INFLUENCE OF DIVERSIFICATION STRATEGY ON CORPORATE GOVERNANCE AT THE SIMBA CORPORATION LIMITED

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DECLARATION

This research project is my original work and has not been presented for the award of degree in any other university or institution for academic purposes.

Signature …………………………………….. Date ……………………….

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

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DEDICATION

This piece of work is dedicated to my family. A special feeling of gratitude to my loving Parents Thomas and Florence whose words of encouragement made my study a success. My Husband Lister and daughter Kimberly have never left my side and are very special. I also dedicate this work to my brother William and Sister Jackline, without your support I would not have made it.

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The process of this master's project writing has been a wonderful learning experience in my academic life. It was filled with challenges and rewards. The completion of my present study leads to a new beginning and a step forward in my endeavors.

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TABLE OF CONTENTS

ABSTRACT

Fierce global competition demonstrates the need for an expanded paradigm to understand how competitive advantage and firm performance is achieved. Using diversification strategy, companies may be able to utilize all its capabilities or resources, and be able to attract new business from market segments not catered for earlier. However, absence of corporate governance control will lead managers to pursue strategies that may deviate from the interest of the shareholders thus the need for effective implementation of corporate governance in all organizations whether public or private. Thus corporate governance is increasingly being recognized as an important aspect of an efficient and effective board of directors, enhancing investment performance. The objective of the study was to determine the influence of diversification strategy on corporate governance at the Simba Corporation Limited. The research design used was a case study. The study used primary data which was collected using an interview guide. The respondents were the head of departments for strategy and business development, and the executive directors. The data obtained was analyzed using content analysis. The study found out that ownership structure, board structure, board size and institutional investors influence the corporation diversification strategy and corporate governance. Ownership structure ensures that there is enhanced corporate governance quality as various stakeholders expectations have to be proactively managed. Managers undertake sound business decisions for the corporation through implementation of ethics policies, monitoring and control frameworks that are technology and risk based have been put in place by the shareholders. The board of directors was found to be made up of both internal and external members. Diversification strategy of the corporation was sanctioned by the board and therefore the ultimate effect of diversification strategy pursued by the organization is shouldered by the board. Non-executive members were found to have upheld the corporate governance framework that ensures the strategic guidance of the company, the effective monitoring of management by the board, and the board's accountability to the company and the shareholders. The study found out that the corporation smaller board was effective since they experience fewer communication and coordination problems and this has helped the corporation pursue corporate governance and diversification strategy. The study recommends that recommends that in order to have proper monitoring by independent directors, the corporation should require additional disclosure of financial or personal ties between directors (or the organizations they work for) and the company. Further the non-executive directors need to be trained on internal corporate governance mechanisms.

CHAPTER ONE

INTRODUCTION

1.1 Background of the study

The present day customer stresses prompt delivery, unique innovation, and continued optimization of service quality, and all of these are determined by a mechanism that can improve the performance of routine tasks and non-routine projects by enabling the organization personnel to collaborate and optimize processes of collecting, transforming, storing, and sharing the existing knowledge (Grey, 2006). Fierce global competition demonstrates the need for an expanded paradigm to understand how competitive advantage and firm performance is achieved. The competitive behavior of firms often follows a resource-based pattern of mustering valuable technology assets, which is nevertheless insufficient to produce a sustainable competitive advantage (Faccio, 2006). That is because firms often lack the absorptive capacity and dynamic capabilities that can allow them to assimilate knowledge from varying sources and adapt, integrate, and reconfigure internal and external organizational competences and resources to respond to changing environments.

Yeoh (2010) noted that many firms that follow the codes of best practice in corporate governance have managed to achieve the status of firms with good governance only in form but not in substance. The type of corporate governance reform that focuses purely on form may hinder the progress of corporate governance development in a real sense. Public investors continue to be fed with news of minority shareholder expropriation and even corporate scandals. Though major corporate scandals may not happen often, anecdotal evidence shows that expropriation of minority shareholders by controlling shareholders is not uncommon. The root cause of the expropriation of minority shareholders is the excessive control power that resides with the controlling shareholders as a result of their concentrated ownership in the firm. This is especially true in organizations with relatively weak law enforcement and where political interference in business is prevalent.

The strategy of the firm in the business environment characterized by uncertainties in the market is an important management decision. Diversification strategy allows a business unit operating in more than one sector to gain an advantage due to their activities among themselves and thus creating an undesirable situation of hindering competition for the businesses operating in same industry (Andrews, 2007). This strategy allows a firm to expand or enter new markets which are different from the firm’s existing product lines or markets and in the process attain above-average returns by taking advantage of the incoming opportunities (Kadri, 2004). Diversification is considered as a growth strategy whose rationale is to explore new business areas that promise greater profitability and therefore a firm needs to expand in new markets or product lines which are related or/and unrelated to its existing businesses.

This study will be based on resource based theory and agency theory. Resource based theory suggest that excess resources and capabilities that were unique and those possessing potential to provide sustainable competitive advantages could be exploited through product diversification as well as geographic diversification (Matrinand Sayrak, 2013). Agency theory explains that diversification is driven by managers' interests such as employment risk-reduction, power, prestige and high compensation. On the other hand, shareholders can diversify their portfolios at low cost to balance their investment risk and therefore they might not favor corporate diversification strategies. Due to the nature of corporate structure, shareholders might be forced to accept the firms' diversification strategy although it might not suit their risk and return profiles.

Simba Corporation Limited has been facing challenges emanating from new technology, regional competition, and the deepening integration of national economies into the global economic system, increased number of motor vehicle dealers, the aging of the founders of the company and therefore the need to adopt diversification strategy in order to improve their overall performance.

1.1.1 Diversification Strategy

Diversification strategy is the expansion or entering new markets which are different from the firm's existing product lines or markets (Hope and Thomas, 2008). It is a strategy implemented by the top executives in order to achieve business growth by entering new businesses and attaining above-average returns by taking advantage of the incoming opportunities. Diversification strategies are one of the few strategies consistently used by corporate management to respond to environmental changes. Although various reasons are given for a firm to diversify, the most commonly quoted theme underlying these reasons is the realization of economic benefits. Diversification helps enterprises to obtain economies of scale or scope economies by sharing resources and diffusing capacity (Chen and Ho, 2004). Diversification allows a company to venture out into new lines of business that are different from the present operations. Companies employ different diversification strategies to expand firms' operations by adding markets, products, services, or stages of production to the existing business for better results.

A diversification strategy is pursued when firms have opportunities embedded in market structures and technology as well as opportunities for growth in the firm's basic business

(Chartejee and Wernerfelt, 2011). This means that firms diversify into other businesses if after consolidating their positions in their base industry or market they still possess underutilized resources which can be applied in other sectors of low opportunity. The assumption is that diversification may raise economic benefits through a more efficient utilization of organizational resources across multiple markets (Ahlstrand and Lampel, 2009). Firms diversify their operation either across different national markets (international market diversification) or across multiple lines of business (product diversification) or both to increase the economy of scale and economy of scope, thus increasing their efficiency, learning, and innovation respectively. Shin (2011) noted that family firms may also be more inclined to reduce their risk exposure in the business because usually a significant proportion of the wealth of the owners is tied to their business. One such strategy to reduce risk is to diversify into unrelated business lines. In order for organizations to remain competitive, there is need to craft differentiation strategies so as to have an edge over its competitors. Many organizations are therefore formulating appropriate strategies in order to gain competitive advantage.

