CORPORATE GOVERNANCE AS A STRATEGIC TOOL TO IMPROVE PERFORMANCE OF LISTED COMPANIES IN KENYA

BY

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DECLARATION

I Karanja Jeremiah Ndung'u, hereby declare that this Research Project entitled CORPORATE GOVERNANCE AS A STRATEGIC TOOL TO IMPROVE PERFORMANCE OF LISTED COMPANIES IN KENYA is my original work and has not been presented for a degree in any other university.

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DEDICATION

I dedicate this work to my dear wife, Rachel Wawuda, for her support, understanding, encouragement and prayers which greatly contributed to the accomplishment of this work.

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ABBREVIATIONS ACRONYMS

AGM	-	Annual General Meeting
BoDs	-	Board of Directors
CDSC	-	Central Depository System Corporation
CEO	-	Chief Executive Officer
CMA	-	Capital Markets Authority
CMC	-	Cooper Motors Corporation
ICSA	-	Institute of Chartered Secretaries and Administrators
ICPSK	-	Institute of Certified Public Secretaries of Kenya
MBA	-	Master of Business Administration
NASI	-	NSE All Share Index
NSE	-	Nairobi Securities Exchange
OECD	-	Organization for Economic Co-operation and Development
ROA	-	Return on Assets
ROE	-	Return on Equity
ROI	-	Return on Investments

ABSTRACT

Corporate challenges such as fraud, declining performance and collapse have impelled the opinion that the practice of good governance is the ultimate solution to firms. It is for this reason that the concept of corporate governance has gained a lot of popularity over the last decade. Increasingly, organizations are now focusing on corporate governance as just not mere meeting statutory obligations, but as an imperative business strategic tool to improve their performance, attain sustainable growth and long-term competitive advantage. Most of the studies done on the value of corporate governance have been conducted in the developed world. This study therefore aimed at contributing to the knowledge of this subject matter but specifically in regard to the listed companies in Kenya. The study objectives were to: determine the extent to which listed companies in Kenya have integrated corporate governance guidelines into their corporate strategies; and to determine the effectiveness of corporate governance as a strategic tool to improve performance of listed companies in Kenya. To meet these study objectives, a descriptive census survey was used. The study population comprised of 63 companies which were listed at Nairobi Securities Exchange as at December 31, 2014. Questionnaires were used to collect primary data and were sent to at least one person who was either a shareholder, director, senior manager or company secretary of each of the targeted companies. 39 questionnaires were completed and returned, representing a response rate of 62%. Secondary data used was mostly from the published audited financial statements. Data collected was analyzed and findings presented in form of graphs, pie charts and tables. It was observed that most of the companies listed at the Nairobi Securities Exchange were implementing corporate governance guidelines issued by the Capital Markets Authority. In addition, most of the companies had incorporated corporate governance practices into their corporate strategies resulting to improved performance. The study therefore found that corporate governance was an effective strategic tool to improve performance of listed companies in Kenya. These research findings have made a contribution to the theory and practice in regard to the value of corporate governance in general and specifically on the use of corporate governance as a strategic tool to improve performance of listed companies. Based on the results of the study, it is recommended that the Capital Markets Authority should ensure strict compliance of corporate governance guidelines by the listed companies in order to enhance productivity and therefore attract more investors into the market. Similarly, listed companies should dedicate adequate resources to ensure compliance with good governance practices for improved corporate performance. This study recommends that further research be carried out targeting the small owner-managed companies as well as other organizations in Kenya to enable generalization of findings.

CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

According to Pearce and Robinson (2007), strategic management is a continuous process that involves attempts to match or fit the organization with its changing environment in the most advantageous way possible. Porter (1998) argues that through strategic management, companies are able to effectively cope with uncertainties in the environment, attain competitive advantage, expected performance and long-term objectives. One of the strategic management tools that a company can use to attain competitive advantage and expected performance is corporate governance. Metrick and Ishii (2002) view corporate governance as the promise to repay a fair return on capital invested. According to ICPSK (2014), corporate governance is a set of rules that define the relationship between stakeholders, management, and the board of directors of an organization.

