousins, and in-laws (IFC, 2011).

Many family businesses take the decision of going public at some stage in their life to be able to secure financial resources for the business expansion or to give its shareholders a way of selling their shares in case they prefer to cash them in. Going public is a complex process that requires careful consideration of the alternatives, plenty of preparation from the board and the management, and extensive outside specialists' advice. Family businesses that are planning to go public have to get professional advice and help in many legal, technical, financial, and marketing areas. In addition, many investors are now requiring the companies that are going public to show a long-term track-record of good corporate governance practices before they become a publicly listed entity. In particular, investors and the market highly value the company's practices in the areas of the board of directors, shareholder rights, and transparency and disclosure (IFC 2011). Family business that choose to be listed more often than not are faced by unique challenges of maintaining control of the business and also adhering to the stringent corporate governance requirement for listed entities.

1.1.2 Significance Corporate Governance

Corporate governance has been defined as the structures and processes for the direction and control of companies which concerns the relationships among the management, board of directors, controlling shareholders, minority shareholders, and other stakeholders in order to improve accountability, responsibility, transparency, and fairness (IFC, 2011). Corporate governance has also been defined as the manner in which the power of a corporation is exercised in the stewardship of the corporation's total portfolio of assets and resources with the objective of maintaining and increasing shareholder value and satisfaction of other stakeholders in the context of its corporate mission (Private Sector Initiative for Corporate Governance, 1999).

The definitions focus of key elements of direction which refers to all the decisions that relate to setting the overall strategic direction of the company's long-term strategic decisions such as large-scale investment decisions; mergers and acquisitions; and succession planning and appointment of key senior managers, such as the Chief Executive Officer of the company. It also involves controls that refer to all the actions necessary to oversee the management's performance and follow up on the implementation of the strategic decisions set above. Lastly it focuses on relationship among the main governing bodies of the firm, this refers to the interactions among the shareholders, the directors of the board, and the managers which is an important element of any good corporate governance structure that clearly define the role, duties, rights, and expectations of each of these governing bodies (IFC, 2011).

Businesses often face challenges in implementing corporate governance structures in the business. Creating governance structure in business means that the management who more often than not in a family-owned business are the same as the owners of the business will be accountable other people. Ward (2004) note that governance in a family-owned business is often focused on establishing productive, procedural engagement across the system unlike in a conventional business where governance often focus on establishing boundaries and defining the separation of decision-making powers. From the foregoing, setting up corporate governance structures that are in line with the corporate governance guideline provided by the Capital Market Authorities will not be an obvious case for family-owned business.

When business ownership is concentrates as it is the case with family-owned business, creating governance structures is a major challenge as owners do not appreciate the value of having good corporate governance structures. Board composition requires having independent directors nominated to the board. Having independent people who share the business interests sit in the board is often a major challenge for business seeking to establish corporate governance. Successful business often do not appreciate how having a functioning board will help grow the business, this becomes a challenge in establishing governance structures for the business.

1.1.3 Corporate Governance and Listed Companies

The OECD Principles of Corporate Governance the were endorsed by OECD Ministers in 1999 and have since become an international benchmark for policy makers, investors, corporations and other parties that have a role in the process of developing good corporate governance. The Principles focus on publicly traded companies, both financial and non-financial. However, to the extent they are deemed applicable, they might also be a useful tool to improve corporate governance in non-traded companies, for example, privately held and state owned enterprises (OECD, 2004). Many of the capital markets authorities around the world have adopted the OECD principles of corporate governance to evaluate and improve the legal, institutional and regulatory framework for corporate governance in their countries, and to provide guidance and suggestions for stock exchanges, investors, corporations, and other parties that have a role in the process of developing good corporate governance.

The Capital Markets Code of Corporate Governance sets out the principles and specific recommendations on structures and processes, which companies should adopt in making good Corporate Governance an integral part of their business dealings and culture (CMA, 2014) . The Capital Markets (Securities) (Public Offers, Listing and Disclosures) Regulations 2002 requires all listed companies to disclose in its annual reports a statement of the directors as to whether the issuer is complying with the guidelines on corporate governance issued by the CMA.

Corporate governance is affected by the relationships among participants in the governance system. Controlling shareholders, which may be individuals, family holdings, bloc alliances, or other corporations acting through a holding company or cross shareholdings, can significantly influence corporate behavior. As owners of equity, institutional investors are increasingly demanding a voice in corporate governance in some markets. Individual shareholders usually do not seek to exercise governance rights but may be highly concerned about obtaining fair treatment from controlling shareholders and management. Shareholder in listed companies are protected by mechanisms to constrain large shareholders, due to presence of a market for transferable shares and by reputation agents (accountants, rating agencies, and stock exchange watchdogs) who play an important role in both reducing information asymmetries and detecting fraud (OECD, 2004).

Good corporate governance practices have been observed to have significant positive impacts to the direct stakeholders that include investors and companies and the benefits to the wider group of stakeholders (including the capital market and the economy as a whole). For companies, good corporate governance provides improved access to finance (both equity and debt), higher market valuations, and better decision-making. Investors are more likely to provide capital at lower cost. Sustainable wealth creation within the private sector can only be brought about through good management, entrepreneurship, innovation, and better allocation of resources. Better corporate governance adds value by improving the performance of companies through more efficient management, better asset allocation, and improvements in productivity. Investor protections matter for the ability of companies to raise the capital needed to grow, innovate, diversify and compete (Capital Markets Steering Committee on Corporate Governance, 2014).

1.1.4 Corporate Governance and Firm Performance

Recent studies have emphasized that better corporate governance is related to better firm performance, better-governed firms should perform better than worse-governed firms. Corporate governance provides the structure through which the objectives of the company are set, and the means of attaining those objectives and monitoring performance are determined. Adherence to good corporate governance practices will help improve the confidence of investors, reduce the cost of capital, underpin the good functioning of financial markets, and ultimately induce more stable sources of financing (OECD, 2004). Good corporate governance practice increases access to external financing by firms which in turn leads to larger investment, higher growth, and greater employment creation. Good governance will lead to better operational performance through better allocation of resources and optimal wealth management. Good corporate governance can be associated with a reduced risk of financial crises, which is particularly important given that financial crises can have large economic and social costs (Yurtoglu, 2012).

Firm performance is important to various groups of people who include owners, managers, potential investors, banks, other financial institutions, creditors, business partners, employees, government and society at large. Performance at the firm level is measured in many different ways. Such ways include accounting measures of profitability, the Lerner index, sales per input, and growth rates of sales, total assets, total employment, operation profit and return on investment (Goldberg, 2013). Operating performance which measures profitability in relation to sales revenue, determines the net income earned on the sales revenue generated.

Management researchers prefer accounting variables as performance measures such as return on equity (ROE), return on investment (ROI), and return on assets (ROA), along with their variability as measures of risk. The operating performance of the business is calculated using the Return on Equity (ROE), Sales growth and Net profit Margin Ratios. These are captured by the firm's inherent performance that is controlled by the corporate governance structure in the business. Prior research has linked corporate governance to firm valuation using Tobin's Q as a proxy for firm valuation. For this study we will focus on firm financial performance measured by ROE, Sales growth, Net profit margin and Tobin q.

1.1.5 Listed Family-Owned Businesses in Kenya

There are approximately 40,000 formal, large and medium enterprises in Kenya that contribute approximately 60% to the GDP. Most of these businesses are family-owned businesses that are at their various stages of growth for the family owned business. Over the years we have seen family owned businesses in Kenya transitioning from small to large enterprises and from one generation to the next. A few of the family-owned businesses have been listed on the Nairobi Securities Exchange (NSE) over the years.

Currently there are 61 companies listed on the Equities Market of the NSE and 13 companies that have their fixed income securities listed on the same exchange markets. In total there are 67 companies that are listed on the NSE. This is because there are some companies that have both equities and fixed income securities that are listed on the NSE. Out of the total listed companies, 14 companies meet the definition of family-owned business as the person who established or acquired the firm (share capital) or their families or descendants possess twenty five per cent of the decision-making rights mandated by their share capital.