1.1.2 Corporate Governance

Corporate governance is the means by which an organization is directed and controlled. In broad terms, corporate governance refers to the processes by which organizations are directed, controlled and held accountable. Corporate governance encompasses authority, accountability, stewardship, leadership, direction and control exercised in corporations (Foo and Mazlina, 2010). It reflects the interaction among those persons and groups, which provide resources to the company and contribute to its performance such as shareholders, employees, creditors, long-term suppliers and subcontractors (Brownbridge, 2007). Matrin and Sayrak (2013) noted that organizations have increasingly embraced the concept of good corporate governance, because of its ability to impact positively on sustainable growth. It is believed that, good governance generates investor goodwill and confidence. Firms are now improving their corporate governance practices knowing it increases valuations and boosts the bottom line. Governance is concerned with structures and processes for decision making, accountability, control and behaviour at the top of managers.

Corporate governance is seen as the process and structure used to direct and manage the business affairs of the company towards enhancing business prosperity and corporate accountability with the ultimate objective of realizing long-term shareholder value, whilst taking into account the interest of other stakeholders. Corporate governance also includes the relationships among the many players involved (the stakeholders) and the goals for which the corporation is governed. The principal players are the shareholders, management and the board of directors. Other stakeholders include employees, suppliers, customers, bankers and other lenders, regulators, the environment and the community at large (Klapper and Love, 2013). The argument has been advanced time and time again that the governance structure of any corporate entity affects the firm's ability to respond to external factors that have some bearing on its performance. In this regard, it has been noted that well governed firms largely perform better and that good corporate governance is of essence to firms (Brown and Caylor, 2004). It is believed that good governance generates investor goodwill and confidence. Again, poorly governed firms are expected to be less profitable.

1.1.3 Diversification Strategy and Corporate Governance

The acceleration of globalization has been followed by important changes at the level of the organizations, which have changed their mode of operation, as well as at the level of governments that have to establish and maintain an adequate legal frame (Morariu, 2008). Good governance within an organization reduces risks, increases performance, opens the way to financial markets, brings competitive goods and services on the market, improves the managerial style, and shows transparency to all the interested parties and social responsibility. The lack of mandatory rules and structures could lead to chaos in business. Safdar (2012) noted that corporate governance was established to tackle the agency problems. The source of value creation of corporate governance is the alignment of interests between shareholders and managers. Therefore, if the interests of shareholders and managers are closely aligned, it is likely that diversification strategies create value to the firm. Therefore, if different forms of corporate governance can mitigate the severity of agency costs, it can also alleviate value reduction caused by diversification strategies.

Claessens and Fan (2012) opine that internal corporate governance mechanisms such as the composition of the board of directors and executive compensation are associated with the level of unrelated diversification. For example, firms are more likely to engage in unrelated diversification when corporate governance is weak. In contrast, when managers' ownership increases or the board becomes more vigilant in corporate governance, firms tend to reduce diversification and engage in more related diversification. Moreover, stock option plans tend to encourage managers to engage in riskier strategic actions such as acquisitions, while granting managers large blocks of restricted stock makes them less likely engage in risky strategic actions (Ahlstrand and Lampel, 2009).

The reduced level of ownership concentration due to mergers and acquisitions can have important implications for corporate governance and strategic management. Although large investors may still have strong incentives to monitor managers, their ability to influence managerial decisions and to discipline managers is reduced due to their reduced ownership level as a proportion of the total shares outstanding (Matrin and Sayrak, 2013). Because of the important differences among investors regarding their risk preferences, their attitudes toward corporate social responsibility, and their investment strategies, managers can attract and keep the right investors by clearly communicating with investors about their strategies and carefully managing investor expectations (Foo and Mazlina, 2010).

1.1.4 The Motor Vehicle Industry in Kenya

Kenya's Motor Sector has undergone major transformations since the advent of Structural Adjustment Programs (SAPs) in the 1990s that advocated for liberalization, which replaced policies pursued earlier on, such as Import Substitution. The opening up of the Kenyan economy caught some players in the Motor Sector unprepared to face competition. In addition, the Kenyan economy had been performing dismally, registering negative 0.2 growth rate in 2000. This performance of the economy coupled with high interest rates and depreciation of the Kenya shilling, had reduced the purchasing power of the average Kenyan, making the vehicles, and particularly new vehicles less affordable (IEA, 2002).

Kenya's automobile market is dominated by several key Motor Vehicle companies which include General Motors East Africa Limited (GMEA Ltd), Toyota (East Africa), Cooper Motors Corporation (CMC), Simba Colt and DT Dobie, among others. At present, Japanese grey imports makes up about 80 per cent of the market, primarily through second-hand dealerships. CMC Holdings, a publicly-listed Kenyan car manufacturer, has a large East African presence and exclusive distribution agreements for a range of heavy duty and high-end vehicles, including Land Rover, Volkswagen and the Nissan Diesel range of trucks (PWC, 2012).The Kenya Motor Industry Association (KMI), the representative body of the corporate participants in the motor industry, has been lobbying hard to reverse the trend where 80 percent of vehicle annual sales are grey imports while new vehicle dealers compete for the remaining 20 percent. Some of these measures have helped the industry recover from its lowest point in 2000, when only 5,869 units were sold. On their part, the companies have become more innovative in responding to customer needs (PWC, 2012). Because of the Japanese market, most of these key companies have now come up with strategies which make them stand out and also improve their reputation.

1.1.4 Simba Corporation Limited

Simba Corporation Ltd is an integrated business group headquartered in Nairobi, Kenya with controlling interests in such diversified fields as motor vehicle assembly, motor vehicle sales and after sales, hospitality, investments and financial services. Simba Corporation is one of Kenya's most successful indigenous commercial organizations with a very rich heritage in motor vehicle sales and service. It has grown from a modest used-car selling enterprise founded in 1948 by the late Mr. Abdul KarimPopat. Today, the Group holds internationally renowned motor vehicle franchises such as Mitsubishi, Fuso, BMW and Mahindra and has just acquired the Renault dealership (www.simbacolt.co.ke).

From a flagship motor sales business (then known as Simba Colt Motors Ltd.), Simba Corporation has strategically expanded its primary motor sales and service operations while diversifying into various professionally managed divisions; Each division complements the ultimate goal to be Africa's most respected business group! Simba Hospitality, a division of the company, has recently signed their hotel new Villa Rosa hotel in Nairobi and Olare Mara tented resort, to management contracts with the world renowned Kempinski Hotels. They take pride in maintaining a truly Kenyan heritage and current positioning as one of the leading world-class benchmarked and managed business entities in the East African region. With a strong workforce of over 650 employees, Simba Corp. are sparing no effort in seeking avenues to continue presenting to the growing East African market a range of premium and functional global brands and business solutions that truly reflect their aspirations.

Simba Corporation Motors target market profiling for its saloons and 4 wheel drive vehicle is geared mainly towards middle level Managers who have access to financial services and enjoy the prestige of driving showroom vehicles. Besides a loyal customer base from the Asian community, Simba Corporation target market for pick up models is aimed at up country farmers whilst truck models are targeted towards long distance public service transport providers. The bus model market remains a challenge but earnest promotions are beginning to yield results in terms of market share.