Corporate governance has attracted a lot of interest because of its perceived positive impact on performance of organizations and society in general. According to Wanyama and Olweny (2013), absence of good corporate governance has been a major cause of failure and stagnations of many well performing companies including WorldCom, Anderson, Merrill Lynch, Enron, Uchumi Super Market, CMC Motors and Euro Bank. The government, industry regulators, professional bodies and other players have developed rules, codes and guidelines on corporate governance. These rules specify the rights and obligations of various stakeholders on the business enterprises and are aimed at ensuring fair, transparent and accountable business environment and therefore improve corporate performance. This study is intended to empirically determine whether listed companies in Kenya that have integrated corporate governance into their strategies are able to attain superior financial performance within the limits of such guidelines while taking into consideration the interests of all stakeholders including employees, suppliers, customers and society.

1.1.1 Concept of Corporate Governance

The Cadbury Report (1992) defines corporate governance as the system by which companies are directed and controlled. The institution of corporate governance in a firm is an attempt to ensure the separation of ownership and control (Jensen and Meckling, 1976). Shleifer and Vishny (1997), describe corporate governance as the way in which suppliers of finance to corporations assure themselves of getting a return to their investment. This study adopted the definition of corporate governance as given by the Capital Markets Authority (CMA) guidelines (2002), that is, corporate governance is the process and structure used to direct and manage business affairs of the company towards enhancing prosperity and corporate accounting with the ultimate objective of realizing shareholders long-term value while taking into account the interest of other stakeholders.

In Kenya, there have been efforts to review the legal and regulatory framework with an aim of enhancing governance. Key among the laws under review is the Companies Act, Cap 486, which is the principal legislation governing corporate governance and under which all the listed companies in Kenya are registered. Several institutions are playing an imperative role in promotion of corporate governance practices in Kenya. ICPSK, for instance, has developed codes of governance, has been holding forums to advocate for good governance practices and in 2010 introduced Champions of Governance (COG) Award to recognize persons that exhibit high standards of governance. On the other hand, The Institute of Certified Public Accountants of Kenya (ICPAK) has been advocating for adoption of international accounting and audit standards while the Law Societies of Kenya has taken several initiatives to fight corrupt practices. Non-Governmental Organizations, such as Transparency International, have also been agitating for improved governance practices while the Centre for Corporate Governance has made several initiatives to foster high standards of governance. CMA developed guidelines for good corporate governance practices by public listed companies in Kenya in the year 2002 and is currently in the process of revising these guidelines.

1.1.2 Concept of Strategy

According to Thompson et al. (2007), a strategy is a long term plan of action designed to ensure that objectives of the enterprise are achieved. A strategy is formulated after evaluating how an organisation's strengths and weaknesses compare to those of its competitors (Porter, 1998). According to Pearce and Robinson (2007), there are three levels of strategy: corporate, business, and functional or operational level. The corporate level strategy defines the vision, corporate goals and philosophy and culture of the firm. The business level strategy bridges corporate and functional strategies where decisions include plant location, market segmentation and distribution channels while the functional level is concerned with the implementation.

In formulating a strategy, a firm must choose its activities in different ways than its competitors in order to deliver a unique set of value to its customers and differentiate itself, otherwise there will be a risk of being copied (Porter, 1996). Therefore, a competitive advantage enables the firm to create superior value for its customers and superior profits for itself (Porter, 1998). According to Porter (1980), a firm can achieve a higher level of performance over a rival in one of two ways: either it can supply an identical product or service at a lower cost, or it can supply a product or service that is differentiated in such a way that the customer is willing to pay a price premium that exceeds the additional cost of the differentiation.

Like all other companies, listed companies on the NSE operate in a very competitive environment. To survive the competition and thrive to achieve their set targets, listed companies require formulating strategies that differentiate them and create competitive advantage over their rivals. This study therefore examined whether corporate governance is an effective tool that listed companies could use to different themselves, create a competitive advantage and therefore improve their performance. The key strategic areas that the study examined to determine the extent to which listed companies are affected by the practice of corporate governance include production and operations; marketing strategies; financial planning and budgeting; product development; human resource strategies; expansion strategies; and procurement strategies.