Listing a company offers several advantages to family-owned businesses and their shareholders. Firstly it improves marketability of shares which makes it possible for family shareholders to sell their shares at the prevailing stock price in the open market. Secondly, listing improves the company's financial position as the company is able to raise capital through the capital markets. Thirdly, it increases the potential for increase in the value of the Shares for family-owned companies above the initial estimation made by the investment banking firm. Lastly, by listing, a family business that goes public might increase its visibility in the market (IFC, 2011).

In many of the listed companies at the NSE, ownership is significantly concentrated. Being a listed family-owned business more often than not provides a company with numerous advantages. One key disadvantage for listing is the loss of autonomy once a company is listed. Even in cases where the family remains a controlling shareholder, minority shareholders have rights that will make it difficult for the original family members to operate unfettered. This study will analyze the corporate governance and firm performance of listed companies where the person who established or acquired the firm (share capital) or their families or descendants possess twenty five per cent of the decision-making rights mandated by their share capital.

1.2 Research Problem

Corporate governance generally refers to the set of mechanisms that influence the decisions made by managers when there is a separation of ownership and control (Larcker, 2005). Better corporate governance leads to transparency and better disclosure, thus providing the opportunity to establish relationships with all stakeholders in fair and more productive terms (IFC, 2007). Corporate governance systems can be distinguished according to the degree of ownership concentration and the identity of controlling shareholders. While some systems are characterized by wide dispersed ownership (outsider systems), others tend to be characterized by concentrated ownership (insider systems) where the controlling shareholder may be an individual, family holding, bloc alliance, financial institution or other corporations acting through a holding company or via cross shareholdings (Andersson, 2000).

Family-owned businesses account for two thirds of all businesses around the world. In most countries around the world, family-owned businesses are between 70% and 95% of all business entities. Family-owned businesses cover a vast range of firms in different sectors and of different sizes that range from sole proprietors to large international enterprises (Family Firm Institute, Inc., 2014). Family-owned businesses that raise capital from public shareholders at low cost can expand more rapidly than those constrained by family wealth. Family-controlled pyramidal groups arose everywhere as devices to tap public equity financing on a huge scale but retain family control over all key decisions (Morck, 2005).

Conventional business governance often focuses on establishing boundaries and defining the separation of decision-making powers. In contrast, family-owned business governance is often focused on establishing productive, procedural engagement across the system. Practices that provide for simultaneous consultations among owners, directors and managers are both cross-fertilizing and enabling of business decisions. Active processes providing for engagement across the system assure an ongoing alignment of interests and objectives over time (Ward, 2004). For listed companies on the other hand there are established corporate governance guidelines that create checks and balances between shareholders and management. For listed family-owned business, there is need to ensure the company complies with the corporate governance guidelines while also protecting and promoting family interests in business in a systematic way.

Numerous studies have been done covering area of corporate governance in Kenya. Oyoga (2006) examined corporate governance and firm performance of financial institutions listed in Nairobi Stock Exchange. Opondo (2010) analyzed the impact of corporate governance practices on operating performance of the unlisted financial institutions in Kenya. Ahmed (2009) examines Corporate Governance and Dividend Policy in Kenya: A Survey of Companies Listed at the Nairobi Stock Exchange. Miniga (2013) explored the relationship between corporate governance practices and financial performance of regulatory state corporations in Kenya. Other studies have been carried out in area of family-owned business. Abdille (2009) analyzed the effect of strategic succession planning on family owned business in Kenya. Maalu (2013) has undertaken a study aimed at determining the nature of business succession strategy and performance of small and medium family business in Nairobi.

To the best of the researchers' knowledge, no study has been done on corporate governance and firm performance of listed family-owned businesses in Kenya. This study seeks to fill this gap by investigating the impact of corporate governance on listed family-owned businesses in Kenya.

1.3 Objective of the Study

1.3.1 General Objectives of the study

The general objective of this study is to establish the relationship between corporate governance structures and firm performance of listed family-owned businesses in Kenya.

1.3.2 Specific objectives of the study

(i) To determine the effect of shareholding structure on firm performance

(ii) To establish the of board composition on firm performance

(iii) To examine the effect of board functioning on firm performance

(iv) To identify the effect of control structures on firm performance

(v) To establish the effect of board governance disclosure on firm performance

1.4 Importance of the Study

Policy Makers - This study will help policy makers in articulating policies that will help promotes private businesses that can transition into big corporates that will create wealth and employment in the market.

Capital Markets – There are numerous businesses in Kenya the can raise cheap financing from the capital markets to help them grow. This study will create a framework that can be adopted by the capital markets in designing a panacea for corporate governance challenges that continues to hinder businesses from raising capital from the public.

Institutional and Private Equity Investors – There are numerous businesses that are seeking equity capital to grow their businesses. Institutional and private equity firms are seeking opportunities in businesses that they can invest their capital on in order to grow those businesses and in return make money. This study will help this category of investor as they can grow their investment pipeline of potential deals that they can invest in.

Shareholders of Family Businesses – This study will help shareholder of the business unlock the value of their investment as by having good corporate governance their business is able to command higher valuation which can be realized through selling part of their investment to prospective investor in either private or public offering.

The study will also add to the body of knowledge by documenting corporate governance in family owned businesses in Kenya. The study will also form basis of further research to academicians in the area of corporate governance and family owned business.

CHAPTER TWO: LITERATURE REVIEW

2.1 Introduction

The literature review will cover areas of theoretical review, corporate governance, family owned business, corporate governance for family owned business, corporate governance structures, empirical studies, summary and conceptual framework.

2.2 Theoretical Review

There are numerous theories that have been advanced to support the corporate governance in businesses. Theories that are relevant to exercising control in business in order to enhance transparency include Agency theory, Stakeholders Theory and Stewardship Theory. A review of these theories will help us understand the linkages that can be promoted by having good corporate governance structures for family owned business.

2.2.1 Agency Theory

Adam Smith (1776), Berle and Means (1932) initiate the discussion relating to the concerns of separation of ownership and control in a large corporation. Sridharan (2004) define agency theory as a set of propositions in governing a modern corporation which is typically characterized by large number of shareholders or owners who allow separate individuals to control and direct the use of their collective capital for future gains. Jensen and Meckling (1976) observed that managers will not act to maximize the returns to shareholders unless appropriate governance structures are implemented in the large corporation to safeguard the interests of shareholders. Jensen and Meckling identify managers as the agents who are employed to work for maximizing the returns to the shareholders, who are the principals. Jensen and Meckling assume that as agents do not own the corporation's resources, they may commit 'moral hazards' merely to enhance their own personal wealth at the cost of their principals.

Fama (1980) pursues this concern and finds that the agency problem is controlled efficiently by a large firm through internal devices established in response to competition from other firms. Fama and Jensen argue that firms typically segregate decision management from the decision control rights both at top (the board and managers) and lower levels (managers and workers) of the firm's hierarchy. These in turn form the corporate governance structures that govern the business.

2.2.2 Stewardship Theory

Stewardship theory holds that executive manager, essentially wants to do a good job, and thus is a good steward of the corporate assets. Donaldson (1991) observes that structure in a business will be facilitative in the achievement of goals to the extent that they provide clear, consistent role expectations and authorize and empower senior management. Specifically, as regards the role of the CEO, structures will assist those to attain superior performance by their corporations to the extent that the CEO exercises complete authority over the corporation and that their role is unambiguous and unchallenged. This situation is attained more readily where the CEO is also chair of the board.

Stewardship theory is consistent with the practice of family owned businesses where control and authority is exercised by one person or a group of people. Ward (2004) note that family ownership concentrates control and allows greater agency in governance of the business. This in turn is able to lower the cost of governance and enable unconventional, but strategically advantageous, decisions.

2.2.3 Stakeholders Theory

For supporters of the ‘‘stakeholder theory’’ of the firm, shareholders are but one of a number of important stakeholder groups who includes customers, suppliers, employees, and local communities, shareholders have a stake in, and are affected by, the firm’s success or failure (Heath, 2004). The firm and its managers have special obligations to ensure that the shareholders receive a ‘‘fair’’ return on their investment; but the firm also has special obligations to other stakeholders, which go above and beyond those required by law. In the actual context of world economy globalization, the performing company is an "enterprise that creates added value for its shareholders, customers demand, taking into account the views of employees and protecting the environment (Violeta, 2013).