1.2 Research Problem

Gomez-Mejia et al., (2010) noted that as a consequence of the environmental pressures affecting organizations, and the need for these organizations to achieve their objectives, it has become important for them to craft appropriate strategies to survive. Some organizations have adopted diversification as a strategy to survive in this turbulent business environment. To satisfy the interest of shareholders, managers should pursue strategies that are consistent with maximizing shareholders' wealth. Companies might wish to create and exploit economies of scope, in which the company tries to utilize its existing resources and capabilities in other markets. This can oftentimes be the case if companies have under-utilized resources or capabilities that cannot be easily disposed or closed. Using diversification strategy, companies may be able to utilize all its capabilities or resources, and be able to attract new business from market segments not catered for earlier. However, absence of corporate governance control will lead managers to pursue strategies that may deviate from the interest of the shareholders thus the need for effective implementation of corporate governance in all organizations whether public or private. Thus corporate governance is increasingly being recognized as an important aspect of an efficient and effective board of directors, enhancing investment performance.

Safdar (2012) opine that corporate governance is a philosophy and mechanism that entails processes and structure which facilitate the creation of shareholder value through management of the corporate affairs in such a way that ensures the protection of the individual and collective interest of all the stakeholders. This means therefore that a sound corporate governance principles are the foundation upon which the trust of investors and lenders is built and this will translate to the firm developing appropriate strategies that will lead to the increase of the firms' performance. Good corporate governance practices may have significant influence on the strategic decisions of a company, e.g. diversification, that are taken at board level. Therefore corporate governance variables like size of board, composition of board, skill set at board and CEO/Chair duality may have direct impact on the strategic decisions made by the firm (Mangunyi, 2011). Due to what it is intended to serve, ranging from the financing decision to the general operational policies, corporate governance has, in more recent years, become one of the most commonly used terms in the modern corporation.

Simba Corporation Limited has been has forced companies to go back to the drawing board to seek new ways of expanding their businesses and reach new markets more exhaustively for their products as a result of increased competition. A major solution to this challenge would be to pursue diversification strategy. Simba Corporation Limited is able to provide consistent quality at the best price through a standardized business system that minimizes the cost and difficulty the customer faces in acquiring motor vehicles and spares. This could strengthen their offerings and become attractive competitors on the local market by doing so. To succeed, the firm has pursued corporate governance and diversification in order to maintain its performance. This enabled the company to reduce agency problems and improve firm performance.

Studies that have been undertaken on diversification strategy include Khamati (2014) researched on diversification strategy and performance of radio Africa limited in Kenya and established that though the performance improved as a result of the strategy, the overall growth in revenues was decreasing at a decreasing rate. Otieno (2013) undertook a study on the implementation of diversification strategy at Kenya Power and Lighting Company Limited. The finding of the study was that diversification was a key pillar for the growth of the company and that it had not only increased revenue streams but also dealt with market threats to the organization. Karanja (2013) researched on diversification strategy and the performance of Kenolkobil Limited in Kenya and established that established that Kenolkobil has adopted related, unrelated and multinational diversification strategies. The study also established that this diversification has increased the sales, net profits and shareholder equity of Kenolkobil. There being no known local study, the study seeks to answer the question; what is the influence ofdiversification strategy on corporate governance at Simba Corporation Limited?

1.3 Research Objective

To determine the influence of diversification strategy on corporate governance at Simba Corporation Limited.

1.4 Value of the study

The findings of the study will be of value to theory as evidence of diversification influence on governance is limited and more empirical research is needed to explain the inconsistent findings of prior studies. The study will help the mangers of Simba Corporation to evaluate their strength for better diversification. Under the highly complex market conditions and instability, firm can perform better by using this strategy. This study will formulate an understanding to diversify under different conditions. So the companies can use all its organizational resources to become better at what it does and competitive skills are likely to emerge as diversified firms.

For other motor vehicle companies, this study will show the impact of governance on their performance through diversification. It will advise them on whether or not to revise their governance practices. The study will further point out to them whether or not to adopt corporate governance principles that exceed the ones prescribed by laws and norms in Kenya. Companies may also consider adopting more internal governance principals as opposed to the predominant external governance mechanisms.

To academicians, this study will add to the existing body of knowledge, the area of the relationship between the internal governance mechanisms and firm valuation. The findings of the study will increase body of knowledge to the scholars in the service industry and make them be in touch with the benefits of diversification strategy.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This section was devoted to reviewing literature relevant to the study on theoretical review, measures of corporate governance and their relation to diversification strategy and diversification strategy and corporate governance.

2.2 Theoretical Foundation of the Study

The two basic theories that form the theoretical foundation of diversification play important role in understanding the basis of diversification strategy. It is therefore imperative to explore and understand these theories in order to visualize and understand the theoretical perspective of this study.

2.2.1 Agency Theory

Agency theory generally implies that managers and shareholders tend to have divergent interests and, as a result, when monitoring is lax, managers may pursue corporate strategies that are not in the best interest of shareholders (Mansi and Reeb, 2012). Given that diversification can facilitate creation of internal capital markets and help increase debt capacity, Klapper and Love (2013) argument that managers with larger debt capacity and access to free cash flow may undertake non value-maximizing investments could explain value-discounting diversification. Further, due to the intersegment transfer of cash, there is a greater possibility of managers undertaking negative value projects relative to single-segment firms. Foo and Mazlina (2010) suggest that diversified firms that have access to internally generated funds can have a problem of overinvestment. Managers' could actually be investing in negative net present value projects because they are able to avoid market evaluation and monitoring of their projects.

Agency theory conceives of the firm as a nexus of constantly re-negotiated contracts by individuals, each aiming to maximize their own utility. An essence of the agency problem is the separation of finance and management. As the basis of agency theory is the self-interested utility-maximizing motivation of individual actors, there is a single-minded focus on how the principal is able to prevent the agent from maximizing his own utility (Clarke 2007). The agency theory perspective influenced theoretical perspective of board and governance. This views board as a control mechanism to ensure match between managers and shareholders, and to reduce the potential divergence of interests between corporate management and shareholders. Amihud and Lev (2011)propose that managers may pursue risk-reducing diversification investments to lower managerial employment risk even if this strategy is at odds with shareholder value. Specifically, they explain that because shareholders can lower their investment risk by diversifying on their own, they are less concerned about firm-specific risk and, as a result, prefer high-risk-high-return corporate diversification strategies. Conversely, managers can minimize their human capital risk only at the firm level and, as a result, they tend to pursue risk-reducing diversification strategies that do not necessarily maximize shareholder value.

2.2.2 Resource Based View Theory

The resource-based view (RBV) as a basis for a competitive advantage of a firm lies primarily in the application of the bundle of valuable interchangeable and intangible and tangible resources at the firm's disposal (Byrd, Parrino & Pritsch, 2012). To transform a short-run competitive advantage into a sustained competitive advantage requires that these resources are heterogeneous in nature and not perfectly mobile. Effectively, this translates into valuable resources that are neither perfectly imitable nor substitutable without great effort. The success of organizations is based on those of their capabilities that are distinctive. Companies with distinctive capabilities have attributes which others cannot replicate even after they realize the benefit they offer to the company which originally possesses them.

