

**RELATIONSHIP BETWEEN BOARD CHARACTERISTICS AND
FIRM PERFORMANCE: SURVEY OF FIRMS LISTED AT THE
NAIROBI SECURITIES EXCHANGE**

BY

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DECLARATION

This research project is my original work and has never been presented for any academic award in any other university or learning institution.

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This research project has been submitted for examination purposes with my approval as the university supervisor.

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DEDICATION

This project is dedicated to my family. To my parents and siblings, without your love, support and encouragement this project would not have been made possible. Finally this project is dedicated to all those who believe in the power of learning.

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ABSTRACT

The formation of a board of directors in a corporation is important as an internal control mechanism to oversee the conduct of the owner-manager and managers and prevent them from endangering vested parties' The role played by the board is critical to firm performance as the boards discharge their fiduciary responsibilities of leading and directing the firm. The main objective of this study was to establish the relationship between board characteristics and firm performance of listed firms at the Nairobi Securities Exchange. Specifically this study examined female representation, age, educational qualification, occupational experience, board independence and nationality and how they affect the firm performance of listed firms in Kenya. Firm performance was measured using Return on Equity (ROE). This study adopted a descriptive research design and data was analyzed using a multiple linear regression model. The study population was all the firms whose stocks were trading at the Nairobi Securities Exchange and which had reported their financial results for the year 2014, which were 61 firms. In this study emphasis was given to secondary data for companies listed at the NSE. The study found a positive relationship between all the six variables and firm performance of companies listed at the NSE. The study therefore recommends that stakeholders in listed companies should take into account the board characteristic issues in electing board of directors to minimize stakeholder conflicts, improve managerial functions and overall performance.

LIST OF ABBREVIATIONS & ACRONYMS

BOD Board of Directors

CMA Capital Markets Authority

NSE Nairobi Securities Exchange

NYSE New York Stock Exchange

OECD Organization for Economic Co-operation and Development

PhD Doctorate in Philosophy

ROA Return on Assets

ROE Return on Equity

SOX Sarbanes Oxley Act 2002

SPSS Statistical Package for Social Sciences

CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

According to Jensen and Meckling (1976), in most large firms, there is a separation between the ownership (shareholders) and control (management) and this is where agency problems start coming up because the management may not act in the best interests of the shareholders due to this agency principal problem, there needs to be internal and external corporate governance measures to help in minimizing this conflict. These governance mechanisms include ownership structure, board size, board independence, board meetings, among others. The structure and size of corporate boards have received much attention in the media and in the business community recently, fuelled by the prominent business failures of large companies such as Enron, WorldCom and Parmalat. The general view that board characteristics matter is reflected by an abundance of national and international guidelines for good corporate governance (Anderson & Bizjak, 2003).

The formation of a board of directors in a corporation is important as an internal control mechanism to oversee the conduct of the owner-manager and managers and prevent them from endangering vested parties' interests (Adams, Hermalin & Weisbach, 2008). Even though some of its responsibilities may have been delegated to firm managers, decisions relating to company's policies and strategies' planning, their set up and implementation, and the appointment, dismissal and compensation of executives are ratified and determined ultimately by the board (Fama & Jensen 1983).

To understand the influence of board behaviours, effectiveness and dynamics, research has focused on the roles and contributions of different directorial types of individual board members, namely, the executive, non-executive and independent non-executive director. It has been reported that the extent of board members' direct and indirect influence on firm's governance has implications for their effectiveness and involvement (Long, Dulewicz & Gay, 2005). The efficacy of the board as the firm's ultimate decision making control is crucial to its ability to monitor and control the discretions of top-level managers (Fama & Jensen 1983). The board's dependence on managers to supply them with the firm's internal information (Ezzamel & Watson, 1997) emphasizes the importance of ensuring managers practicing the same monitoring considerations as the board.

Studies finding boards have little or no influence on firm performance confirm the historical perception of board failure. Donaldson and Davis (1991) postulated that corporate boards had neither the incentive nor the ability to objectively represent the interests of shareholders. They believed that rather than provide independent oversight for top management decision making, corporate boards would simply affirm executive decisions. Boulton (1978) concluded that boards had failed to evolve much beyond a passive, rubber-stamping committee for management, in essence being indolent.

Agency theory explains that the company's board is an important internal governance mechanism. However, the BOD's capacity to control and monitor is weakened if internal members (executives of the corporation or others affiliated with management) form the majority in the BOD. Corporate governance scholars argue that board monitoring will be

more effective if BODs comprise mainly of independent outside directors and from increased shareholdings of directors (Kren & Kerr, 1997).

1.1.1 Board Characteristics

After the accounting scandals at Enron and WorldCom and the recent financial crisis, regulators have stressed the need for more financial experts on boards. Several studies conducted in countries with developed capital markets report positive effects of board financial competencies (Vintila & Gherghina, 2012). In Kenya, the management is monitored by a board of directors that acts as an additional agent for the owners. The board is basically concerned with all aspects of management and finances. What should enable the board to fulfill its task is its knowledge about the business and its superior access to information, granted by the law.

Schøler (2013) conducted a study on the effect of board independence in a two-tier setting on firm performance. The findings suggest that board independence could be seen as a positive mechanism in Danish companies since the firm performance seems (highly) related to board independence. However, Wang's (2014) study on the effect of independent directors on corporate performance in China gave conflicting results. From the integrated empirical evidence from 30 collected sample articles, study finds that board independence has no significant impact on firm performance.

According to Adams, Hermalin and Weisbach (2008), board diversity increases board independence because people with a different gender, ethnicity or cultural background might ask questions that would not have come from directors with more traditional backgrounds, bringing benefits in firm performance. On the other hand, a different perspective in decision-making and control may not necessarily lead to more effective

monitoring because diverse board members may be marginalized. In Kenya, Wetukha (2013) investigated the relationship between board composition and financial performance of listed firms at the Nairobi Securities Exchange. The study found a positive relationship between board independence, board size and CEO duality and financial performance of companies listed at the NSE. However, gender diversity and the proportion of executive directors were found to negatively affect the financial performance of companies listed at the NSE.

1.1.2 Firm Performance

The dependent variable in this study was be financial performance. A firm's financial performance is measured in monetary terms. A firm financial performance is reflected in its return on investment, return on assets, value added among others. Profit is the ultimate goal of commercial banks. To measure the profitability of firms there are variety of ratios used of which Return on Asset (ROA). Return on Equity (ROE) and Net Interest Margin (NIM) are the major ones (Murthy & Mouritsen, 2011). ROE is a financial ratio that refers to how much profit a company earned compared to the total amount of shareholder equity invested or found on the balance sheet. ROE is what the shareholders look in return for their investment. ROA is a ratio of income to its total asset (Khrawish, 2011). It measures the ability of the bank management to generate income by utilizing company assets at their disposal. In this study, ROE was used as the measure of financial performance for the firms.

1.1.3 Board Characteristics and Firm Performance

Agency theory explains that the company's board is an important internal governance mechanism. However, the BOD's capacity to control and monitor is weakened if internal

members (executives of the corporation or others affiliated with management) form the majority in the BOD. Corporate governance scholars argue that board monitoring will be more effective if BODs comprise mainly of independent outside directors and from increased shareholdings of directors (Kren & Kerr, 1997).

Notably, non-executive directors are perceived as significant long-term and impartial decision-makers and monitors of the governance process (Tricker, 1978; Higgs 2003). From a corporate governance perspective, their separation and independence from management and any relationship that may potentially interfere with their independent judgment and fair representation of shareholders' interests emphasize their suitability as a reliable governing mechanism and their potential ability to concentrate on ensuring maximization of shareholder value (Beasley, 1996). Specifically, outside directors represent those who are not members of top management (Fosberg, 1989), their associates or families (Shivdasani, 1993), employees of the firm or its subsidiaries (Abbott, Park & Parker 2000) or members of the immediate past top management group (Rhoades, Rechner & Sundaramurthy, 2000).