This theory of corporate governance based on maximizing the interests of all stakeholders has proved to be the most efficient in history, not only because it conducts to the economic success of the company, but also because it works to achieve a competitive advantage due to gain people's trust and consequently a goodwill on the market (European Commission, 2005).

The stakeholders theory is consistent with the family owned business objectives. Ward (2004) notes that family business stake in business go beyond economics and often become a source of self-identity and pride. He further establishes that families can have a sense of moral obligation to other stakeholders, or even view business as a vehicle for making a positive contribution to society.

2.3 Corporate Governance

Stijn Claessens and Burcin Yurtoglu (2012) observe that definitions of corporate governance vary widely. They tend to fall into two categories. The first focuses on behavioral patterns—the actual behavior of corporations, as measured by performance, efficiency, growth, financial structure, and treatment of shareholders and other stakeholders. The second concerns itself with the normative framework—the rules under which firms operate, with the rules coming from such sources as the legal system, financial markets, and factor (labor) markets. IFC Corporate Governance Instruction Sheet (2007) defines corporate governance refers to the structures and processes for the direction and control of companies and concerns the relationships among the management, Board of Directors or Supervisory Board, controlling shareholders, minority shareholders and other stakeholders. Denis and McConnell (2003) define corporate governance as the set of mechanisms – both institutional and market-based – that induce the self-interested controllers of a company (those that make decisions regarding how the company will be operated) to make decisions that maximize the value of the company to its owners (the suppliers of capital).

Corporate governance covers issues that involves; financial stakeholders who are the shareholders; Boards of Directors who are involved in enforcing checks and balances; control environment that constitutes accounting, controls, internal and external audit; and transparency and disclosure (IFC, 2010). Corporate governance is affected by the relationships among participants in the governance system. Controlling shareholders, which may be individuals, family holdings, bloc alliances, or other corporations acting through a holding company or cross shareholdings, can significantly influence corporate behavior. As owners of equity, institutional investors are increasingly demanding a voice in corporate governance in some markets. Individual shareholders usually do not seek to exercise governance rights but may be highly concerned about obtaining fair treatment from controlling shareholders and management. Creditors play an important role in a number of governance systems and can serve as external monitors over corporate performance. Employees and other stakeholders play an important role in contributing to the long-term success and performance of the corporation, while governments establish the overall institutional and legal framework for corporate governance (OECD, 2004).

Good corporate governance contributes to sustainable economic development by enhancing the performance of companies and increasing their access to outside capital. An increasing amount of empirical evidence indicates that well-governed companies receive higher market valuations. Improving corporate governance will also increase other capital flows to companies in developing countries: from domestic and global capital; equity and debt; and from public securities markets and private capital sources. Good corporate governance leads to better performance for our investee companies. Improved governance structures and processes help ensure high quality decision making, encourage effective succession planning for senior management and enhance the long-term prosperity of companies, irrespective of the type of company and its sources of finance (IFC, 2010).

2.4 Family Owned Business

The family owned business is the most frequently encountered ownership model in the world and their impact on the global economy is considered to be significant. Despite their great number, the academic and business communities have yet to uniformly define what exactly constitutes a family owned business. The long running debate has never garnered conclusive results. When defined as businesses that are majority-owned by a single family's members, it is estimated that the total contribution of family businesses to global GDP is over 70% (Tharawat Magazine, 2014).

European Commission (2009) notes that family owned firms are important, not only because they make an essential contribution to the economy, but also because of the long-term stability they bring, the specific commitment they show to local communities, the responsibility they feel as owners and the values they stand for. These are precious factors against the backdrop of the current financial crisis. Family businesses make up more than 60 % of all European companies, encompassing a vast range of firms of different sizes and from different sectors. Across Europe, about 70 % - 80 % of enterprises are family businesses and they account for about 40 % - 50 % of employment (Mandl, 2008).

Family-owned businesses are the backbone of the American economy. Studies have shown about 35 percent of Fortune 500 companies are family-controlled and represent the full spectrum of American companies from small business to major corporations. In addition, family businesses account for 50 percent of U.S. gross domestic product, generate 60 percent of the country's employment, and account for 78 percent of all new job creation (Conway Centre for Family Business, 2006). Weighting - in most countries around the world, family owned businesses are between 70 and 95% of all business entities. Statistics for Kenya have not been provided to support this proposition but the trend would not be significantly different.

There are different categories of owners in a family business; Owner, active in governance has three simultaneous roles: as family member, as owner and as manager; Owner, non-active in governance is a family member and owner; Non-owning, active in governance family member has two roles: as owner and as manager; Non-family member, active in governance can be a member of the board or management; Non-family member, owner is usually a capital investor or a managing director, who owns shares of the family firm and Family members, who have no role as owner or manager are typically spouses (in-laws) and representatives of Next generation (Finnish Family Firm Association, 2009).

2.5 Corporate Governance for Family Owned Business

Mandl (2008) noted one of the most important characteristics of family owned businesses is the strong inter-relationship between the family and the business. Almost 70 % of these family businesses have a family member as a manager director and 80 % have a family member as director of the board (Stenholm, 2008). PwC Family Business Survey (2012) has noted key differentiators for family businesses from non-family owned businesses as the fact that family business are characterized by having longer-term thinking and broader perspective, are able to make quicker and more flexible decisions, have an entrepreneurial mind-set, have a greater commitment to jobs and the community and lastly have a more personal approach to business based on trust. These characteristic supports the growth of family owned businesses as they assist business realize their long-term objectives.

Perhaps the most often cited weakness of family businesses is that many of them fail to be sustainable in the long term. The overlap between the family, the business and ownership is not always well balanced. Divergences between the multitude of players and interests involved may cause conflicts, and may even endanger the existence of the company. The risks heighten as intergenerational transfers take place and the complexity of the family involved in the business grows (European Commission, 2009). The most prominent conflict potential noted for family owned business are inherent in issues that relate to future business plans and business transfer, choice of managers, unilateral decision-making of the family members involved in the business without consulting the wider family, remuneration of family members as employees and managers and distribution of profits vs. reinvestment in the business (Mandl, 2008).

A consistent finding about family owned business systems—the business, its owners, and the family in control—is that strong, long-term business performance also requires strong performance by the family and by the ownership group (Davis 2014). Lambrecht (2008) notes that within a family business, governance is not only necessary for the company but also for the family sphere, favoring the unity of the firm standing behind the enterprise and regulating the relationship between the family members and the firm. Consequently, governance needs to take into account the developments within both, the enterprise and the family (Mandl, 2008).

As family-owned business evolve and attract capital from the public through Initial Public Offer and listing on the exchange, they are required to have corporate governance structure in place. The process of creating corporate governance structures in a business is guided by the guidelines that have been developed over time by the capital markets regulators. Most family-owned businesses will ensure that the business does not lose the family identity post listing and it continues to meet the family interests. This study will analyze the governance of listed family-owned business vis-à-vis the firm performance to appreciate if the business continues to have a longer-term thinking and broader perspective that leads to good firm performance.

2.6 Corporate Governance Structures

The OECD Principles of Corporate Governance were endorsed by OECD Ministers in 1999 and have since become an international benchmark for policy makers, investors, corporations and other stakeholders worldwide. Corporate governance is affected by the relationships among participants in the governance system. Controlling shareholders, which may be individuals, family holdings, bloc alliances, or other corporations acting through a holding company or cross shareholdings, can significantly influence corporate behaviour (OECD, 2004). The key components for corporate governance structure as per Principles for Corporate Governance in Kenya are Shareholding, Board Composition, Board Functioning, Control Structures and Board Governance Disclosure.

Shareholding - the corporate governance framework should protect and facilitate the exercise of shareholders' rights. Basic shareholder rights should include the right to: secure methods of ownership registration; convey or transfer shares; obtain relevant and material information on the corporation on a timely and regular basis; participate and vote in general shareholder meetings; elect and remove members of the board; and share in the profits of the corporation. All shareholders have a right to be treated equitably including minority and foreign shareholders. All shareholders should have the opportunity to obtain effective redress for violation of their rights.