The resource based view seems to lean towards a firm sustaining long run competitive advantage, by focusing on exploiting its unique resources. Organizations have capabilities that can be transferred from one business to another. These include labour, skills, knowledge, intellectual property and more. They form the basis for competitive advantage. In a diversified firm, these resources can be used to achieve synergy between the various business units and hence give the organization an edge (Anderson and Reeb, 2013). According to RBV, in family-controlled firms, the interaction of the family unit, the business unit and individual family members creates unique systemic family influences. These systemic interactions lead to the idiosyncratic firm-level package of resources and capabilities of the organization commonly known as the “familiness” of the firm (Claessens and Fan, 2012). It can be conjectured that on average the greater the ownership and control of the family over the firm, the more “familiness” the firm will have. In family business literature, it is contended that “familiness” is able to create competitive advantages for family-controlled firms which will then have a bearing on firm performance (Claessens and Fan, 2012). As the number of family directors on the board increases, their efficiency and effectiveness in policy decision-making at board level is improved via stronger interaction and influence.

2.3 Diversification Strategy and Corporate Governance

As family owners want to retain control, they concentrate their investment in one firm and often have a large proportion of their wealth tied in the firm. Consequently, they can reduce their personal risk by reducing the firm risk through diversification. Further, corporate diversification can be used to reduce the volatility in earnings which increases the chance of firm survival (Choi and Cho, 2013). Del Brio et al. (2011) noted that owner identity is a significant determinant of the level of unrelated corporate diversification. The results are robust especially for private equity owner identity demonstrating a strong negative association between the level of unrelated diversification and private equity ownership.

Elyasiani and Jia (2010) noted that internal corporate governance mechanisms such as the composition of the board of directors and executive compensation are associated with the level of unrelated diversification. For example, firms are more likely to engage in unrelated diversification when corporate governance is weak. In contrast, when managers' ownership increases or the board becomes more vigilant incorporate governance, firms tend to reduce unrelated diversification and engage in more related diversification. Moreover, stock option plans tend to encourage managers to engage in riskier strategic actions such as acquisitions, while granting managers large blocks of restricted stock makes them less likely engage in risky strategic actions (Hautz et al. 2011).

The focus on board independence is grounded in agency theory (Pearce and Zahra, 2012). In fact, it has long been argued in the finance literature that boards with a majority of independent directors are more effective in monitoring management and are more likely to replace poorly performing chief executive officer. More independent boards are also more likely to opt for a clean slate when company performance deteriorates significantly, and to hire a replacement CEO from outside the firm rather than promote an internal candidate (Huson, 2011). Wen et al., (2002) investigated the relationship between corporate governance and capital structure decisions in Chinese firms and found out that larger board of directors, especially when they are more controlled by legal authorities look for higher levels of debt to increase firm's value.

Hartzel*et al.*, (2009) examined corporate diversification, corporate governance, and firm performance. Their results indicate corporate diversification and corporate governance are correlated. It was also noted that diversification has a strong correlation with institutional investors but it has a weaker correlation with other corporate governance variables. Jae-Seung, Jun-KooK, and Kyung-Suhp (2004) found that more capable managers bring about better corporate governance and pay attention to the stockholders' interests. They also noted that there is a positive relationship between the firm value and the corporate governance. The link between diversification strategy and corporate governance is reviewed in terms of ownership structure, board structure, institutional structure, non-executive managers and board size.

2.3.1 Diversification Strategy and Ownership Structure

Management ownership is one of the incentives in aligning the interest of managers with that of shareholders. In addition, the presence of outside stockholders is also an important mechanism in corporate governance. However, large ownership or ownership concentration may contribute to deficiencies in corporate governance (Thillainathan, 2009).Claessens and Fan (2012) contend that the increase of corporate ownership among managers can reduce free-riding and agency problems. In the relatively dispersed ownership structures, the major mechanism for protecting shareholders from management is the effective enforcement of judicial systems and the market for corporate control. However, when ownership becomes more and more concentrated until it reaches a level where the largest owner has effective control of the firm, the nature of the agency problem shifts away from manager-shareholder conflicts to conflicts between the controlling shareholder and public minority shareholders.

Anderson and Reeb (2013) showed that the level of diversification is negatively related to managerial ownership. When managers own substantial firm equity, they are likely to have incentives to keep the strategies in line with the preferences of other owners since their bonding to firms' outcome is high. However, this relationship depends largely on the level of ownership. An increase in managerial ownership is likely to be associated with a decrease in diversification. Byrd, Parrino & Pritsch, (2012) suggested that manager-controlled firms engaged more in conglomerate acquisition than owner-controlled firms, due to their greater need for personal risk reduction. This can be characterized as agency conflicts between the owner and the manager that are derived from the manager's tendency to appropriate perquisites out of firms' resources for his own consumption. Since the economic stake of block shareholders increase as their share ownership rises, the incentive of block shareholders to protect their investment and consequently monitor management can be expected to increase with the level of their share ownership.

Ownership dispersion does not only lead to the separation of ownership and managerial control, but also greatly affects corporate governance quality. Although the board of directors is formally charged with the ratification and monitoring of management decisions, research has shown that it is often less effective in performing this function unless it is pressured by investors (Claessens and Fan, 2011).One major reason is that directors not only tend to be beholden to the managers who invite them to join the board, but also share a strong social norm of respecting managerial autonomy and authority (Westphal and Khanna, 2013). When a firm’s ownership is widely dispersed, individual investors have little incentive or power to influence management and/or board decisions.

2.3.2 Diversification Strategy and Board Structure

The Board of Directors, which is elected by the shareholders, is the ultimate decision making organ of the company (McDonald, 2005). The Board plays a major role in the corporate governance framework, and is mainly responsible for monitoring managerial performance, and achieving an adequate return for shareholders. The Board also acts as an intermediary between the principals(shareholders) and the agents (managers), ensuring that capital is directed to the right purpose (Brown Governance, 2004). In this role, the Board prevents conflicts of interest that may arise between managers and shareholders, and balances competing demands on the corporation. When necessary, the Board also invokes its authority to replace the management of the corporation with new, presumably more efficient management that will maximize the firm's profits. Besides, the Board is responsible for reviewing key executive remuneration. The Board also acts as the voice of the agents to the principals, articulating their ideas for uses of capital and making an accounting of the use of capital back to the principals (Matrin and Sayrak, 2013). The Board, in exercising its business judgment, acts as an advisor to the top management and defines and enforces standards of accountability, all with a view to ensuring that top management execute their responsibilities fully and in the interest of shareholders**.**

The board plays a major role in the corporate governance framework (Andreou and Louca, 2010). The board is mainly responsible for monitoring managerial performance and achieving an adequate return for shareholders, while preventing conflicts of interests and balancing competing demands on the corporation. When necessary, the board also has the authority to replace the management of the corporation. For example, if management is under-performing, then the board can replace the current management with new, presumably more efficient, management that will maximize the firm's profits. The board is also responsible for reviewing key executive and board remuneration. Kuppuswamy and Villalonga, (2010) noted that in order for boards to effectively fulfill their monitoring role they must have some degree of independence from management. While the emphasis in outsider systems is on independence, in reality there is the very serious problem that, like management, the board too can become entrenched. This is particularly the case when board members are compensated for their activities, and are themselves responsible for overseeing executive and board remuneration. While there is a trade-off between compensation that attracts high quality individuals as non-executive board members, this also provides incentives to serve on a large number of boards. This in turn can interfere with performance, since service on too many boards reduces the monitoring ability of board members. Even if regulations were to limit the number of board positions that can be held, when you have dispersed ownership, agency problems arising from the separation and ownership and control still exist.