'Outside director' is also the term given to an independent non-executive director who has no affiliation with the firm other than the affiliation derived from being on the firm's board of directors (Beasley, 1996). Significantly, independent directors are viewed as people who can provide a better quality and assurance of reasoned corporate judgment (Ferris, Jagannathan & Pritchard 2003). Whilst managers, who have to face the pressures of day-to-day events, may overlook some of the decisions made and/or avoid making risky choices (Firstenberg & Malkiel, 1980).

Prior research suggests that the independence of board members is a prime Corporate Governance mechanism which is likely to reduce agency costs as better control is exercised on behalf of the finance providers, since the consequence of the independence is a reduction in asymmetric information, which is expected to lead to reduced cost of capital. The two-tier board system used by Danish companies provides a somewhat different setting for examining the board independence issue since the scene is here set by three parties. In this setting board member independence may namely be measured in several ways among others, including whether directors represent large shareholders and/or board members (not independent) and whether directors are member of the board (not independent) (Firstenberg & Malkiel, 1980).

High degree of independence is expected for companies with relatively high performance. Board independence can be seen as a positive mechanism for providing better performance in some companies. The two tier system found in several continental European countries based on a civil law tradition is characterized by a management board and a separate outside supervisory board. In Germany, since it is mandatory introduction in 1870, this supervisory board has been designed to control the management board not only on behalf of the shareholders, but also to protect the public interest. In this German two-tier system members of a supervisory board are not allowed to be members of the management board of the same company, and vice versa. They are elected by the shareholders, and in large companies up to half of the seats are chosen by labor, i.e. the unions, hereby giving some democratic power to others (Bhagat & Black, 1999).

Most large American public companies have boards with a majority of independent directors; almost all have a majority of outside directors. This pattern reflects the

common view that the board's principal task is to monitor management, and only independent directors can be vigorous monitors. In contrast, an insider-dominated board is seen as a device for management entrenchment. According to Bhagat and Black (1999), the proposition that large-company boards should consist mostly of independent directors has become conventional wisdom.

In firms where the government has a stake, it appoints its directors to the Board. According to Luo, Zhang and Zhu (2011), government directors can bring benefits to a firm by providing it with valuable connections and unique information about the public policy process. With their connections to the government, government directors can also facilitate sales to the government and may even influence government actions in the firm's best interest, a benefit that is especially valuable when the actions of regulatory agencies have important consequences for firm performance (Agrawal & Knoeber, 2001). In contrast, the rubber-stamp view suggests that government directors lack business experience in areas such as industry, accounting, finance, and corporate governance, which limits their ability to effectively perform a monitoring/advising function and holding multiple board appointments can make them too busy to monitor management adequately hence adverse effect on firm performance. Furthermore, government appointed directors are often influenced by politics and will therefore not act in the interest of business.

Diversity of nationality and culture of the management team members may increase the likelihood of cross-cultural communication problem (Lehman & Dufrene, 2008) and interpersonal conflicts (Cox, Jr., 1991). On the other hand, the presence of foreign nationals on the team are expected to bring competitive advantages to the firm, namely

international networks, commitment to shareholder rights, and managerial entrenchment avoidance (Oxelheim & Randøy, 2003). Using a sample of Norwegian and Swedish firms, Oxelheim and Randøy (2003) found a significantly higher Tobin's q for firms that have Anglo-American nationals in their boardrooms. Using net income as the performance measure, Ruigrok and Kaczmarek (2008) found that nationality diversity of the board and management team members is positively related to financial performance in the UK, the Netherlands, and Switzerland.

A report of the Organization of Economic Co-operation and Development (OECD) attributes the 2007 financial crisis to the failure of the boards in overseeing risk management systems, the reason often being the board's limited knowledge and understanding of the risks involved when using complex financial assets. The OECD report does not limit the importance of qualified board oversight or the need for robust risk management to financial institutions (Kirkpatrick, 2009). Drawing lessons from the 2007 crisis, the report emphasizes the necessity of certifying a minimum level of financial knowledge for the directors on boards and those composing the audit committees to ensure that they understand issues related to risk exposure and risk management.

In the USA, market-to-book financial literacy is required by current Sarbanes–Oxley Act (SOX) and New York Stock Exchange (NYSE) regulations for members of the audit committee; it is not required for the other members of the board. However, there is ambiguity regarding the need and the definition of a financial expert on the audit committee, even if this committee is responsible in overseeing the firm's financial risks according to NYSE rules. Van Ness, Miesing and Kang (2010) carried out a study on

board of director composition and financial performance in a Sarbanes-Oxley world. The study found that that duality, occupational expertise, board size, and board tenure were significant influences on firm financial performance.

Dionne, Chun and Triki (2015) studied the importance of directors' independence and financial knowledge and corporate governance. Results showed that directors' financial knowledge increases firm value through the risk management channel. Results also showed that following unexpected shocks to gold prices, educated hedgers are more effective than average hedgers in the industry. Malgharni and Lotfi (2013) in their study analyzed the relationship between board of director composition and risk management in the firms listed in the Tehran Stock Exchange. Results showed a significant positive correlation between the size of board of directors, board meeting frequency, financial literacy of the board, the CEO dual functions, controlling variables and risk management.

Different companies have different boards. Board members differ from one another; they have different personal characteristics and experience. Kanget.al. (2007) explain observable diversity as differences in; race/ethnic background, nationality, gender and age. Campbell and Mínguez-Vera (2008) also describe that diversity can be measured on a number of dimensions: gender, age, ethnicity, nationality, educational background, industrial experience and organizational membership. Of all of these aspects the gender diversity has been given the most of attention. Carroll and Buchholtz (2011) find that for managing the interest of the different stakeholders it is best to have a demographically diverse board. The general assumption is that having people from different backgrounds and ethnic groups is important for the business because people from a certain ethnical

background recognize the needs from the people of this group. Representing different groups is important to pick up signals from different customer groups.

The more contact a firm has to different groups the more a firm can adjust their products or services to specific needs of certain groups. In the empirical study of Abdullah and Ismail (2013) argues that every ethnic group is different in social, cultural and economic terms. Boards with greater diversity could minimize the risk of 'group think' and prevent firms from making decisions somehow biased towards particular groups of the stakeholders. Having board members from different ethnic backgrounds might help to understand the customers from the different backgrounds. Nakano and Nguyen (2011) examined the relationship of selected Board of Directors' characteristics and firm's financial performance. Results showed that the age of the Board of Directors matters, to a certain degree, as well. Younger members are probably willing to bear more risk and to undertake major structural changes to improve firm's future prospects.

According to Ljungquist (2007), board members with higher qualifications benefit the firms through a mix of competencies and capabilities which helps in creating diverse perspectives to decision making. Presence of more qualified members would extend knowledgebase, stimulate board members to consider other alternatives and enhance a more thoughtful processing of problems. Members with higher educational qualifications in general and research and analysis intensive qualification like PhDs in particular will provide a rich source of innovative ideas to develop policy initiatives with analytical depth and rigour that will provide for unique perspectives on strategic issues (Westphal & Milton, 2000). Ferris, Jagannathan and Pritchard (2003) examined the professional background of directors in the case of multiple directorships and found venture capital

stands out among bankers, consultants, venture capital and former executives. Yermack's study (2006) found that share price reactions are sensitive, among others, to director's professional qualifications, particularly in the area of accounting and finance. Bathula (2008) found a positive relationship between the number of board directors with a Doctor of Philosophy degree and firm performance.