Board Composition - the Board should include a balance of executive and non-executive directors (including independent nonexecutive directors) such that no individual or group of individuals or interests can dominate its decision taking. The board composition should be guided by formal and transparent procedures for nomination and appointment of new directors to the Board. The two key tasks at the top of the company, that of running the Board and that of the Chief Executive responsible for running the company should be properly defined. The two roles need to be clearly divided to ensure that a balance of power and authority is maintained, and that no one individual has unfettered powers of decision. Where these roles are combined, the reasons thereof shall be publicly explained.

Board Functioning – to enhance the performance of the board, all directors should receive some formal training on their role, duties, responsibilities and obligations as well as Board practices and procedures on first appointment. For Board members to exercise informed, intelligent, objective and independent judgments on corporate affairs, they should have access to accurate, relevant and timely information. In order to avoid potential conflict of interest, the Board of directors should set up independent remuneration committee to determine the remuneration of respective individual executive directors.

Control Structures - the board is responsible of maintaining adequate systems of financial management and internal control over the company, including procedures designed to minimize the risk of fraud. The board should also ensure the integrity and adequacy of the accounting and financial systems by ensuring that qualified, competent, fit and proper persons are employed to undertake accounting and financial responsibilities and that the company complies with the accounting standards applicable.

Board Governance Disclosure – the board should ensure that timely and accurate disclosure is made on all material matters regarding the corporation, including the financial situation, performance, ownership, and governance of the company.

2.7 Empirical Studies

If better corporate governance is related to better firm performance, better-governed firms should perform better than worse-governed firms. Effective corporate governance reduces “control rights” stockholders and creditors confer on managers, increasing the probability that managers invest in positive net present value projects, suggesting that better-governed firms have better operating performance. It is noted that firms with higher Gov-Scores have higher returns on equity, higher profit margins, are more valuable, pay out more cash dividends, and repurchase more shares from their shareholders. In contrast, firms with lower Gov-Scores have lower returns on equity, lower profit margins, are less valuable, pay out less cash dividends, and repurchase fewer shares (Caylor, 2004).

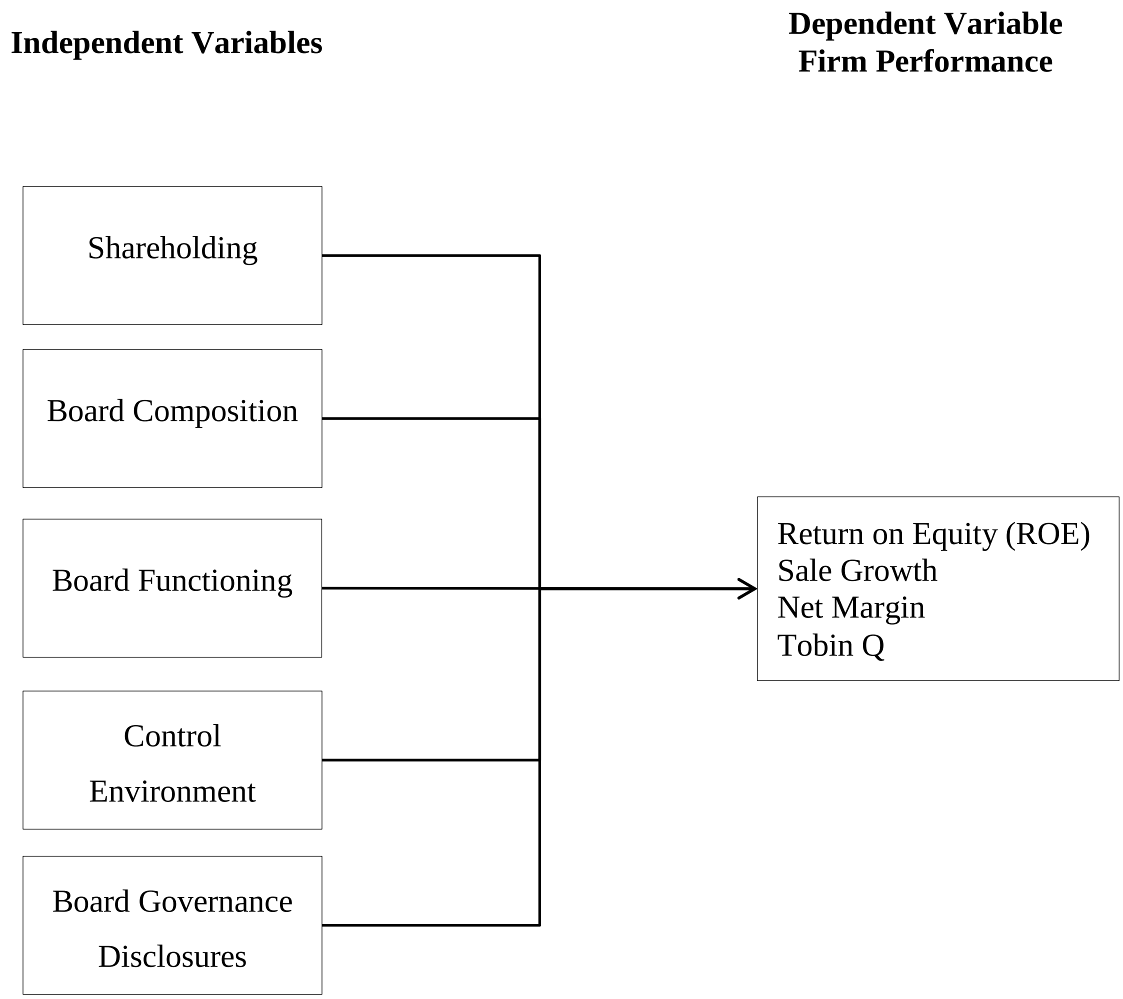
Prior research has linked corporate governance to firm valuation using Tobin’s Q as a proxy for firm valuation. Early studies examined links between individual internal governance provisions and Tobin's Q (Hermalin and Weisbach, 1991; Bhagat and Black, 2002; Yermack, 1996). Hermalin and Weisbach (1991) and Bhagat and Black (2002) found no link between the proportion of outside directors and Tobin's Q. Yermack (1996) found an inverse relation between board size and Tobin's Q. Yermack (1996), Bhagat and Black (1999), and Agrawal and Knoeber (1996) find a negative correlation between Tobin's q and the proportion of independent directors on the board. Callahan et al. (2003) documented a positive relation between management participation in the director selection process and Tobin's Q.

In Kenya, Ngugi (2007) observed that the size of the board and insider holding on one hand have an association with performance but does not find any evidence that external board, individual holding and institutional holding have any influence on performance of insurance companies. Oyoga (2010) established that there is a positive relationship between firm performance and Board composition, Shareholding and Compensation, Shareholder Rights, Board Governance Disclosure issues. Lishenga (2012) concluded that better corporate governance does not appear to predict higher firm profitability but it does appear to predict lower cost of external capital, perhaps because investors expect insiders to engage in less self-dealing. Miniga (2013) confirmed a strong relationship between corporate governance practices and financial performance in regulatory state corporations. No study has been done to give specific emphasis on corporate governance and performance of family-owned businesses that are listed on the securities exchange.

2.8 Conceptual Framework

The conceptual framework is presented by the figure 2.1

Figure 2.1 Conceptual Framework



CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Introduction

This chapter will explain the research design, population, sampling, data collection and data analysis.

3.2 Research Design

In this study, the researcher applied descriptive research design. Descriptive research attempts to explore and explain while providing additional information about a topic. Descriptive research design tries to describe what is happening in more detail, filling in the missing parts and expanding our understanding (Kowalczyk, 2014). According to Cooper and Schindler (2003), a descriptive study is one that finds out the what, where and how of a phenomenon. Descriptive research is used to determine the relationships between variables and this study seeks to seek the relation between corporate governance and firm performance specifically for listed family-owned business.

3.3 Population

The target population for this study was all 61 listed companies on the Nairobi Securities Exchange for the period between 2008 and 2012.