Non-executive directors can be a source of expertise which executives can draw upon, both in the form of specific skills as well as advice and counsel in relation to strategy and its implementation. They can also serve as an important source of contacts, information and relationships that allow executives to better manage some of the uncertainties in the environment (Brownbridge, 2007). These relational resources can be both practical and symbolic; the association of particular individuals with a company has the potential to enhance the reputation or perceived legitimacy of an executive team.

Amihud and Lev (2011) noted that more mature businesses might draw upon the non-executive as a source of relevant market or managerial experience, and board composition would hence be managed primarily in terms of the relevance for the company of the non-executive's past experience rather than in terms of formal independence. But even in a more mature business, the non-executive directors who are needed to manage radical processes of organizational change might be very different from those needed to support the roll-out of a successful business model. The non-executive might be vital as a source of expertise in relation not only to the delivery of financial performance but also in the management of other key sources of business risk; for example in relation to regulation or government policy, or consumer confidence or their knowledge of campaign or pressure groups.

2.3.3 Diversification Strategy and Institutional Investors

Large size of shareholding by institutional block holder may also provide sufficient incentives to monitor management. McConnell and Servaes (2010) proved that the percentage of shares owned by institutional shareholders is positively and significantly related to performance. It is suggested that institutional investors are more likely to play leading roles in governance compared to other types of outside block-holders. According to Elyasiani and Jia (2010) institutional investors such as pension funds, investment and mutual funds and foundations are likely to be pressure-resistant from corporate managers since they do not form business relationships with the firms in which they have invested. They are thus more active and likely to oppose managers on corporate issues than banks and insurance companies which are pressure-sensitive from corporate managers as they often derive benefits from their business relationship with the companies in which they have invested.

Choi and Cho (2013) noted that institutional investor activism is neither harmful nor beneficial to financial performance. Institutional investors essentially invest ‘other people’s money’ and therefore have legal obligation to proactively protect their investments against value-reducing actions (Hautz*et al.*,2011). Thus, institutional investors are expected to influence the diversification strategies that the managers wish to adopt. Consequently, it can be expected that the link between institutional shareholding and unrelated diversification is negative. The empirical findings of Matrin and Sayrak (2013) show that firms' institutional ownership is negatively associated with the level of unrelated diversification in India.

2.3.4 Diversification Strategy and Board Size

The board of directors is highest body of a company that is responsible for managing the firm and its operation. It plays vital role in strategic decisions regarding financial mix. The size and diversity of the board can affect its ability to initiate strategic reorientation. In this respect, the resources dependence theory suggests that increased size and diversity can yield benefits of creating a network with the external environment for securing a broader resources base (Pearce and Zahra, 2012). To adapt to the dynamic external environment, the strategic function of a board assumes added importance during periods of corporate turbulence and declining performance. Byrd, Parrino & Pritsch, (2012), however, argue that more diverse boards are more likely to constrain strategic change as their preoccupation with governance and institutional role can result in significant deficiency in their strategic roles. In addition, although larger size is expected to increase the pool of expertise and resources and to reduce chief executive officer dominance of the board, it could inhibit strategic change initiation by the board due to delays and disagreements, lack of motivation, poor coordination, and group adverse dynamics and conflicts (Amihud and Lev, 2011).

Matrin and Sayrak (2013) noted that the size of the board can influence the choice and performance implications of a particular strategic option. Although the resources perspective suggests a positive role for a large board size in choosing an appropriate strategy, large boards can allow chief executive officer dominance, and, combined with a lack of monitoring, it can lead to suboptimal strategic decisions. Brown and Caylor (2004) results suggest that even in their monitoring functions, large boards are not always more effective. In fact, his results indicate that firms with smaller boards show superior financial performance, and are more efficient in mitigating agency conflict.

2.4 Diversification Strategy and Corporate Governance

According to agency theory, managers tend to pursue their personal interests at the costs of shareholders, especially when the interests of managers and shareholders conflict (Anderson, Bizjak and Lemmon, 2010). Thus, the purpose of corporate governance is to align the interests of managers with shareholders. This function is generally carried out by the board of directors within the firm, either through the ratification and monitoring of management decisions or through the provision of incentives by linking managerial compensation and dismissal decisions to firm financial performance. Gomes and Livdan (2009) noted that diversification strategies have a lot of benefits to the firm comprising both operating and financial synergies. Nevertheless, the complexity of management large diversified or conglomerate firms is not trivial. If diversified firms cannot overcome such complexity, the benefits of diversification strategies may be depleted. The important cost of managing a large firm lies in the misallocation of capital assumption. Instead of increasing firm value due to the benefits of economies of scale and scope, the value of a diversified firm may be dampened by transferring of funds from the most profitable business segment to the least one.

Amihud and Lev (2011) noted that managers receive private benefits from pursuing an unrelated diversification strategy because it reduces their unemployment risk by reducing the variance in firm performance, and increases their power, prestige, and compensation by increasing firm size. In contrast to managers who cannot diversify their employment portfolio, shareholders can diversify their investment portfolios more easily. They thus do not benefit from diversification strategy. Moreover, because diversification tends to destroy shareholder wealth and firm value, it is not favored by shareholders. To satisfy the interest of shareholders, managers should pursue strategies that are consistent with maximizing shareholders' wealth. However, absence of governance control will lead managers to pursue strategies that may deviate from the interest of the shareholders. High-risk high-return strategies and less diversification are attractive to shareholders who hold a diversified portfolio of investment. However, as opposed to shareholders, the managers' wealth is not well diversified and hence, they depend on the survival of the firm. Therefore, managers prefer low risk strategies to avoid being associated with financially distressed firms. Managers prefer to reduce their employment-risk through corporate diversification (Amihud and Lev, 2011) Furthermore, corporate diversification may provide other private benefits to managers. For example, diversification might benefit managers through the power and prestige associated with managing a larger firm (Jensen, 1986); managerial compensation which is positively related to firm size and make managers indispensable to the firm (Palich, Cardinal and Miller, 2010). As a result, managers may pursue diversification strategies even though shareholders' interests might be at stake.

2.5 Empirical Review and Gap

This chapter reviewed and explicated the literature that is directly linked and applied to the development of the hypotheses. The discussions are directed towards the influence of diversification strategy on corporate governance. Though firm diversification is not a corporate governance mechanism per se, previous research has suggested that firms in Asia have been active in using firm diversification for private benefits and entrenchment. Thus agency problems can be different within diversified firms (Claessen *et al.*, 2002; Mitton, 2002). Muscalu, Fraticiu and Ghitulete (2012) study on the association between corporate governance and firm diversification among Brazilian companies. The study established that essential factors for limiting the exaggerated diversification tendencies and, by this, the agency problems are the government mechanisms. They have the role to discourage and reduce the effects of the managerial actions oriented toward obtaining administrative profit and not towards the corporate objectives, affecting by this the financial performance of the company. The companies where the structure of the governance is not efficient deal with a reduction of the company's value as an effect of excessive diversification.