1.1.4 Nairobi Securities Exchange

In the year 1954 the Nairobi Stock Exchange (NSE) was formed as a voluntary association of stockbrokers that was registered under the Societies Act. The business of dealing in shares was confined to the resident European community where Africans and Asians were not permitted to buy or sell securities until after Kenya gained independence in 1963. The NSE is a member of African Stock Association and it is a self-regulating organization for listed companies (Munga, 1974). The NSE currently has 64 listed companies. These have been grouped into 10 main segments namely, agricultural, automobiles, banking, commercial and services, construction, energy and petroleum, insurance, investment, manufacturing and telecommunications (NSE, 2015).

In July 2011, the NSE Limited changed its name to the Nairobi Securities Exchange Limited (Waithaka, Ngugi & Kirago, 2012). The change of name reflected the strategic plan of the Nairobi Securities Exchange to evolve into a full service securities exchange which supports trading, clearing and settlement of equities, debt, derivatives and other associated instruments. The Capital Markets Authority (CMA) grants approval for listing for all public offers and listing of securities on any other securities exchange in Kenya. A Securities Exchange may approve the listing of a security on a Growth Enterprise Market

Segment if that security is not offered to the public and the listing is by way of introduction (Waithaka, Ngugi & Kirago, 2012).

There are conditions set before a company is listed in the NSE some of which are; the company must have at least a third of the Board as nonexecutive directors, the company should establish an audit committee in compliance with guidelines on corporate governance issued by the Capital Markets Authority, the Chairman of the company shall not hold such position in more than two listed companies at any one time in order to ensure effective participation in the board, the chief financial officer and the head of accounting department of shall be members of the Institute of Certified Public Accountants established under the Accountants Act (NSE, 2015)

1.2 Research Problem

Studies related to the impact of board characteristics on firm performance are not conclusive in nature but are recognized as important for success of firms. For example, Weir, Laing and McKnight (2002), Wang (2014) and Nordin (2011) find little evidence to suggest that board characteristics affect firm performance. However, other studies have found a positive relationship between certain characteristics of board and firm performance (Malgharni & Lotfi, 2013; Schøler, 2013; Nakano & Nguyen, 2011). Nevertheless, the role played by the board is critical to firm performance as the boards discharge their fiduciary responsibilities of leading and directing the firm (Abdullah, 2004)

In Kenya, different firms listed at the Nairobi Securities Exchange (NSE) have been performing differently. While firms like Safaricom, Equity Bank and Nation Media

Group have posted good results, others like Mumias Sugar and Kenya Airways have performed dismally (NSE, 2015). While the reason for some firms performing poorly and other well may be due the nature of the environment they are working in and that is not under the control of the management or board, studies have shown a significance relation between board characteristics and firm performance.

Malgharni and Lotfi (2013) in their study analyzed the relationship between board of director composition and risk management in the firms listed in the Tehran Stock Exchange. Results showed a significant positive correlation between the size of board of directors, board meeting frequency, financial literacy of the board, the CEO dual functions, controlling variables and risk management. Schøler (2013) conducted a study on the effect of board independence in a two-tier setting on firm performance. The findings suggest that board independence could be seen as a positive mechanism in Danish companies since the firm performance seems (highly) related to board independence. However, Wang's (2014) study on the effect of independent directors on corporate performance in China gave conflicting results. From the integrated empirical evidence from 30 collected sample articles, study finds that board independence has no significant impact on firm performance.

In 2013, the East African Portland boss, a government appointee, together with 5 other directors resigned. The move was said to have been sparked off by government intervention after the sacking of a director by the CEO. This decision greatly affected its performance making the share price tumble and raising fears of suspension from the Nairobi Stock Exchange (NSE) (Business Daily, 2013). There are other listed companies in which the government has a stake and appoints directors to the board. These are

KenGen, Mumias Sugar Company, Kenya Commercial Bank, National Bank of Kenya, Bamburi Cement, KenGen Company and Kenya Airways.

Chepkosgei (2013) investigated the influence of board of directors' composition on financial performance of 43 commercial banks in Kenya. Findings of the study revealed that board size, average tenure, ratio of female directors, occupational experience of the directors and ratio of non-executive could significantly predict only CAR, ROE and ROA. Kiptum (2013) studied the effect of board composition on financial performance of listed companies in the Nairobi Securities Exchange. The population of interest in this study constituted all listed companies quoted at the NSE for the period of five years from 2008 to 2012. Secondary financial data sources was used for the study, where annual financial reports of individual listed firms' was used over the five year period where profitability was extracted and used as a measure of financial performance The findings showed that Board Composition variables i.e. age, gender, independence and ethnicity considered in the model are significantly associated with financial performance as indicated by their positive mean values and respective standard deviations.

Muriuki (2012) examined the effect of board gender composition on the financial performance of listed companies based on evidence from Kenya during a five year period (2007 - 2011). Board gender composition was calculated as the proportion of board seats that women occupy in these listed firms, while financial performance was measured by the return on assets (ROA). Finding indicated that there is a negative relationship between gender diversity and firm financial performance. Wetukha (2013) investigated the relationship between board composition and financial performance of listed firms at

the Nairobi Securities Exchange. Specifically, this study examined board size, gender diversity, board independence and CEO duality and how they affect the financial performance of listed firms in Kenya. Firm performance was measured using Return on Assets (ROA).

All the above studies have studied the relationship between board composition and firm performance. However, none of them has looked at board nationality as well as educational qualification of the board members and their effects on performance, a bridge that the present study will fill. To achieve this, the study aimed to answer the following questions; what is the effect of the level of expertise of BOD members on the performance of firms listed on the NSE, how does BOD independence affect the performance of firms listed on the NSE and what is the effect of Board diversity on the performance of firms listed on the NSE?

1.3 Objectives of the Study

1.3.1 Main Objective

The main objective of this study was to investigate the relationship between board characteristics and firm performance of firms listed at the Nairobi Securities Exchange

1.3.2 Specific Objectives

1. To find out the effect of the level of expertise of BOD members on the performance of firms listed on the NSE
2. To investigate the effect of BOD independence on the performance of firms listed on the NSE

3. To establish the effect of Board diversity on the performance of firms listed on the NSE

1.4 Value of the Study

The study will benefit all limited liability firms in Kenya whether listed or non-listed. This will enable the firm managers and shareholders learn the importance of board composition on firm performance which will enable them to make good and informed decisions on the expertise, diversity and independence of board members in order to maximize firm performance.

To the government and its regulatory agencies like the Capital Markets Authority, Insurance Regulatory Authority among others, this study will enable them come up with policies that will ensure the composition of public listed companies that will safeguard the interest of shareholders and stakeholders.

The findings will also be valuable to future researchers and academicians as it will extent the existing knowledge besides acting as a source of reference. In addition, the study would suggest areas for further research that future scholars and academicians can further knowledge on.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter explains the theories underpinning the study as well the independent variables and their relationship with the dependent variables before reviewing related empirical studies. A summary will then be given at the end of the chapter.

2.2 Theoretical Framework

There are three theories underpinning this study. These are: the agency theory which describes the fundamental conflict between self-interested managers and owners, when the former have the control of the firm but the latter bear most of the wealth effects. Stakeholder theory reflects and directs how managers operate rather than primarily addressing management theorists and economists. Stewardship Theory explains the relationships between ownership and management of the firm. This theory arises as an important counterweight to Agency Theory.

2.2.1 Agency Theory

An agency relationship is one in which one or more persons (the principal[s]) engage another person (the agent) to perform some service on their behalf which involves delegating some decision making authority to the agent. Good examples of agency relationships are that of employer and employee; or shareholders (principal) and CEO. Agency theory describes the fundamental conflict between self-interested managers and owners, when the former have the control of the firm but the latter bear most of the wealth effects. Jensen's and Meckling's (1976) original model illustrates this by

describing how lower managerial stakes lead to increases in non-pecuniary spending by the managers as they do not fully internalize the costs. Agency problems of this kind generate agency costs. A key ingredient in their theory is that outside shareholders cannot costlessly observe the managers' actions. While the model makes many restricting assumptions, the results are applicable to a more general setting as shown by the numerous theoretical and empirical articles that have followed Jensen's and Meckling's (1976) work.