3.4 Sampling

A sample means a subject of the whole population, which is selected and analyzed, and the results obtained are generalized to represent the whole population. The sample will consist of listed companies on the Nairobi Securities Exchange (NSE) that meet the definition of family-owned business. There are 14 companies listed on the NSE that the person who established or acquired the firm (share capital) or their families or descendants possess twenty five per cent of the decision-making rights mandated by their share capital. All the 14 companies were studied.

The data used was for the financial year 2008 to 2012. This period of study is significant because it follows the financial years that is the period for post global financial crisis when corporate governance has received more prominence.

3.5 Data Collection

The study used both the primary and secondary data. Primary data was collected using questionnaires adopted from the Corporate Governance Questionnaire Guide that has been adapted by the DFIs Working Group on Corporate Governance from the IFC Corporate Governance Methodology. The questionnaire is divided into five (5) sections that comprise the composite scores and ranking to measure: Shareholding, Board Composition, Board Functioning, Control Structures and Board Governance Disclosure. The questionnaires were administered to company secretaries of the businesses who are corporate governance officers of the businesses.

Secondary data was collected from the financial statements and shareholding structures that were downloaded from the company's websites. Other information were collected form regulatory institution such Capital Markets Authority, Central Bank of Kenya and the Nairobi Securities Exchange.

3.6 Data Analysis

Data Analysis is the processing of data to make meaningful information (Sounders, Lewis and Thornbill, 2009). The study was based on secondary data for firm performance and structured questionnaires for assessing corporate governance. After data was collected through questionnaires, it was prepared in readiness for analysis by editing, handling blank responses, coding and categorizing. The questionnaire is divided into five sections that comprise the composite scores and ranking to measure: Shareholding, Board composition, Board Functioning, Control Structures and Board Governance Disclosure. The respondents comprised mainly the company secretaries of the business under study as they are the officers who ensure proper functioning corporate governance structures.

Ms excel was used to generate descriptive and inferential statistics. Descriptive statistics tools helped the researcher to describe the data using the mean, mode, median and standard deviation to determine the extent used. Inferential statistics on the other hand showed the relationship of the variables under study. Qualitative data gathered from the open ended questions are presents through tabulations, charts and graphs.

The regression model used to analyze relation between the firm performance and Corporate Governance Structures is as

$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \beta_5 X_5 + \varepsilon$

Where by Y = Firm Performance

X_1= Shareholding (family control)

X_2 = Board composition

X_3 = Board Functioning

X_4 = Levels of control structures

X_5 = Board Governance Disclosure

B_0 = the constant term

$B_{1,}$ β_2 , $\beta_{3,}$ β_4 & β_5= Coefficient to be determination

ε = Error term which captures the unexplained variations in the model

CHAPTER FOUR: DATA ANALYSIS, RESULTS AND DISCUSSIONS

4.1 Introduction

This chapter presents analysis of the data found on the corporate governance structures and firm performance of listed family-owned businesses in Kenya. The data is analyzed and presented in the form of tables, proportions, tables as well as charts. The section provides the descriptive statistics that is the mean scores and frequencies of the responses while the inferential statistics shows the final regression results of the study.

4.2 Response Rate

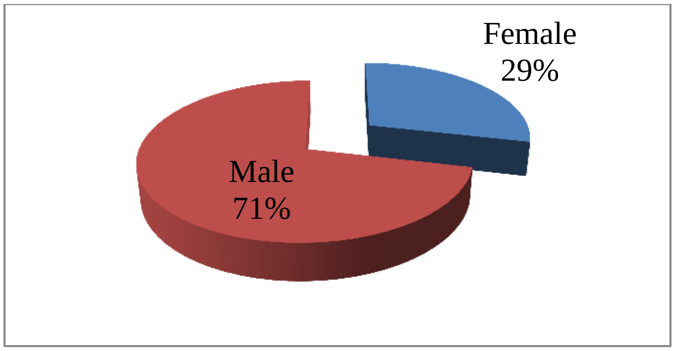
The primary data was collected structured interviews where the researcher visited company secretaries physically and also used telephone questionnaires for those of that were not available physically. This process ensured that were able to get responses from all the sampled respondents as we able to reach them either physically of through telephone.

4.3 General Information

4.3.1 Respondents by Gender

Figure 4.1 below show the percentage of respondent by gender.

Figure 4.1 Respondents by Gender



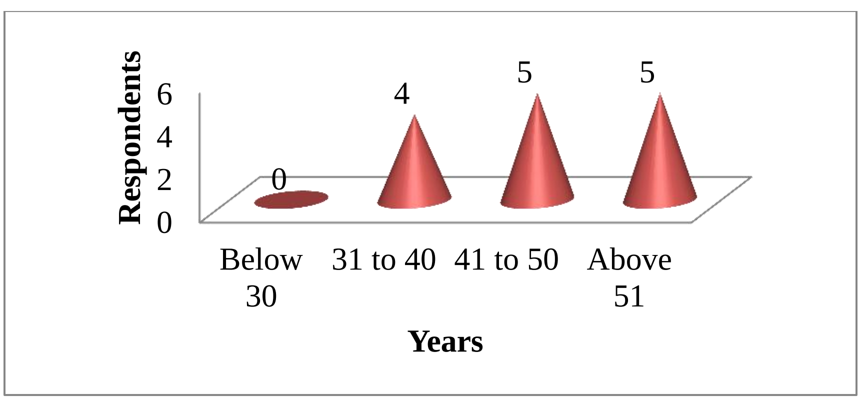
Researcher, 2014

Majority of the respondents were male. Majority of company secretaties for the companies that were targeted for this study were male. This does not necessariry mean that there is a higher number of male employees in the sampled companies.

4.3.2 Age of the Respondents

The study also sorts to investigate the age of the respondents. Majority of the respondents were aged between 41 -50 and above 50 year. This imply that majority of the company secretaries are senior experienced professionals who have hands on experience in the management. The results are illustrated in the figure 4.2.

Figure 4.2 Ages of the Respondents

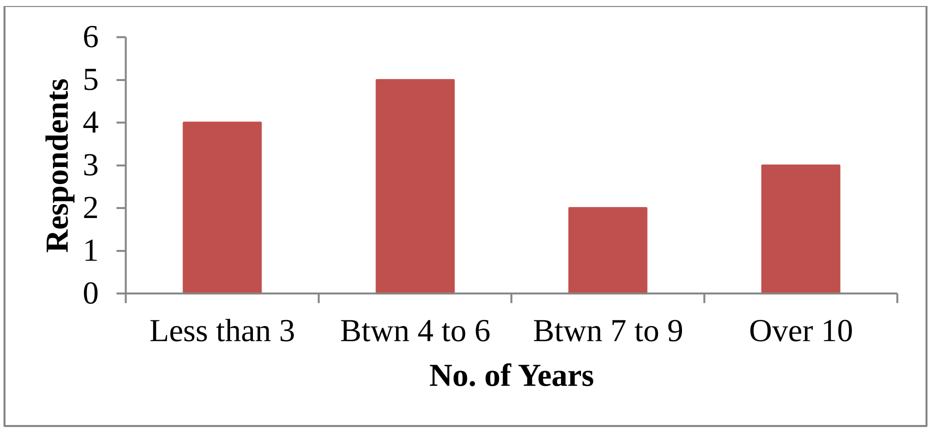


Researcher, 2014

4.3.3 Length of Service with Company

Majority of the company secretaries have been in those positions for between over four years. This indicates that there is high retention for company secretaries who are custodians of the company corporate governance structures. This also imply that the information received for the study's objective is satisfactory given that majority have had significant years of experience with the company. This is illustrated in the figure below

Figure 4.3 Length of Service with Company

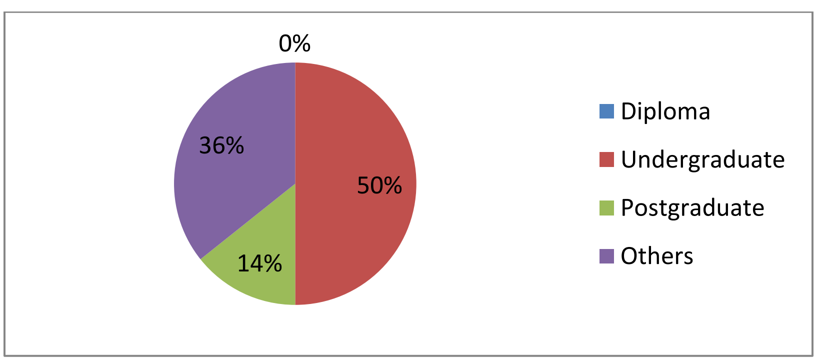


Researcher, 2014

4.3.4 Respondents' Level of Education

Figure 4.4 below shows the levels of education for the respondents of the questionnaires.