Nastase and Hotaran (2011) study on the influence of ownership, control, governance and diversification on the performance of family-controlled firms in Malaysia found out that the proportion of family equity ownership positively influences corporate performance, group-affiliated firms generally underperform non-group affiliated firms, the heterogeneity of business groups results in considerable differences in performance. Specifically, size of business group has a negative moderating effect on the firm diversification-performance relationship, profit redistribution occurs in firms that have a high level of family ownership and that are affiliated to large business groups, board independence in general lacks effectiveness in moderating the influence of firm strategies or activities on firm performance

Chu and Song (2011) study the connections between firm diversification, capital structure and the role of large shareholders in Malaysian firms. They find diversification to be non-linearly related to firm value in which a low level of diversification improves firm value and a high level of diversification destroys firm value. However, by covering only the manufacturing industry with sample data collected from the period 1994 to 2000, before corporate governance reform became effective in Malaysia, Chu and Song's study is rather narrow in scope.

Dhnadirek and Tang (2012) study on diversification effects on firm value and corporate governance in Thailand found out that agency costs of free cash flow to some extent are responsible for the value loss from diversification strategies. The agency costs generated by agency conflicts between shareholders and managers (Principal-Agent conflict; PA) or between controlling shareholders and minority shareholders (Principal-Principal conflict; PP) can drive firms to engage in the misuse of capital or excessive diversification. Since corporate governance is not single institution that can monopolistic evolve but it is embedded in a complex web of many institutions especially laws and regulations, changes in the corporate governance system require changes in various areas such as the ownerships structure and law and enforcement. The study will therefore fill the gap that exists on the influence of diversification strategy on corporate governance.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

The chapter describes the proposed research design, population of the study, data collection instruments and the techniques for data analysis.

3.2 Research Design

A research design is a master plan, or framework, which outlines the methods and procedures for collecting and analyzing data (Cooper and Schindler, 2010). An appropriate research design gives focus to a study, and ensures that the data collection processes are in line with the objectives of the study, considering that accurate data must be collected if the results of a study are to be useful. The research design was a case study. The case study design was the most appropriate research method for the study as it was dealing with one unit.

3.3 Data Collection

The study used primary data which was collected using an interview guide. The respondents were the head of departments for strategy and business development, and the executive directors. These were considered to be key informants for this research. Key informants are a source of information that can assist in understanding the context of an organization or clarifying particular issues or problems of the study. The respondents further provided secondary information in form of bulletins and annual reports and other valuable material. The interview guide was attached as appendix I.

3.4 Data Analysis

The data obtained was analyzed using content analysis. Content analysis was the systematic qualitative description of the composition of the objects or materials of the study (Hsieh and Shannon, 2010). It involved observation and detailed description of objects, items or things that comprise the object of study.

Content analysis, as a class of methods at the intersection of the qualitative and quantitative traditions, is used for rigorous exploration of many important but difficult-to-study issues of interest to management researchers (Carley, 2003). This approach was more appropriate for the study because it allowed for deep, detailed accounts in changing conditions that Simba Corporation had experienced.

CHAPTER FOUR

DATA ANALYSIS, RESULTS AND DISCUSSION

4.1 Introduction

The research objective was to establish the influence of diversification strategy on corporate governance at the Simba Corporation Limited. This chapter presents the analysis and findings with regard to the objective and discussion of the same.

4.2 Interviewees Profile

The interviewees comprised of the middle and top management of Simba Corporation Limited. In total, the researcher interviewed four out of the six that had been intended to be interviewed. The two interviewees were not available during the interview. The interviewees held managerial position in the institution and therefore considered to be more versed with the subject matter of the study. The duration the respondents have been working in the corporation varied from one year to seven years and therefore they understand the importance of corporate governance to the corporation competitiveness.

On the level of education, all the interviewees indicated that they were post graduate holders, with their solid academic and work life background in the affairs of the organization, the interviewees were found to be knowledgeable on the subject matter of the research and thus capable to help in the realization of the research objective. Corporate governance is used to direct and manage the business affairs of the company towards enhancing business prosperity and corporate accountability. The interviewees said that corporate governance enables the corporation to maximize profit for the stockholders while diversifying into other industry, increase corporate performance and creation of long term shareholder value and managing processes and systems for managing various stockholders of the company.

The competitive motor vehicle industry necessitates the implementation of strategies that ensures that the corporation in order to achieve business growth. In Simba Corporation, the management has diversified into other business sectors and geographical regions in a coherent, risk based manner in order to build agglomerate. The pursuit of diversification strategy is geared towards creation of value to the shareholders and managers through agency problem tackling. Therefore, the alignment of shareholders interests and managers results in diversification strategies creating value to the firm.

4.3 Diversification Strategy and Corporate Governance

The environmental pressure has seen Simba Corporation craft appropriate strategies to survive. These strategies include diversification strategy. Using diversification strategy, the corporation may be able to utilize all its capabilities or resources, and be able to venture into new business market segments not catered for earlier. However, absence of corporate governance control leads managers to pursue strategies that may deviate from the interest of the shareholders thus the need for effective implementation of corporate governance in the organization. Thus corporate governance is increasingly being recognized as an important aspect of an efficient and effective organization in enhancing investment performance.

4.3.1 Ownership Structure

Management ownership is one of the incentives in aligning the interest of managers with that of shareholders. The dispersion of ownership structure in the corporation has resulted in enhanced corporate governance quality as various stakeholders expectations have to be proactively managed. The interviewees further noted that ownership dispersion has affected diversification through injection of new ideas which have enhanced business development strategies and enable the corporation achieve its objectives. They noted that the diversification of the corporation from motor vehicle industry to hospitality industry was as a result of the diverse ownership and especially the current director who has a background in hospitality sector and when the competition in the motor industry increased resulting in decreased revenue to the corporation the manager opted to diversify and this as seen the corporation do well in the sector.

The shareholders are tasked with ensuring that an organization engages in activities that are beneficial for the whole organization. The interviewees indicated that in order for the managers to undertake sound business decisions for the corporation, implementation of ethics policies, monitoring and control frameworks that are technology and risk based have been put in place by the shareholders. These ensures that the managers and the employees adhere to the set ethics and whenever they deviate then those charged with monitoring and control pin point the deviations thus ensuring that corrective action is undertaken early. They further said that the shareholders have contracted external auditors to ensure that the accounts are regularly checked so that the managers do not manipulate the accounts in order to please the shareholders. At the same time the senior managers have been incorporated in the corporation as shareholders through buying of shares and these ensures that they work hard in order to improve performance so that they too can benefit as a result of profits realized.

4.3.2 Board Structure

The board of directors of an organization plays a major role in corporate governance framework, and is mainly responsible for monitoring managerial performance, and achieving an adequate return for shareholders. The interviewees noted that diversification of the corporation has to be sanctioned by the board and therefore the ultimate effect of diversification strategy pursued by the organization is shouldered by the board. In order to ensure that the diversification strategy pursued achieves its objectives, the board put in place functional organizational structure acting across all industries of interests and at the same time hires the experienced and qualified managers. At the board the interviewees said that there are some independent board members and since they do not have interests in management of the corporation, they give an honest opinion on the direction that the organization ought to pursue in order to achieve its objectives.

Board members fulfill both the internal functions of monitoring and ratifying managerial decisions and providing conduits of trust and information for the firm in its external dealings. The board independence of the board is paramount for an organization as the outside directors are less obligated to the managers of the corporation and therefore better monitors of the top executives as they strengthen board efficiency and facilitate monitoring. The interviewees said that board independence in the corporation has resulted in the strengthening of internal management and control system and ensuring that the budget is met. The strategies put in place by the board to be pursued by the corporation ought to be interrogated at the end of the year to determine whether it achieved the intended results and if not analyze the causes of unrealized strategy. The interviewees also noted that the external directors have brought the balance element away from family ties and they have served as objectives judges of disagreements. The directors at the same time brings a wealth of experience from different fields and this help the corporation in sourcing of markets through business contacts and connections.