2.2.2 Stakeholders Theory

Stakeholder theory begins with the assumption that values are necessarily and explicitly a part of doing business (Freeman, 1994). It asks managers to articulate the shared sense of the value they create, and what brings its core stakeholders together. It also pushes managers to be clear about how they want to do business, specifically what kinds of relationships they want and need to create with their stakeholders to deliver on their purpose (Ackermann & Eden, 2011).

Stakeholder theory reflects and directs how managers operate rather than primarily addressing management theorists and economists. The focus of stakeholder theory is articulated in two core questions (Freeman, 1994). First, it asks, what is the purpose of the firm? This encourages managers to articulate the shared sense of the value they create, and what bring sits core stakeholders together. This propels the firm forward and allows it to generate outstanding performance, determined both in terms of its purpose and marketplace financial metrics (Ackermann & Eden, 2011). Second, stakeholder theory asks, what responsibility does management have to stakeholders? This pushes managers to articulate how they want to do business and specifically what kinds of

relationships they want and need to create with their stakeholders to deliver on their purpose (Argandoña, 1998).

Today's economic realities underscore the fundamental reality we suggest is at the core of stakeholder theory: Economic value is created by people who voluntarily come together and cooperate to improve everyone's circumstance (Ackermann & Eden, 2011). Managers must develop relationships, inspire their stakeholders, and create communities where everyone strives to give their best to deliver the value the firm promises. Certainly shareholders are an important constituent and profits are a critical feature of this activity, but concern for profits is the result rather than the driver in the process of value creation (Friedman & Miles, 2006).

2.2.3 Stewardship Theory

Stewardship Theory, developed by Donaldson and Davis (1991) explains the relationships between ownership and management of the firm. This theory arises as an important counterweight to Agency Theory. Though this theory addresses some of the reductionist assumptions of Agency Theory, it suffers from being static as it considers the relationship of principal agent at a single point in time and assumes no learning of individuals as a result of their interactions (Davis, Schoorman & Donaldson, 1997).

The executive manager, under this theory, far from being an opportunistic shirker, essentially wants to do a good job, to be a good steward of the corporate assets. Thus, stewardship theory holds that there is no inherent, general problem of executive motivation. Given the absence of an inner motivational problem among executives, there is the question of how far executives can achieve the good corporate performance to

which they aspire. Thus, stewardship theory holds that performance variations arise from whether the structural situation in which the executive is located facilitates effective action by the executive. The issue becomes whether or not the organization structure helps the executive to formulate and implement plans for high corporate performance (Donaldson, 2008).

According to Donaldson and Davis (1991), stewardship theory argues that the goals of board directors and of their managers are aligned, with the latter being intrinsically motivated to act in the best interests of the organization and to focus on intangible rewards such as opportunities for personal growth and achievement. Managers and owners share a common agenda and work 'side by side'; the emphasis is on the board's role in developing strategy rather than on monitoring performance and a preponderance of internal (or executive) directors with high levels of access to information is favoured. Implicit in stewardship theory is the understanding that the owners (principals) are prepared to take risks on how managers will run their business and provide a return on their investment, indicating a level of trust that is absent in agency theory (Arthurs & Busenitz, 2003).

2.3 Determinants of Firm Performance

2.3.1 Ownership Structure

Numerous studies in economics, finance and management have dwelt on the determinants of firm performance. In economics the majority of studies on this issue concentrate on the impact of ownership on firm performance (Ofek, 1993). The problem of ownership is relevant especially in the context of ex-communist countries. After falling of communist regimes in 1990 they have undergone a massive privatization process resulting in a new

private and institutional ownership structure replacing the old state-administrated system with its low efficiency pressure and distorted market and price signals (Chaganti, Damanpour, 1991). While economic literature supplies plenty of reasons for the superiority of market structures vis-à-vis state controlled economic structures, the mass privatization schemes implemented in Eastern Europe provided an excellent framework for a natural experiment resulting in empirical evidence supporting the superiority of privatized firms over state controlled ones (Chaganti & Damanpour, 1991).

In a series analysis on a cross section of enterprises from 4 countries (Hungary, Romania, Ukraine and Russia), Telegdy, Earle and Brown (2006) have documented the positive impact of privatization on firm's performance. However, important differences accrue across countries. While foreign investors do have in all cases a positive impact, the other types of investors do not have in all cases, as one could expect a positive impact on firms' performance. For example, privatization in Russia is associated with a decreased in productivity which extends for a period of 5 years after the privatization (Telegdy, Earle & Brown, 2006).

2.3.2 Size of the Firm

According to Humphery-Jenner and Powell (2011), the size of a firm is the amount and variety of production capacity and ability a firm possesses or the amount and variety of services a firm can provide concurrently to its customers. The size of a firm is a primary factor in determining the profitability of a firm due to the concept known as economies of scale which can be found in the traditional neo classical view of the firm. It reveals that contradictory to smaller firms, items can be produced on much lower costs by bigger firms. In accordance with this concept, a positive relationship between firm size and

profitability is expected (Hall & Weiss, 1967). Contrary to this, alternative theories of the firms advise that larger firms come under the control of managers pursuing self-interested goals and therefore managerial utility maximization function may substitute profit maximization of the firms' objective function (Humphery-Jenner & Powell, 2011).

2.3.3 Board Characteristics

Studies related to the impact of board characteristics on firm performance are not conclusive in nature. For example, Weir, Laing and McKnight (2002), Wang (2014) and Nordin (2011) find little evidence to suggest that board characteristics affect firm performance. However, other studies have found a positive relationship between certain characteristics of board and firm performance (Malgharni & Lotfi, 2013; Schøler, 2013; Nakano & Nguyen, 2011). Nevertheless, the role played by the board is critical to firm performance as the boards discharge their fiduciary responsibilities of leading and directing the firm (Abdullah, 2004)

2.3.4 Capital Structure

Evidence on the impact of financial leverage on firm performance has organizational performance is mixed. Ebaid (2009) has found that capital structure has only a marginal influence on the firm performance in Egypt. Similarly, Sanjay (2009) found no significant relationship between financial leverage and firms' performance in cement industry in India. To the opposite, Zeitunand and Tian (2007) find out that firm's capital structure have a significant and negative impact on the firm's performance. In Kenya, Mwangi, Muathe and Kosimbei (2014) investigated the relationship between capital structure and performance of non-financial companies listed in the Nairobi Securities Exchange. Results revealed that financial leverage had a statistically significant negative

association with performance as measured by return on assets (ROA) and return on equity (ROE).

2.4 Empirical Review

Van Ness, Miesing and Kang (2010) carried out a study on board of director composition and financial performance in a Sarbanes-Oxley world. The study found that that duality, occupational expertise, board size, and board tenure were significant influences on firm financial performance. Dionne, Chun and Triki (2015) studied the importance of directors' independence and financial knowledge and corporate governance. Results showed that directors' financial knowledge increases firm value through the risk management channel. This effect is strengthened by the independence of the directors on the board and on the audit committee. Results also showed that following unexpected shocks to gold prices, educated hedgers are more effective than average hedgers in the industry. The results suggested adding the experience and education dimensions to the 2002 Sarbanes-Oxley Act and New York Stock Exchange requirements for financial literacy.

Kang and Zhang (2011) examined the role of government directors (outside directors with past work experience in government agencies) in corporate governance and their effect on firm performance. Results found that announcements of government director appointments are greeted more negatively by investors than those of nongovernment director appointments. However, results showed that for operating performance and announcement returns are not observed when firms with government directors have a major trading relationship with the government or when they operate in regulated

industries. The results also showed the ineffectiveness of government directors as monitors and advisors as well as the circumstances under which they add value.