Figure 4.4 Respondent Level of Education



Researcher, 2014

The results show that 50% of the respondents had a Undergraduate degree and further 14% had an Undergraduate degree while 34% had other qualifications with all of them being members of Institute of Certified Public Secretaries of Kenya. These results show that the respondents were well informed on the subject of study and thus appropriate for the study.

4.4 Firm Performance

Firm performance was measured using ROE, Sales Margin and Net Margin which measure the operations performance while Tobin q was used to measure firm value. The average performance for listed family-owned business for the period between 2012 and 2008 measure using the above four performance measures are as per the table 4.1.

Table 4.1 Average Firm Performance for Listed Family-Owned Business

Company	ROE	Sales Growth	Net Margin	Tobin Q
Standard Group Limited	18%	7%	7%	0.51
Sasini Limited	10%	19%	28%	0.28
Eveready East Africa Limited	-2%	-6%	0%	0.32
Rea Vipingo Plantations Limited	19%	19%	13%	0.41
Sameer Africa Limited	6%	7%	4%	0.50
KenolKobil Limited	-6%	21%	0%	0.62
Williamson Tea Kenya Limited	13%	35%	16%	0.28
Kapchorua Tea Co. Limited	8%	26%	6%	0.24
ARM Cement Limited	20%	26%	13%	1.08
Longhorn Kenya Limited	7%	15%	3%	0.90
AccessKenya Group Limited	11%	6%	7%	0.39
Carbacid Investments Limited	21%	27%	47%	2.11
Centum Investment Co. Limited	13%	25%	67%	0.79
NIC Bank Limited	20%	32%	24%	0.19
Maximum	21%	35%	67%	2.11
Minimum	-6%	-6%	0%	0.19
Mean	11%	18%	17%	0.61
Standard Deviation	8%	11%	19%	49%

Researcher, 2014

The variation between minimum and maximum performance measure for ROE, Sales Growth and Net Margin are not as significant with standard deviations ranging from 8% for the ROE, 11% for Sales Growth and 19% for Net Margins. Tobin q has a significant variation between with a standard deviation of 49%.

The above data was converted into a likert-style rating scale using the scales based on the market performance of companies listed on the securities exchange as shown in table 4.2.

Table 4.2 Likert-style Rating Scale for Firm Performance

	Not at All	Below Average	Average	Above Average	Good
ROE	0%>X	0%< X <7.5%	7.5%< X <12.5%	12.5%< X <20%	X > 20%
Sales Growth	0%>X	0%< X <5%	5%< X <15%	15%< X <25%	X > 25%
Net margin	0%>X	0%< X <10%	10%< X <20%	20%< X <30%	X > 30%
Net margin	.25>X	.25< X <.50	.50< X <.75	.75< X <1.00	X > 1.00

Researcher, 2014

4.5 Corporate Governance in Listed Family-Owned Business

The questionnaires to determine the application of the various corporate governance structures were formulated and evaluated using likert scale. The summary of the result are presented in the table 4.3.

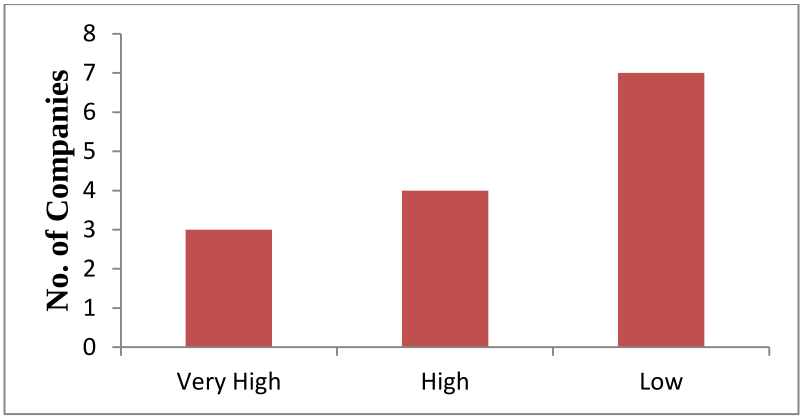
Table 4.3 Corporate Governance Score

Company	S/holding	Board Comp	Board Fuct	Controls	Disclosures	Gov Score
Standard Group	3.25	3.29	3.89	3.89	2.75	**68%**
Sasini	3.75	3.43	3.78	3.33	4.50	**75%**
Eveready	3.75	3.43	3.11	3.33	4.50	**72%**
Rea Vipingo	3.75	3.71	4.00	3.78	2.75	**72%**
Sameer	4.25	3.57	3.33	3.56	4.50	**77%**
KenolKobil	3.00	3.29	4.00	3.78	1.25	**61%**
Williamson	3.50	3.29	3.78	3.44	1.75	**63%**
Kapchorua	3.50	3.29	3.78	3.44	1.75	**63%**
ARM	3.75	4.29	4.22	4.00	4.75	**84%**
Longhorn	3.50	3.43	3.44	3.11	3.00	**66%**
Access	4.25	3.43	3.00	3.11	2.50	**65%**
Carbacid	3.50	3.00	3.44	3.56	2.00	**62%**
Centum	3.50	4.14	4.22	4.33	4.50	**83%**
NIC	4.00	4.86	4.44	4.89	5.00	**93%**

Researcher, 2014

Corporate governance score was grouped into levels with a score of 80% and above as very high, 70% to 79% high, 60% to 69% as low and below 60% as very low. Few companies have very high corporate governance score. Majority of the companies studied have a low corporate governance score. Bank which is subject to numerous regulations from regulatory bodies such as Capital Market Authority (CMA), Central Bank of Kenya (CBK), and Nairobi Stock Exchange (NSE) adopt high standards of corporate governance as it has the highest governance score. The results are presented in the figure 4.5.

Figure 4.5 Corporate Governance Score



Researcher, 2014

4.6 Descriptive Analysis Results

Table 4.4 presents the results of the descriptive analysis on all the dependent and independent variables in the study.

Table 4.4 Descriptive Results on Dependent and Independent Variables

	Minimum	Maximum	Mean	Std. Dev.
Governance Score	61%	93%	72%	9%
Shareholding	3.00	4.25	3.66	0.34
Board Composition	3.00	4.86	3.60	0.48
Board Functioning	3.00	4.44	3.75	0.41
Control Structures	3.11	4.89	3.68	0.47
Governance Disclosures	1.25	5.00	3.25	1.27
Firm Performance	1.25	4.75	3.48	0.88

Researcher, 2014

The results in table 4.4 show that company with the lowest governance score had 61% while the highest had 93%. The mean governance score was 72% with a deviation of 9% indicating that firms had just above average compliance rate with corporate governance structures.

On other corporate governance aspects, the mean for four aspects of the governance structure Shareholding, Board Composition, Board Functioning and Control Structures have a mean score ranging from 3.60 and 3.75 which mean that the companies have to a moderate extent have this aspects. Governance disclosure is quite variable with minimum being 1.25 while maximum is 5. This mean that there companies that disclose all the aspects of the governance while other are not disclosing as much information.

The firm performance score for the various businesses is quite variable. The minimum score registered is 1.5 while the highest is 4.75. The mean for firm performance is 3.48 with a deviation of 0.88 which mean that the variation from the mean is quite huge.

4.7 Inferential Statistics

Inferential analysis was conducted using the Pearson's bivariate and regression analysis to examine whether there is any significant relationship between the firm performance and corporate governance structures.