Agency problem is as a result of the managers of an organization working contrary to the shareholders desire and therefore in order to minimize the problem, the board plays an oversight role to ensure that there are minimal causes of the problem if any. In Simba Corporation, the board ensures that the managers adhere to the ethics and policies and the best practices of corporate governance, audit committee to oversee the operation and motivating managers through performance shares and executive stock options. Corporate governance is a mechanism to safeguard the agency problems, hence, plays an important role to reduce value-destroying diversification strategies. The source of value creation of corporate governance is the alignment of interests between shareholders and managers. Therefore, if the interests of shareholders and managers are closely aligned, it is likely that diversification strategies create value to the firm.

Non-executive directors can be a source of expertise which executives can draw upon, both in the form of specific skills as well as advice and counsel in relation to strategy and its implementation. The participation of non-executive directors is designed to enhance the ability of the firm to protect itself against threats from the environment and align the firm's resources for greater advantage. In the corporation, the non-executive members of board give their opinion to other members on business strategies that the organization can undertake in order to succeed. The interviewees further noted that the non-executive members have upheld the corporate governance framework that ensures the strategic guidance of the company, the effective monitoring of management by the board, and the board’s accountability to the company and the shareholders. Thus having independent boards in the form of increased outsider presence is particularly important for firms like Simba Corporation which pursue diversification investments because these strategies affect shareholder value far into the future.

Board meetings serve as key forums where executives and directors share information on company performance, plans, and policies. On maintaining the overall health of the corporation, the interviewees said that the board holds regular board meetings to assess performance of the business against the set objectives. The board is needed by any organization to effectively discharge its duties thus in the corporation the interviewees noted that the functioning of the board could be enhanced through employee representative sitting in the board, continuously adopting evolving international best practices for corporate governance, being in touch with emerging trends and appreciating latest development in the global markets and consistent training. They further indicated that whenever a vacancy occurs in the board, there ought to be transparent and competitive recruitment criteria to fill the vacancy so that the organization acquires someone who adds value to the organization.

4.3.3 Institutional Investors

The institutional investors control an organization through the number of shares they hold and therefore they influence organizational decisions. The corporation institutional investors were found to have been brought fresh ideas from their diverse backgrounds and stuck selection and this helps the corporation as they have experience in running of diverse institutions and thus knows the practices that enables the organization achieve its desired objectives. The interviewees further noted that the investors understanding of the need to use international best practices for performance reporting as well corporate governance ensures that the corporation uses the practices so that they can monitor their investment in the firm.

The institutional investors' financial muscle and their membership in the corporation board enable them to influence the diversification strategies that are pursued as they know that even if the finance is not available they can further inject some more resources so that the corporation can achieve the set objectives. The institutional investors capital investment has enabled the company improve the product to competitive levels and look outwards for markets to increase the investors wealth. The size and stake of institutional investors enable them to have representation in the board which makes ultimate decisions on the corporation and therefore they demand more accountability from the managers and ensuring that the performance metrics for this aspect meets best practices. Further the institutional investors act within structure of an institution such as a committee.

4.3.4 Board Size

As organizations increasingly operate in a multinational and multicultural context, understanding how board composition of organization group affects outcomes such as satisfaction, creativity, turnover and performance is of increasing importance. A firm's board is responsible for setting firm direction, formulation and implementation of strategic change. The size and diversity of the board would be able to manage turbulent complex environments since team member differences stimulate debate about the appropriate strategy, allow them to generate greater range of strategic alternatives and collectively better evaluate the feasibility of such alternatives. On whether the board size has enabled the corporation pursue corporate governance, the interviewees said that the size of the board had an impact on the quality of corporate governance. According to the interviewees a large board could be dysfunctional and that smaller board sizes are better than larger ones because large boards may be plagued with free rider and monitoring problems. Additionally, the interviewee said that smaller boards are more effective since they experience fewer communication and coordination problems.

The size and diversity of the board can affect its ability to initiate strategic reorientation. In this respect, the increased size and diversity can yield benefits of creating a network with the external environment for securing a broader resources base. To adapt to the dynamic external environment, the strategic function of a board assumes added importance during periods of corporate turbulence and declining performance. In addition, although larger size is expected to increase the pool of expertise and resources and to reduce chief executive officer dominance of the board, it could inhibit strategic change initiation by the board due to delays and disagreements, lack of motivation, poor coordination, and group adverse dynamics and conflicts. Thus smaller boards discharge its mandate effectively than larger boards. The size of board influences corporate governance because the more experienced the directors the more they are keen to have the company own property.

The size of the board influences the choice and performance implications of a particular strategic option. Although the resources perspective suggests a positive role for a large board size in choosing an appropriate strategy, large boards allow chief executive officer dominance, and, combined with a lack of monitoring, it can lead to suboptimal strategic decisions. Thus, firms with small boards would be able to restrict diversification as well as achieve positive value consequences of their strategic moves. The diversification of the corporation enable it to operate in larger and more varied business settings, and their product and capital market linkages are comparatively more numerous and complex. Although a higher proportion of independent outside directors may serve external market business interests on more favorable terms, more insiders on a board provide the necessary expertise and guidance in decision making as they are the best informed with regard to corporate operations. Independent outsiders provide valuable monitoring services along with an expanded expert knowledge base. They also impart prestige and legitimacy to corporate decisions, thus functioning as an important signaling device.

4.4 Discussion

The strategy of the firm in the business environment characterized by uncertainties in the market is an important management decision. Diversification strategy allows a business unit operating in more than one sector to gain an advantage due to their activities among themselves and thus creating an undesirable situation of hindering competition for the businesses operating in same industry. The study found out that ownership structure of Simba Corporation has resulted in enhanced corporate governance quality as various stakeholders expectations have to be proactively managed. The study further found out that in order for the managers to undertake sound business decisions for the corporation, implementation of ethics policies, monitoring and control frameworks that are technology and risk based have been put in place by the shareholders. Claessens and Fan (2012) contend that the increase of corporate ownership among managers can reduce free-riding and agency problems. In the relatively dispersed ownership structures, the major mechanism for protecting shareholders from management is the effective enforcement of judicial systems and the market for corporate control.

As a consequence of the environmental pressures affecting organizations, and the need for these organizations to achieve their objectives, it has become important for them to craft appropriate strategies to survive. The study found out that diversification of the corporation was sanctioned by the board and therefore the ultimate effect of diversification strategy pursued by the organization is shouldered by the board. The study further noted that the non-executive members have upheld the corporate governance framework that ensures the strategic guidance of the company, the effective monitoring of management by the board, and the board's accountability to the company and the shareholders. The results were found to be consistent with Andreou and Louca (2010) findings that the board plays a major role in the corporate governance framework. The board is mainly responsible for monitoring managerial performance and achieving an adequate return for shareholders, while preventing conflicts of interests and balancing competing demands on the corporation.

The institutional investors control an organization through the number of shares they hold and therefore they influence organizational decisions. McConnell and Servaes (2010) noted that the percentage of shares owned by institutional shareholders is positively and significantly related to performance. It is suggested that institutional investors are more likely to play leading roles in governance compared to other types of outside block-holders. This was found to be consistent with the findings of the study which established that the corporation institutional investors were found to have brought fresh ideas from their diverse backgrounds and stuck selection and this helps the corporation as they have experience in running of diverse institutions and thus knows the practices that enables the organization achieve its desired objectives. The size and stake of institutional investors enable them to have representation in the board which makes ultimate decisions on the corporation and therefore they demand more accountability from the managers.