Schøler (2013) conducted a study on the effect of board independence in a two-tier setting on firm performance. The findings suggest that board independence could be seen as a positive mechanism in Danish companies since the firm performance seems (highly) related to board independence. However, Wang's (2014) study on the effect of independent directors on corporate performance in China gave conflicting results. From the integrated empirical evidence from 30 collected sample articles, study finds that board independence has no significant impact on firm performance. Malgharni and Lotfi (2013) in their study analyzed the relationship between board of director composition and risk management in the firms listed in the Tehran Stock Exchange. Results showed a significant positive correlation between the size of board of directors, board meeting frequency, financial literacy of the board, the CEO dual functions, controlling variables and risk management.

Nordin (2008) investigated directors' remuneration and firms' performance among Malaysia's Government-Linked Company (GLCs) and Non-GLCs. The results indicated that there was mixed link between directors' remuneration and the firms performance. Luo, Zhang and Zhu (2011) examined the role of government directors (outside directors with past work experience in government agencies) in corporate governance and their effect on firm performance. Results found that announcements of government director appointments are greeted more negatively by investors than those of nongovernment director appointments. However, results showed that for operating performance and announcement returns are not observed when firms with government directors have a

major trading relationship with the government or when they operate in regulated industries.

Doucouliaagos, Haman and Askary (2007) investigated the effect of directors' remuneration and performance in Australian banking. The results indicated that there was no relationship between directors' pay and firm performance, and no association with prior year performance. However, there was a distant pay-performance relationship, with total directors' pay having a robust positive association with earnings per share lagged two years, as well as with ROE lagged two years

Using a sample of Norwegian and Swedish firms, Oxelheim and Randøy (2003) found a significantly higher Tobin's q for firms that have Anglo-American nationals in their boardrooms. Using net income as the performance measure, Ruigrok and Kaczmarek (2008) find that nationality diversity of the board and management team members is positively related to financial performance in the UK, the Netherlands, and Switzerland.

Locally, Wetukha (2013) investigated the relationship between board composition and financial performance of listed firms at the Nairobi Securities Exchange. The study found a positive relationship between board independence, board size and CEO duality and financial performance of companies listed at the NSE. However, gender diversity and the proportion of executive directors were found to negatively affect the financial performance of companies listed at the NSE. The present study will therefore investigate other board characteristics that have not been focused on by local studies like nationality, and educational qualification to investigate the relationship between board composition

and firm performance in Kenya, taking the case of firms listed at the Nairobi Securities Exchange.

Nakano and Nguyen (2011) examined the relationship of selected Board of Directors' characteristics and firm's financial performance. Results showed that the age of the Board of Directors matters, to a certain degree, as well. Younger members are probably willing to bear more risk and to undertake major structural changes to improve firm's future prospects.

Ongore and K'Obonyo (2011) investigated the effects of selected corporate governance characteristics on firm performance in Kenya. Results showed a significant positive relationship between foreign, insider, institutional and diverse ownership forms, and firm performance. However, the relationship between ownership concentration and government, and firm performance was significantly negative. The role of boards was found to be of very little value, mainly due to lack of adherence to board member selection criteria. The results also show significant positive relationship between managerial discretion and performance.

Aduda, Chogii and Magutu (2013) conducted an empirical test of competing corporate governance theories on the performance of firms listed at the Nairobi Securities Exchange. The study found that board composition variables are important predictors of firm performance. Ogeno (2013) investigated the effect of board characteristics on the financial performance of firms listed in the manufacturing and allied sector of the Nairobi Securities Exchange. Results showed that board independence has a significant negative

correlation with financial performance. Board diversity was also found to have a significant positive effect on financial performance

Maina (2005) examined the effects of board composition on firm`s performance on all quoted firms in Kenya. He found no significant relationship between firm`s performance measured using Return on Equity and board composition variables. In addition the findings showed that Kenyan boards were adopting the good corporate governance outlined by CMA. Shavulimo (2014) investigated the effect of corporate governance on performance of sugar manufacturing firms in Kenya. Results revealed that corporate governance practices were positively related to the performance of sugar manufacturing firms in western Kenya, although not very strongly.

2.5 Summary of Literature Review

The chapter has explained the theories underpinning the study which included Agency Theory, Stakeholders Theory and Stewardship Theory. Agency theory describes the fundamental conflict between self-interested managers and owners, when the former have the control of the firm but the latter bear most of the wealth effects. Stakeholder theory reflects and directs how managers operate rather than primarily addressing management theorists and economists. Stewardship Theory explains the relationships between ownership and management of the firm. This theory arises as an important counterweight to Agency Theory. The chapter then explained determinants of firm performance which include ownership structure, size of the firm, capital structure and board characteristics.

CHAPTER THREE

METHODOLOGY

3.1 Introduction

This part outlines methodology that was used in the study. It comprises of research design, population of the study, data collection, and data analysis.

3.2 Research Design

Research design refers to the arrangement of conditions for collection and analysis of data in a manner that aims to combine relevance to the research purpose with economy in the procedure (Yin, 2009). This was a descriptive study and a survey. According to, Creswell (2008), a descriptive study is concerned with finding out the what, where and how of a phenomenon.

3.3 Target Population

The target population refers to a group of individuals, objects or items from which samples are taken for measurement (Mugenda & Mugenda, 2008). Target population is the specific population about which information is desired. The Target population of this study was all the 64 firms listed on the Nairobi Securities Exchange. The study excluded three companies in the NSE listing. These are Kurwitu Ventures and Flame Tree Group holdings which were listed in the year ending 2014 and Hutchings Biemer whose trading has been frozen since 2001. This means the population will be 61 companies.

3.4 Data Collection Method

Secondary data was collected from the listed firm's financial reports. This includes attributes of board diversity, board independence and financial performance among

others which are easily available from the company's annual financial reports and websites. The Capital Markets Authority requires all listed firms publish financial statements on a quarterly basis thus the data is easily accessible. In addition firms listed in the Nairobi Securities Exchange (NSE) are required to file their financial statements with both the NSE. This study focused on published accounts of listed firms including the statement of financial position, income statement and other disclosures. Document analysis is the main procedure whereby balance sheets, income statements and their notes will be studied to get the data for the variables.

3.5 Data Analysis

Descriptive analysis was employed. The data was analyzed using excel and Statistical Program for Social Scientist version 17 (SPSS) as the basic computer method for data analysis. Descriptive statistics will be used mainly to summarize the data. This included percentages and frequencies. Tables, pie charts and other graphs were used as appropriate to present the data collected for ease of understanding and analysis. Measures of central tendency was also applied (mean, median, mode and percentages) for quantitative variables. Multivariate regression was used to determine the predictive power of the board characteristics determining the performance of firms listed at the NSE. The regression model was;

$$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \beta_5 X_5 + \beta_6 X_6 + \epsilon$$

Whereby Y = Firm performance (ROE)

 X₁ = Gender

 X₂ = Age

X_3 = Educational Qualification

X_4 = Occupational experience

X_5 = Board independence

X_6 = Nationality

ε = Error term/Erroneous variables

β_0 = constant/the minimum change in Y when the rest of the variables are held at a constant zero

$\beta_1, \beta_2, \dots, \beta_6$ = Beta coefficients that measure of the rate of change i.e. measures the rate of change in Y as a result of a unit change in X_1, X_2, \dots, X_6

Gender was measured by percentage of women on the board. Age was measured by the average age of the directors on the board. Occupational experience was measured by the average number of years the directors have spent on the board. Nationality was measured by percentage of foreign directors on the board. Board independence was measured by percentage of non-executive directors on the board. Educational qualification was measured by highest level of education attained by the board members (NB: Educational qualification was represented as 1= High School, 2=College Diploma, 3= Bachelor's Degree, 4= Master's and 5= PhD) (Pei, 2005).