4.6.1 Pearson's Correlation Analysis

The Pearson's correlations analysis sought to find whether there was any significant relationship between the independent variables; Shareholding, Board Composition, Board Functioning, Control Structures, Board Governance Disclosure and dependent variable; Firm Performance. From the findings, the results revealed that there is a strong positive correlation of 0.5432 between a Board Functioning and Firm Performance. There is also strong correlation between Control Structure and Board Composition with Firm Performance. Governance disclosure demonstrates weak correlation with firm performance while shareholding has weak inverse relation with firm performance. The table 4.5 provides the details.

Table 4.5 Pearson's Correlation

	Firm Performance	*Shareholding*	*Board Composition*	*Board Functioning*	*Control Structures*	*Governance Disclosure*
Firm Performance	1					
Shareholding	(0.0660)	1				
Board Composition	0.3095	0.3651	1			
Board Functioning	0.5432	(0.3342)	0.6539	1		
Control Structures	0.4723	(0.0414)	0.8075	0.8322	1	
Governance Disclosure	0.0518	0.5428	0.7039	0.1990	0.4146	1

Researcher, 2014

4.6.2 Regression Analysis

A regression model was used to test the significance of the influence of the independent variables on the dependent variable. Regression analysis was used to determine the coefficient of the following model:

$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \beta_5 X_5 + \varepsilon$

Where by Y = Firm Performance, X_1 = Shareholding (family control), X_2 = Board composition, X_3 = Board Functioning, X_4 = Levels of control structures, X_5 = Board Governance Disclosure, β_0 = the constant term, β_1, β_2, β_3, β_4 & β5= Coefficient to be determination and ε = Error term which captures the unexplained variations in the model.

The regression model can be written as follow using the regression coefficients for the table 4.6 with the regression co-efficient.

$Y = -7.048 + 1.550X_1 - 1.421X_2 + 2.109X_3 + 0.595X_4 - 0.036X_5$

Table 4.6 Regression Coefficient

	Coefficients	*Standard Error*	*t Stat*	*p-value*
Intercept	(7.048)	5.936	(1.187)	0.269
Shareholding (X_1)	1.550	1.330	1.165	0.278
Board Composition (X_2)	(1.421)	1.530	(0.929)	0.380
Board Functioning (X_3)	2.109	1.464	1.440	0.188
Control Structures (X_4)	0.595	1.192	0.500	0.631
Governance Disclosure (X_5)	(0.036)	0.303	(0.119)	0.908

Researcher, 2014

The p-value for this model is higher than 0.05 which means that the relationship is not statistically significant. We can therefore argue that corporate governance is not related to firm performance for listed family-owned business as all the corporate governance structure measure have p-values greater than 0.05.

4.6.3 Significance of the Model

The significance of the model is explained by the regression statistics summary and the ANOVA results. Table 4.7 and Table 4.8 have results of the regression statistics summary and ANOVA results.

Table 4.7 Regression Statistics Summary

Regression Statistics Summary				
Multiple R	R^2	Adjusted R^2	Standard Error	Observations
0.6390	0.4084	0.0386	0.8940	14

Table 4.8 ANOVA

Model	*df*	*SS*	*MS*	*F*	*Significance F*
Regression	5	4.4136	0.8827	1.1044	0.4278
Residual	8	6.3945	0.7993		
Total	13	10.8080			

Researcher, 2014

Table 4.7 indicates that Adjusted R^2 is equal to 0.0386. This means that corporate governance could be used to explain 3.6% of the variability of firm performance. We can therefore say that corporate governance has insignificant bearing on firm performance.

Table 4.8 shows the Analysis of Variance (ANOVA). The output shows that the F ratio value of 1.1044 with 5 and 8 degrees of freedom (df) has a probability of occurrence by chance alone of 0.4278. Significance f of 0.4278 is way higher than 0.05. This means that the model using corporate governance structures to measure firm performances cannot be relied on.

CHAPTER FIVE: SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

This chapter of the study highlights some of the findings, conclusions, limitations of the study, recommendations, and suggestions for further study.

5.2 Summary

Firm performance was measured using the ROE, Sales Growth, Net Margin and Tobin q. The firm performance measures used were calculated for period between 2008 and 2012. There is not significant variation for ROE and sale growth measures of performance. The variation for Net Margin is average while the variation for firm valuation measured using Tobin q is significant.

Seven out of fourteen (50%) of the companies have low corporate governance scores of between 60% and 69%. The low corporate governance score can be attributed mostly to low corporate governance disclosure for most of the companies. We note that companies in the banking sector have the highest governance score as they subject to stringent regulations of Central Bank of Kenya in addition to other regulators like CMA and NSE.

From the inferential statistics the p-values of the coefficients of the five variables are greater than 0.05. This indicates that individually the relationship between firm performance and corporate governance structures is not statistically significant. Significance F is also greater than 0.05 which that there is no significant relationship between corporate governance and firm performance using the model that incorporates all the five components of corporate governance.

5.3 Conclusion

The coefficient of determination, r^2 was 0.41 which indicates that the estimated regression equation can predict only 41 per cent of the variation. The adjusted r^2 statistic is preferred by some researchers as it helps avoid overestimating the impact of adding an independent variable on the amount of variability explained by the estimated regression equation. The adjusted r^2 was 0.04 which tell us there was a 4% variation in firm performance of the corporations due to changes in Shareholding, Board composition, Board Functioning, Control Structures and Board Governance Disclosure. This does not answer to the objective of the study and leads us in rejecting the hypothesis that there is relationship between corporate governance structures and firm performance of listed family-owned businesses in Kenya.

5.4 Recommendations

Research findings for this study indicate that there no relationship between corporate governance and firm performance for listed family owned business. The governance score indicate that over half of the companies studied have low corporate governance score which is highly attributed to lack of or limited disclosures on corporate governance structures. There is a huge variance for the disclosures across the various companies with company in the financial sector having a perfect score. Disclosure on compliance with corporate governance guideline should be enforced to ensure that investors are able to assess the company's corporate governance structures.

5.5 Suggestions for Further Study

The study has indicated there is no relationship between corporate governance and firm performance for listed family-owned businesses in Kenya. Further study should be undertaken to evaluate corporate governance and firm performance for unlisted family owned businesses in Kenya and globally. Corporate governance for family-owned business is unique and this will be an insightful study as it will help in sheding more light on the corporate governance concept.

5.6 Limitations of the study

This study focused on the relationship between corporate governance and firm performance of listed family owned businesses in Kenya. The study did not consider other factors that affect the performance of family business such as economic, political, social and technological factors. The studied companies are also operating in different industries and the firm performance is significantly different for firms operating in different industries and this could have had significant impact on the results of the study.

The governance structure was measured using the five corporate governance structures of shareholding, board composition, board functioning, control structures and board governance disclosure. There were various questions that were asked under each question to determine the extent to which various corporate governance structures have been adopted in the company. 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.

The statistical significance of the relationship indicated by a test statistic is determined in part by your sample size. One consequence of this is that it is very difficult to obtain a significant test statistic with a small sample. Conversely, by increasing your sample size, less obvious relationships and differences will be found to be statistically significant until, with extremely large samples, almost any relationship or difference will be significant. Small populations can make statistical tests insensitive, while very large samples can make statistical tests overly sensitive (Saunders, 2009). In Kenya we have 61 listed companies. Out of the 61, only 14 meet the definition of listed family-owned company as the person who established or acquired the firm (share capital) or their families or descendants possess twenty five per cent of the decision-making rights mandated by their share capital. The population of 14 companies that was studied is too small and could have resulted to a conclusion that the relationship between firm performance and corporate governance is not statistically significant.

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APPENDICES

APPENDIX I: LETTER OF INTRODUCTION

UNIVERSITY OF NAIROBI
SCHOOL OF BUSINESS
MBA PROGRAMME

Telephone: 020-2059162
Telegrams: "Varsity", Nairobi
Telex: 22095 Varsity

P.O. Box 30197
Nairobi, Kenya

DATE 13/10/2014

TO WHOM IT MAY CONCERN

The bearer of this letter STEPHEN WARUI MOCHE

Registration No. D66/80472/2012

is a bona fide continuing student in the Master of Business Administration (MBA) degree program in this University.