The board of directors is highest body of a company that is responsible for managing the firm and its operation. The study found out that the corporation smaller board was effective since they experience fewer communication and coordination problems and this has helped the corporation pursue corporate governance and diversification strategy. The results of the study was opposite the findings of Byrd, Parrino & Pritsch, (2012) which established that more diverse boards are more likely to constrain strategic change as their preoccupation with governance and institutional role can result in significant deficiency in their strategic roles.

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

The chapter is outlined into summary of the findings, conclusions, recommendations, limitations of the study and suggestions for further research.

5.2 Summary of Findings

The study found out that the ownership structure of Simba Corporation has resulted in enhanced corporate governance quality as various stakeholders expectations have to be proactively managed. It was also found out that in order for the managers to undertake sound business decisions for the corporation, implementation of ethics policies, monitoring and control frameworks that are technology and risk based have been put in place by the shareholders. The study further found out that shareholders have contracted external auditors to ensure that the accounts are regularly checked so that the managers do not manipulate the accounts. Diversification of the corporation was found to have been sanctioned by the board and therefore the ultimate effect of diversification strategy pursued by the organization was shouldered by the board.

The study established that board independence in the corporation resulted in the strengthening of internal management and control system and ensuring that the budget was met. The external directors were found to have brought a wealth of experience from different fields and this help the corporation in sourcing of markets through business contacts and connections. Corporate governance was enhanced in the corporation through strategic guidance of the company, the effective monitoring of management by the board, and the board’s accountability to the company and the shareholders. The institutional understanding of the need to use international best practices for performance reporting as well corporate governance ensures that the corporation uses the practices so that they can monitor their investment in the firm. The institutional investors capital investment has enabled the corporation improve the product to competitive levels and look outwards for markets to increase the investors wealth. The size and diversity of the board was found to have helped Simba Corporation to for set firm direction, formulation and implementation of strategic change. In this respect, the increased size and diversity can yield benefits of creating a network with the external environment for securing a broader resources base.

5.3 Conclusion

The relevance of corporate governance cannot be over emphasized since it constitutes the organizational climate for the internal activities of an organization. Corporate governance brings new outlook and enhances a firm's corporate entrepreneurship and competitiveness. The diversification of Simba Corporation limited was as a result of the need to improve their performance due to intense competition and diverse ownership in the motor vehicle sector. The diversification of the firm necessitates the existence of corporate governance in order to ensure that the management and the employees adhere to the set ethics. Diversification of the corporation was found to have been sanctioned by the board and therefore the ultimate effect of diversification strategy pursued by the organization is shouldered by the board. In addition the management should be competent so as to ensure good corporate governance objective setting, achieve strategic awareness, manage resistance to its implementation, give a clear guidance, sustain vigorous strategy implementation efforts, align structure to strategy, envision change for future competences and critically assess current strategy.

Corporate diversification represents the passage of an organization to a new activity segment, by internal development processes or by acquisitions, generating changes in the administrative structure, internal organizational and operation systems and in the management processes. The board of the corporation included external members who brought a wealth of experience from different fields and this helped the corporation in sourcing of markets through business contacts and connections. Board independence is important for effective oversight of internal management and control system and ensuring that the budget is met. The size of the board had an impact on the quality of corporate governance. The study concludes that smaller board sizes are better than larger ones because large boards may be plagued with free rider and monitoring problems.

5.4 Recommendations for Policy and Practice

The study established that Simba Corporation Limited has effectively adopted diversification strategy as one of its corporate strategies. However the study recommends that proper policies be put in place to govern the continued implementation of this strategy. The study recommends that the business units should be incorporated as autonomous subsidiaries and not within the existing company structure. Each business unit should independently account for its costs and returns.

The study recommends that in order to have proper monitoring by independent directors, the corporation should require additional disclosure of financial or personal ties between directors (or the organizations they work for) and the company. By so doing, they will be more completely independent. The study also recommends that Simba Corporation Limited should be well equipped to implement corporate governance practices in its daily activities to the levels which might be acceptable in developed market economies and improve accessibility to firm financing by enhancing transparency and accountability in the information disclosed.

The board needs to comprise of well educated people since they are actively involved in shaping corporations strategy. The study recommends that non-executive directors be trained on internal corporate governance mechanisms. Ownership concentration needs to be reduced to avoid few people controlling the performance of the organization. Employees should be encouraged to be more active in management aspects of the corporations. The study recommends that financial monitoring should be done thoroughly by the board. Good corporate governance has a positive economic impact on the institution in question as it saves the organization from various losses.

5.5 Limitations of the Study

The results drawn from this study should be interpreted with the limitations in mind. The most challenging limitation was the sample-size of the study. In order to gain more exact results, the sample-size should have been larger, perhaps more organizations that have diversified from one sector to another.

There are limitations about the objectivity of data gathered from the interview guide. Although this study took all the precautionary steps to reduce the possibility of response bias and applied the procedural remedies, there may still be some bias in the responses generated from the interview. However, despite the above limitations, the findings presented in this paper have important policy implications.

5.6 Suggestion for further research

The study was undertaken on the influence of diversification strategy on corporate governance in only one organization. It is recommended that the study be undertaken on other organizations so that comparison can be made on the extent of the influence. Also further studies should be done on the effect of corporate governance structures and practices on the performance of other institutions in other industries.

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Appendix I: Interview Guide

The objective of the study will be to establish the influence of diversification strategy on corporate governance at the Simba Corporation Limited

Section A: Demographic Data

1. What is your designation at the company?
2. For how long have you worked in this company?
3. What is the highest level of education you have achieved?
4. What is the main task for corporate governance in your institution?
5. In your organization what does corporate governance and diversification encompass?

Section B: Diversification Strategy and Corporate Governance

a) Ownership Structure

6. How has ownership dispersion affected diversification of the company and the corporate governance quality?
7. How have the controlling owners/managers create private benefits of control by their involvement in non-value maximization activities?
8. How have the shareholders of the company made sure that management do not engage in activities that are detrimental to the wealth of the shareholders?

b) Board Structure

9. How has the board ensures that the diversified its operations and corporate governance?
10. How has independence of the board ensures that the company achieves its objectives?
11. How has the company board balances competing demands on the corporation in order to diversity?

12. How has the board enable the company reduce agency problem?
13. How has non-executive members of the board enable the company to diversity and practice corporate governance?
14. How has the board played a hands-on role in maintaining the overall health of the enterprise for the benefit of its owners?
15. How can the functioning of the company's board of directors be improved?

c) Institutional Investors

16. How have institutional investors enable the company to adopt diversification strategy and corporate governance?
17. How have the institutional investors enable the company makevalue enhancing choices with their greater flexibility to allocate capital across regions?
18. How has the size of owners equity influence monitoring of managers activities in the company?
19. How has the size and ownership stake of institutional investors' influences over governance changes in the company?

d) Board Size

20. How has the board size enabled the company to diversify and pursue corporate governance?
21. Do the size and composition of the board influence corporate governance?
22. How has the size of the board affected decision making and corporate governance in the company?
23. How has the size of the board size influence the choice and performance implications of a particular strategic option?