CHAPTER FOUR

DATA ANALYSIS, RESULTS AND DISCUSSION

4.1 Introduction

This chapter presents the information processed from the data collected during the study on the relationship between board characteristics and firm performance of firms listed at the Nairobi Securities Exchange.

4.2 Descriptive Statistics

Table 4. 1: Descriptive Statistics of the Study Variables

	Mean	Std. Dev
Gender (%)	15.89	18.76
Age	51.08	3.57
Educational qualification	3.33	0.32
Occupational experience	5.63	0.97
Board independence (%)	69.57	22.49
Nationality (%)	30.03	25.47
Financial performance (ROE)	0.087	0.409

Source: Research Data (2015)

The results in Table 4.1 showed that gender, represent as percentage of total number of women on the board had a mean score of 15.89%, age had a mean score of 51.08, educational qualification had a mean score of 3.33 and occupational experience had a mean score of 5.63. Board independence which was represented by the percentage of non executive directors had a mean score of 69.5% while nationality in percentage of foreign directors had a mean score of 30.03%.

4.3 Regression Results

The study conducted a cross-sectional multiple regressions on several determinants for the financial year 2014 to establish the relationship between board characteristics and financial performance of firms listed at the Nairobi Securities Exchange. 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 (performance of firms listed at the Nairobi Securities Exchange) that is explained by all the six independent variables (Gender, Age, Educational Qualification, Occupational Experience, Board Independence and Nationality) on financial performance (ROE) of firms listed at the NSE.

Table 4.2: Results of Multiple Regressions

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	0.839	0.704	0.688	0.016

Source: Research Data (2015)

The six independent variables studied explain 68.8% of the performance of firms listed at the Nairobi Securities Exchange as represented by the adjusted R^2 . This therefore means the six variables contribute to 68.8% of performance of firms listed at the NSE, while other factors not studied in this research contributes 31.2% of performance. Therefore, further research should be conducted to investigate the other (31.2%) factors influencing performance of firms listed at the NSE.

4.3.1 ANOVA Test

Summary of One-Way ANOVA results of the regression analysis between performance of firms listed at the NSE and predictor variables.

Table 4.3: Summary of ANOVA Results

Model	Sum of Squares	df	Mean Square	F	Sig.
Regression	3.266	6	0.544	5.013	0.0003 ^a
Residual	6.189	57	0.109		
Total	9.455	63			

Source: Research Data (2015)

From the ANOVA statistics on Table 4.3, the processed data, which are the population parameters, had a significance level of 0.0003 which shows that the data is ideal for making a conclusion on the population's parameter. The F calculated at 5% Level of significance was 5.013. Since F calculated is greater than the F critical (value = 2.25), this shows that the overall model was significant i.e. there is a significant relationship between firm performance and its determinants.

Table 4.4: Regression Coefficients

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	5.80	2.76	0.00	2.10	0.04
Gender	0.30	0.18	0.09	1.67	0.01
Age	0.38	0.17	0.20	0.45	0.01
Educational qualification	0.42	0.18	0.40	2.33	0.02
Occupational experience	0.39	0.19	0.43	2.07	0.04
Board independence	0.37	0.45	0.21	2.43	0.02
Nationality	0.28	0.10	0.43	2.75	0.01

Source: Research Data (2015)

The coefficient of regression on Table 4.4 above was used in coming up with the model below:

$$Y = 5.80 + 0.30X_1 + 0.38X_2 + 0.42X_3 + 0.39X_4 + 0.37X_5 + 0.28X_6$$

Whereby: Y = Firm performance (ROE); X₁ = Gender; X₂ = Age; X₃ = Educational Qualification; X₄ = Occupational experience; X₅ = Board independence and X₆ = Nationality. According to the model, all the variables were significant as their significance value was less than 0.05. Gender, age, occupational experience and board independence were positively correlated with performance of firms listed at the Nairobi securities exchange.

From the model, taking all factors (gender, age, educational qualification, occupational experience, board independence and nationality) constant at zero, performance of firms listed at the Nairobi Securities Exchange will be 5.80. The data findings analyzed also

shows that taking all other independent variables at zero, a unit increase in gender will lead to a 0.30 increase in performance of firms listed at the NSE; a unit increase in Age will lead to a 0.38 increase in performance; a unit increase in educational qualification will lead to a 0.42 decrease in performance and a unit increase in occupational experience will lead to a 0.39 increase in financial performance of firms listed at the NSE.

A unit increase in board independence will lead to a 0.37 increase in performance of firms listed at the NSE while a unit increase in nationality will lead to a 0.28 increase in performance of firms listed at the NSE. This infers that educational qualification contributed most to the performance of firms listed at the NSE followed by occupational experience and then age. Nationality had the least contribution to the financial performance of firms listed at the NSE.

4.4 Summary and Interpretation of Findings

From the above regression model, the study found out that there were factors influencing the performance of firms listed at the NSE, which are gender, age, educational qualification, occupational experience, board independence and nationality. They all influenced it positively. The study found out that the intercept was 5.80. The six independent variables that were studied (gender, age, educational qualification, occupational experience, board independence and nationality) explain a substantial 68.8% of performance of firms listed at the NSE as represented by adjusted R^2 (0.688). This therefore means that the six independent variables contributes 68.8% of the performance of firms listed at the Nairobi securities exchange while other factors and random variations not studied in this research contributes a measly 31.2 % of the performance of firms listed at the Nairobi securities exchange.

The study found out that the coefficient for educational qualification was 0.30, meaning that gender positively and significantly influence the performance of firms listed at the Nairobi securities exchange. This is correlates with Kiptum (2013) who showed that Board Composition variables i.e. age, gender, independence and ethnicity considered in the model are significantly associated with financial performance as indicated by their positive mean values and respective standard deviations. However, Muriuki (2012) in his study to examine the effect of board gender composition on the financial performance of listed companies based on evidence from Kenya during a five year period (2007 - 2011) found that that there is a negative relationship between gender diversity and firm financial performance.

The study also found that the coefficient for age was 0.37 meaning age had a positive and significant influence on performance of firms listed at the NSE. This is consistent with Nakano and Nguyen (2011) who examined the relationship of selected Board of Directors' characteristics and firm's financial performance and found that the age of the Board of Directors matters, to a certain degree, as well. Younger members are probably willing to bear more risk and to undertake major structural changes to improve firm's future prospects.

The study further established that the coefficient for of the educational qualification to be 0.42, meaning that the educational qualification positively and significantly influence the performance of firms listed at the NSE. This concurs with Ljungquist (2007) also expressed that board members with higher qualifications benefit the firms through a mix of competencies and capabilities which helps in creating diverse perspectives to decision making. Presence of more qualified members would extend knowledgebase, stimulate

board members to consider other alternatives and enhance a more thoughtful processing of problems. In addition, Westphal and Milton (2000) established that members with higher educational qualifications in general and research and analysis intensive qualification like PhDs in particular will provide a rich source of innovative ideas to develop policy initiatives with analytical depth and rigour that will provide for unique perspectives on strategic issues.

The study also established that the coefficient for occupational experience was 0.39, meaning that occupational experience positively and significantly influence performance of firms listed at the Nairobi securities exchange. This result correlates Dionne, Chun and Triki (2015) who showed that directors' financial knowledge increases firm value through the risk management channel. Results also showed that following unexpected shocks to gold prices, educated hedgers are more effective than average hedgers in the industry.

The study also established that the coefficient for board independence was 0.37; meaning board independence positively and significantly influenced performance of firms listed at the NSE. This results correlates with Schøler (2013) who conducted a study on the effect of board independence in a two-tier setting on firm performance and found that board independence could be seen as a positive mechanism in Danish companies since the firm performance seems (highly) related to board independence. Wetukha (2013) also found a positive relationship between board independence, board size and CEO duality and financial performance of companies listed at the NSE.