He/she is required to submit as part of his/her coursework assessment a research project report on a management problem. We would like the students to do their projects on real problems affecting firms in Kenya. We would, therefore, appreciate your assistance to enable him/her collect data in your organization.

The results of the report will be used solely for academic purposes and a copy of the same will be availed to the interviewed organizations on request.

Thank you.

UNIVERSITY OF NAIROBI
SCHOOL OF BUSINESS
13 OCT 2014
Box 30197 - 00100, NAIROBI

PATRICK NYABUTO
MBA ADMINISTRATOR
SCHOOL OF BUSINESS

APPENDIX II: LISTED COMPANIES

	LISTED COMPANIES AS AT 31 DECEMBER 2012	
	AGRICULTURAL	**Trading Status**
1	Eaagads Limited	
2	Kakuzi Limited	
3	Kapchorua Tea Co. Limited	
4	The Limuru Tea Co. Limited	
5	Rea Vipingo Plantations Limited	**Suspended**
6	Sasini Limited	
7	Williamson Tea Kenya Limited	
	AUTOMOBILES & ACCESSORIES	
8	Car & General (K) Limited	
9	CMC Holdings Limited	**Suspended**
10	Marshalls (E.A.) Limited	
11	Sameer Africa Limited	
	BANKING	
12	Barclays Bank of Kenya Limited	
13	CFC Stanbic of Kenya Holdings Limited	
14	Diamond Trust Bank Kenya Limited	
15	Equity Bank Limited Ord	
16	Housing Finance Co.Kenya Limited	
17	I&M Holdings Limited	
18	Kenya Commercial Bank Limited	
19	National Bank of Kenya Limited	
20	NIC Bank Limited	
21	Standard Chartered Bank Kenya Limited	
22	The Co-operative Bank of Kenya Limited	
	COMMERCIAL AND SERVICES	
23	Express Kenya Limited	
24	Hutchings Biemer Limited	**Suspended**
25	Kenya Airways Limited	
26	Longhorn Kenya Limited	
27	Nation Media Group Limited	

28	Scangroup Limited	
29	Standard Group Limited	
30	TPS Eastern Africa Limited	
31	Uchumi Supermarket Limited	
	CONSTRUCTION & ALLIED	
32	ARM Cement Limited	
33	Bamburi Cement Limited	
34	Crown Paints Kenya Limited	
35	E.A.Cables Limited	
36	E.A.Portland Cement Co. Limited	
	ENERGY & PETROLEUM	
37	KenGen Co. Limited	
38	KenolKobil Limited	
39	Kenya Power & Lighting Co Limited	
40	Total Kenya Limited	
41	Umeme Limited Ord 0.50	
	INSURANCE	
42	British-American Investments Co.(Kenya) Limited	
43	CIC Insurance Group Limited	
44	Jubilee Holdings Limited	
45	Kenya Re Insurance Corporation Limited	
46	Liberty Kenya Holdings Limited	
47	Pan Africa Insurance Holdings Limited	
	INVESTMENT	
48	Centum Investment Co Limited	
49	Olympia Capital Holdings Limited	
50	Trans-Century Limited	
	MANUFACTURING & ALLIED	
51	A.Baumann & Co Limited	**Suspended**
52	B.O.C Kenya Limited	
53	British American Tobacco Kenya Limited	
54	Carbacid Investments Limited	
55	East African Breweries Limited	

56	Eveready East Africa Limited	
57	Kenya Orchards Limited	
58	Mumias Sugar Co. Limited	
59	Unga Group Limited	
	TELECOMMUNICATION & TECHNOLOGY	
60	AccessKenya Group Limited	
61	Safaricom Limited	
	GROWTH ENTERPRISE MARKET SEGMENT (GEMS)	
62	Home Afrika Limited	
	BONDS MARKET	
	UAP Holding Limited	
	MRM	

APPENDIX III: LISTED FAMILY-OWNED BUSINESS

	COMPANY	FAMILY	% HOLDING
1	Standard Group Limited	Moi Family	69%
2	Sasini Limited	Nashud Meralli	64%
3	Eveready East Africa Limited	Nashud Merali	60%
4	Rea Vipingo Plantations Limited	Robinow family*	57%
5	Sameer Africa Limited	Nashud Merali	57%
6	KenolKobil Limited	Nicholas Biwot	55%
7	Williamson Tea Kenya Limited	Williamson Family*	51%
8	Kapchorua Tea Co. Limited	Williamson Family*	50%
9	ARM Cement Limited	Paunrana Family	46%
10	Longhorn Kenya Limited	F.T. Nyammo	35%
11	AccessKenya Group Limited	Somen Brothers	30%
12	Carbacid Investments Limited	Patel Family	26%
13	Centum Investment Co Limited	Chris Kirubi	25%
14	NIC Bank Limited	Ndegwa Family	25%

*foreign owned

APPENDIX IV: INTERVIEW QUESTIONNAIRE

Kindly answer the following questions as honestly and accurately as possible. The information given will be treated with a lot of confidentiality. Please do not write your name anywhere on this questionnaire. You are encouraged to give your honest opinion.

Part 1: Demographic Information

1. Please indicate your age?

Less than 30 years [ ] 30 to 40 years [ ] 40 to 50 years [ ] Over 50 years [ ]

2. Please indicate your gender? Male [ ] Female [ ]
3. How long has your company been in Operation? Less than 3 years [ ] 4 to 5 years [ ] 6 to 10 years [ ] More than 10 years [ ]
4. What is your level of education?

   Diploma [ ] Undergraduate Degree [ ] Postgraduate Degree [ ] Others [ ]

Part 2: Measurement of Variables

This Section is concerned with assessing the role of corporate governance structures and firm performance of listed family-owned businesses in Kenya. Please mark (✓) in the box which best describes your agreement or disagreement level on each of the following statements. The scale is a follows;

Not at all	Small Extent	Fairly	Moderate Extent	Great Extent
1	**2**	**3**	**4**	**5**

SHAREHOLDING

#	Statement	1	2	3	4	5
1	The family shareholding in business is significant					
2	There is family representatives in the Board of Directors					

3	The ultimate beneficial ownership of shares disclosed by controlling shareholders and management					
4	Do minority shareholders have any mechanisms to nominate members of the Board of Directors					

BOARD COMPOSITION

#	Statement	1	2	3	4	5
1	Directors job description is guided by the board charter					
2	Director's background and expertise matches the business requirements					
3	Independent directors forms more that 30% of the board (i.e. are not management, relatives to, or do business with the company)					
4	Board of directors are elected annually					
5	Directors representing the family serve for indefinite number of terms					
6	The company has at least three board committees					
7	CEO and Chairpersons roles are separate					

BOARD FUNCTIONING

#	Statement	1	2	3	4	5
1	The Board meetings follow a set out board calendar					
2	The company secretary roles are well defined					
3	Agendas for board meeting are prepared and distributed in advance					
4	The minutes are prepared and approved after board meetings					
5	The Board of Directors review material transactions that involve conflicts of interest and related parties					
6	The company offer induction and/or regular training to members of the Board					
7	the Board of Directors conduct self-evaluations or other reviews of its effectiveness					
8	The Board of Director can be sanctioned for violating any of his/her duties					
9	The company have a formal or informal succession plan for its current CEO					

CONTROL STRUCTURES

#	Statement	1	2	3	4	5
1	The company has documented internal controls policies					
2	The Audit Committee is composed of independent directors					
3	The Board of Directors set the company's risk appetite					
4	The Board periodically reviews the risk management system					
5	The company has an Internal audit function that reports to the Board					
6	The internal audit function has full access to records, property and personnel relevant to their audit					
7	The internal audit manager is independently hired and dismissed with the consent of the Board of Directors					
8	Any significant problems reported in internal controls, risk management and compliance are dealt with satisfactorily					
9	The external auditors or the engagement audit partners are rotated on regular basis					

BOARD GOVERNANCE DISCLOSURES

#	Statement	1	2	3	4	5
1	Detailed biographies of directors' qualifications and experience are disclosed					
2	Attendance to board meeting is properly disclosed					
3	Disclosure are been made on how often the board committee meet					
4	The company discloses major transactions, related party transactions, off-balance sheet activities, and other material events					