Firstenberg and Malkiel (1980) further posited that high degree of independence is expected for companies with relatively high performance. Board independence can be seen as a positive mechanism for providing better performance in some companies. However, Wang's (2014) study on the effect of independent directors on corporate performance in China gave conflicting results. From the integrated empirical evidence from 30 collected sample articles, study finds that board independence has no significant impact on firm performance.

The study finally established that the coefficient for nationality was 0.277; meaning nationality positively and significantly influenced performance of firms listed at the NSE. These results agree with Ongore and K'Obonyo (2011) who showed a significant positive relationship between foreign, insider, institutional and diverse ownership forms, and firm performance. Studies also argue that the presence of foreign nationals on the team are expected to bring competitive advantages to the firm, namely international networks, commitment to shareholder rights, and managerial entrenchment avoidance. On the other hand, Adams, Hermalin and Weisbach (2008), found that diversity of nationality and culture of the management team members may increase the likelihood of cross-cultural communication problem as board diversity increases board independence because people with a different gender, ethnicity or cultural background might ask questions that would not have come from directors with more traditional backgrounds, bringing benefits in firm performance. The formation of a board of directors in a corporation is important as an internal control mechanism to oversee the conduct of the owner-manager and managers and prevent them from endangering vested parties' interests.

CHAPTER FIVE

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

This chapter gives a summary of the study, conclusions made as well as recommendations for policy and practice before discussing the limitations encountered in the course of the study and ends with suggestions for further research.

5.2 Summary of the study

The formation of a board of directors in a corporation is important as an internal control mechanism to oversee the conduct of the owner-manager and managers and prevent them from endangering vested parties' interests. The study wanted to identify the relationship between specific board characteristics by looking at the level of expertise, board independence and board diversity had on firms' performance. Hence the study adopted a descriptive study and a survey. The target population of this study was all the firms listed on the Nairobi Securities Exchange. In this study emphasis was given to secondary data which was obtained from the annual financial reports covering the years ended 2014. The ROE was used as a measure of financial performance hence was calculated from the reports.

From the regression model, the study found out that there were factors influencing the performance of firms listed at the Nairobi securities exchange, which are gender, age, educational qualification, occupational experience, board independence and nationality. They all influenced it positively. The six independent variables that were studied (gender, age, educational qualification, occupational experience, board independence and

nationality) explain a substantial 68.8% of performance of firms listed at the Nairobi securities exchange as represented by the adjusted R^2 (0.688). The findings were that gender, age, educational qualification, occupational experience, board independence and nationality significantly influenced the performance of firms listed at the Nairobi securities exchange.

5.3 Conclusions of the Study

The study concludes that gender positively and significantly influenced the performance of firms listed at the Nairobi securities exchange hence more women should be included on boards. The directors' age has a positive and significant influence on performance to a certain degree, as well. Younger members can bring changes by their willingness to take risk hence probability for high return.

Educational qualification positively and significantly influenced the performance of firms listed at the NSE as more qualified members would share knowledge and bring a variety of reasonable solutions to problems. The study concludes that occupational experience positively and significantly influence performance through shared wisdom acquired over time.

The study finally concludes that board independence and nationality positively and significantly influenced performance of firms listed at the NSE. The diversity of input from varied backgrounds, culture helped improved performance.

5.4 Recommendations for Policy and Practice

The study recommends that stakeholders in listed companies should take into account the body composition issues i.e. educational qualification, occupational experience, board

independence and gender when electing board of directors. That is the body should have equal distribution in terms of educational qualification, occupational experience, board independence and gender to minimize stakeholders conflicts and improve on overall firm performance.

The study recommends that board composition should be based on educational qualification, occupational experience, board independence and gender to steer managerial functions as opposed to ethnicity balance. The study further recommends that female gender should be considered in directorship positions since they are proved statistically to perform better in such positions. Requirements for one to be elected to the board of directors should be well stipulated in terms of age, gender and balance. This will facilitate satisfaction in management and therefore improved management of the NSE listed companies.

5.5 Limitations of the Study

The study was limited to selected aspects of board composition namely gender, age, educational qualification, occupational experience, board independence and nationality. Given that financial performance of the listed firms could be attributable to other factors that were not covered in this study, then the findings of the study would not necessarily be generalizable to the entire population of listed firms in Kenya.

Another limitation is developing a model which would enable a researcher to study the relationship between the various variables. Further, the model may not be reliable due to some shortcoming of the regression models. Due to the shortcomings of regression models, other models can be used to explain the various relationships between the

variables. When developing this model, there was a great need to define the dependent variables and independent variables. If the model is not correct, the process of analysis may not give the right results. In this case, multiple linear regression was used since there were multiple variables which required to be studied.

5.6 Suggestions for Further Research

This study was aimed at establishing the relationship between board characteristics and firm performance of the firms listed in NSE. The characteristics discussed are important but other variables can be studied like specialized /diversity in educational qualification in terms of directors' discipline of study, directors' remuneration and their impact on financial performance.

This study was generalized to companies listed in NSE. Therefore, there is a need to narrow down to specific sectors and company size to look at the effect of board characteristics on firms in the same sector for example manufacturing, agriculture, and construction among others and also the companies of the same size like medium sized companies only. The study could also be carried out on firms that are not listed at the NSE. The effect of changes in board composition due to reasons such as members resignations, creation of diversity over time need to be studied.

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Appendix I: Firms Listed At the NSE

1. Athi River Mining Ord 5.00
2. Atlas Development and Support Services
3. B.O.C Kenya Ltd Ord 5.00
4. Bamburi Cement Ltd Ord 5.00
5. Barclays Firm Ltd Ord 0.50
6. British American Tobacco Kenya Ltd Ord 10.00
7. British-American Investments Company (Kenya) Ltd Ord 0.10
8. Car and General (K) Ltd Ord 5.00
9. Carbacid Investments Ltd Ord 5.00
10. Centum Investment Co Ltd Ord 0.50
11. CFC Stanbic Holdings Ltd ord.5.00
12. CIC Insurance Group Ltd Ord 1.00
13. Crown Berger Ltd Ord 5.00
14. Diamond Trust Firm Kenya Ltd Ord 4.00
15. E.A.Cables Ltd Ord 0.50
16. E.A.Portland Cement Ltd Ord 5.00
17. Eaagads Ltd Ord 1.25
18. East African Breweries Ltd Ord 2.00
19. Equity Firm Ltd Ord 0.50
20. Eveready East Africa Ltd Ord.1.00
21. Express Ltd Ord 5.00
22. Home Afrika Ltd Ord 1.00

23. Housing Finance Co Ltd Ord 5.00
24. Hutchings Biemer Ltd Ord 5.00
25. I&M Holdings Ltd Ord 1.00
26. Jubilee Holdings Ltd Ord 5.00
27. Kakuzi Ord.5.00
28. Kapchorua Tea Co. Ltd Ord 5.00
29. KenGen Ltd Ord. 2.50
30. KenolKobil Ltd Ord 0.05
31. Kenya Airways Ltd Ord 5.00
32. Kenya Commercial BankLtd Ord 1.00
33. Kenya Orchards Ltd Ord 5.00
34. Kenya Power & Lighting Co Ltd
35. Kenya Re-Insurance Corporation Ltd Ord 2.50
36. Kurwitu Ventures
37. Liberty Kenya Holdings Ltd
38. Limuru Tea Co. Ltd Ord 20.00
39. Longhorn Kenya Ltd
40. Marshalls (E.A.) Ltd Ord 5.00
41. Mumias Sugar Co. Ltd Ord 2.00
42. Nairobi Securities Exchange Ltd Ord 4.00
43. Nation Media Group Ord. 2.50
44. National Firm of Kenya Ltd Ord 5.00
45. NIC Bank Ltd Ord 5.00

46. Olympia Capital Holdings Ltd Ord 5.00
47. Pan Africa Insurance Holdings Ltd Ord 5.00
48. Rea Vipingo Plantations Ltd Ord 5.00
49. Sameer Africa Ltd Ord 5.00
50. Sasini Ltd Ord 1.00
51. Scangroup Ltd Ord 1.00
52. Standard Chartered Bank Ltd Ord 5.00
53. Standard Group Ltd Ord 5.00
54. The Co-operative Bank of Kenya Ltd Ord 1.00
55. Total Kenya Ltd Ord 5.00
56. TPS Eastern Africa (Serena) Ltd Ord 1.00
57. Trans-Century Ltd
58. Uchumi Supermarket Ltd Ord 5.00
59. Umeme Ltd Ord 0.50
60. Unga Group Ltd Ord 5.00
61. Williamson Tea Kenya Ltd Ord 5.00
62. A.Baumann CO Ltd Ord 5.00
63. Flame Tree Group Holdings Ltd Ord 0.825
64. Safaricom Ltd Ord 0.05

Appendix II: Research Data

Company name	Total No. of Directors	Age	Experience	Number of Foreign Directors	Non-executive directors	Educational qualification	Number of women board	Foreign Directors' Representation (%)	Non-executive directors' rep (%)	Female Representation (%)	ROE
Athi River Mining	10	47.9	5.6	4	3	3.4	1	40.0	30.0	10.0	0.17
Atlas Development	7	45.6	4.7	3	1	3.0	0	42.9	14.3	0.0	-0.10
B.O.C Kenya	8	51.3	3.4	5	6	3.7	2	62.5	75.0	25.0	0.13
Bamburi Cement	10	56.3	7.6	6	7	3.6	2	60.0	70.0	20.0	0.25
Barclays Bank	10	53.0	6.7	1	9	3.7	5	10.0	90.0	50.0	0.53
BAT	13	55.0	3.4	4	6	3.9	2	30.8	46.2	15.4	0.13
Britam	9	48.9	4.8	1	8	3.8	1	0.1	88.9	3.8	0.14
Car and General	7	51.9	6.9	1	5	3.6	3	30.8	71.4	15.4	0.14
Carbacid	5	61.8	5.7	1	4	3.2	0	20.0	80.0	0.0	0.38

Centum	9	54.6	7	1	8	3.8	2	11.1	88.9	22.2	0.06
CFC Stanbic	12	57.0	4.5	2	10	3.9	3	8.3	83.3	12.5	0.16
CIC Insurance	12	55.6	7.8	0	10	2.9	4	0.0	83.3	33.3	0.23
Co-op Bank	19	53.5	4.4	0	16	3.8	3	0.0	84.2	0.0	0.21
Crown Berger	6	59.7	7.6	3	4	2.8	3	50.0	66.7	50.0	1.21
DTB	12	52.8	6.8	9	0	3.7	1	75.0	0.0	8.3	0.23
E.A.Cables	7	51.4	7.9	1	5	3.9	1	14.3	71.4	14.3	-0.06
Eaagads	5	47.7	5.1	1	4	3.5	1	20.0	80.0	20.0	-0.11
EABL	11	46.7	7.5	8	8	2.9	2	72.7	72.7	18.2	0.26
Equity Bank	11	53.5	6.8	3	9	2.9	0	27.3	81.8	0.0	0.11
Eveready	8	52.7	5.9	1	6	3.3	3	12.5	75.0	37.5	0.3
Express Ltd	5	49	4.6	4	4	2.7	1	80.0	80.0	20.0	-0.58
Home Afrika	12	53.9	4.7	1	10	3.2	3	8.3	83.3	25.0	-0.41
Housing Finance	6	52.2	4.5	3	3	3.5	3	50.0	50.0	50.0	0.03
I&M	8	57.7	6.3	2	6	3.2	0	25.0	75.0	0.0	0.18

Jubilee Holdings	11	49.5	6.5	6	8	2.9	1	54.5	72.7	9.1	0.27
Kakuzi	7	47.7	6.5	4	6	3.5	0	57.1	85.7	0.0	0.99
Kapchorua Tea	9	48.5	7.6	3	5	3.8	0	33.3	55.5	0.0	0.05
KCB	11	48.9	2.7	0	9	3.7	1	0.0	81.8	9.1	-0.01
KenGen	14	48.3	5.8	0	13	2.7	3	0.0	92.9	21.4	0.24
Kenol Kobil	6	49.3	5.5	3	4	3.3	1	50.0	66.7	16.7	0.03
Kenya Orchards	6	46.8	5.8	3	4	3.6	1	0.0	66.7	25	0.16
Kenya Power	11	54.2	4.8	0	8	3.4	2	0.0	72.7	18.2	-0.11
Kenya Re	12	47.7	5.1	0	10	3.9	3	0.0	83.3	25.0	-2
KQ	13	49.9	5.3	3	8	3.7	2	23.1	61.5	15.4	0.13
Liberty Kenya	5	45.8	4.8	3	3	4.2	1	60.0	60.0	20.0	0.17
Limuru Tea	5	44.9	5.9	1	3	2.8	4	20.0	60.0	80.0	0.21
Longhorn Kenya	8	52.9	4.3	0	7	3.1	2	0.0	87.5	25.0	0.17
Marshalls EA	9	54.1	5.9	3	5	3.2	2	33.3	55.6	22.2	0.23

Mumias Sugar	8	59.8	5.3	0	7	3.6	4	0.0	87.5	50	-0.88
Nation Media	16	53.9	4.9	6	13	3.9	3	37.5	81.3	18.8	-0.22
NBK	9	57.1	5.8	0	5	3.4	0	0.0	55.5	0.0	0.3
NIC	12	53.8	11.8	2	8	3.3	4	16.7	66.7	0.0	0.13
NSE	11	53.2	5.2	1	2	2.7	3	18.2	18.3	27.3	0.21
Olympia Capital	6	44	5.1	0	3	4.0	3	0.0	50.0	60.0	0.28
Pan Africa Insurance	9	56.9	8.7	4	3	3.1	2	44.4	33.3	22.2	0.23
Portland Cement	7	48.9	6.1	1	5	3.5	0	14.3	71.4	0.0	0.24
Rea Vipingo	5	46.9	6.1	3	3	3.4	2	60.0	60.0	40.0	0.14
Safaricom	10	55.7	5.5	6	8	3.6	4	60.0	80.0	40.0	0.26
Sameer Africa	6	49.3	5.6	2	3	3.6	0	33.3	50.0	0.0	-0.03
Sasini Ltd	6	53.2	5.5	3	5	3.9	3	50.0	83.33	50.0	0.03
Scangroup	6	49.5	6.1	3	5	3.4	0	50.0	83.33	0.0	0.01

Standard Chartered	8	53.7	7.6	4	6	3.8	4					
								50.0	75.0	50.0	0.27	
Standard Group	8	54.6	5.7	2	4	3.6	3					
								25.0	50.0	37.5	0.14	
Total Kenya Ltd	7	51	5.4	5	1	3.7	3					
								71.4	14.3	42.9	0.09	
TPS Eastern Africa Ltd	11	48.9	7.6	2	6	35.3	2					
								10.5	54.5	18.1	0.07	
Trans-Century Ltd	6	51.3	5.2	0	5	4.3	1					
								0.0	83.3	16.7	-0.52	
Uchumi Supermarket	9	49.6	7.1	0	8	3.7	3					
								0.0	88.9	33.3	0.12	
Umeme Ltd	7	56.9	7.5	7	6	3.6	0					
								100	85.7	0.0	0.32	
Unga Group	8	43.2	10.5	2	7	3.1	3					
								25	87.5	37.5	0.16	
Williamson Tea Kenya	8	45.9	6.8	3	6	3.2	2					
								37.5	75.0	25.0	-0.04	