1.1.3 Concept of Performance

While some scholars view the quantitative financial parameters as the most reliable and objective measures of corporate performance, others have argued that such parameters are inadequate as they do not consider the totality of all the stakeholders' interests. On the other hand, qualitative parameters may be viewed as subjective and therefore pose a challenge in their measurement. According to Kaplan and Norton's (1992), the Balanced Scorecard measures the totality as opposed to focusing only on financial measures. It embodies key stakeholder interests that link important operational drivers to financial performance. Stock markets provide the best measures of a firm's worth: a firm is worthy what the market is willing to pay for it (Irungu, 2007). Letting' (2011) argues that corporate performance can be determined using different qualitative and quantitative measures. Quantitative measures include Return on Assets (ROA), Return on Investments (ROI) and dividend Yield Ratio. Qualitative measures include market share, employee and customer satisfaction and corporate image or reputation (Letting' 2011).

To assess totality on performance of listed companies, this study has employed both quantitative and qualitative measures of corporate performance. The quantitative financial measure used is profitability of the companies as extracted from published audited annual financial reports. To measure the qualitative performance, this study examined efficiency and effectiveness in: production and operations; marketing; financial planning and budgeting; product development; human resource; expansion strategies; and procurement procedures. Data on these qualitative performance parameters was collected from primary sources through use of structured questionnaires.

1.1.4 Listed Companies at the Nairobi Securities Exchange

The Nairobi Securities Exchange (formally Nairobi Stock Exchange) was established in 1954 as platform to trade in securities. Currently, The Nairobi Securities Exchange (NSE) is a full service securities exchange which supports trading, clearing and settlement of equities, debt, derivatives and other associated instruments. Trading is mostly conducted from the brokers' offices through the Wide Area Network (WAN) between 9:30am and 3:00pm. The NSE 20-Share Index and the NSE All Share Index (NASI) are the two commonly used indices to measure performance. Used since 1964, The NSE 20-Share Index measures performance of 20 blue-chip companies while the NASI was introduced in 2008 and is an overall indicator of market capitalization incorporating all traded shares. The most current developments at NSE include demutualization, self-listing and acquisition of its own premises in Westlands, the Exchange House, where its offices and trading floor are located (www.nse.co.ke).

The NSE is licensed and regulated by the CMA to provide a trading platform for listed securities and overseeing its member firms. NSE is a member of the African Stock Exchanges Association and has a memorandum of understanding with the Uganda Securities Exchange and the Dares Salaam Stock Exchange on the cross listing of various equities. Based on the type of products and services they provide, the listed companies at the NSE are subdivided into eleven major segments; Agricultural, Automobiles and Accessories, Banking, Commercial and Services, Construction and Allied, Energy and Petroleum, Insurance, Investment, Manufacturing and Allied, Telecommunication and Technology, Growth Enterprise Market Segment Agricultural, Commercial and Services, Finance and Investment and Manufacturing and Allied segments (www.nse.co.ke). This study will focus on all the sixty three companies listed at the NSE as at December 31, 2014 and includes CMC Holdings Ltd which was delisted in 2015 February.

1.2 Research Problem

There is no universal consensus among scholars on whether good governance practices improve corporate performance. For instance, although increased board independence enhances shareholders' value, no clear connection has been found between board composition and the overall firm performance (Hermalin & Weisbach, 2003). According to Wanyama and Olweny (2013), although there is a positive relationship between board composition and firm financial performance, the most critical aspect of board composition is the experience, skills and expertise of the board members as opposed to whether they were executive or non-executive directors.

Listed companies in Kenya are regulated by many laws and guidelines including the Companies Act, the CMA Act, the CDSC Act, CMA regulations and NSE listing rules. In addition, listed companies are required to adopt other industry specific rules depending on their respective industries that they operate in. Some investors have actually argued that companies in Kenya are over regulated resulting to higher cost of doing business as compared to other African countries. Despite all these regulations, major questions still remain; has governance requirements actually improved the performance of listed companies in Kenya? Some think not and argue that despite being certified by regulators as acting within confines of corporate governance, performance of some listed companies is continually declining while others continue to witness corporate failures. These may be indicators of boards and management that are either incapable of improving financial well-being of their organizations within the confines of corporate governance guidelines or may be a pointer to a major weakness in corporate governance regulatory system for the listed companies.

In Kenya, various studies have been undertaken on the relationship between corporate governance and corporate performance. Letting' (2011) carried out a study on board of directors' attributes, strategic decision-making and corporate performance of firms listed on the NSE Muriithi (2005) conducted a research on the relationship between corporate governance mechanisms and performance of firms quoted on the NSE while Manyuru (2005) researched on corporate governance and organizational performance the case of companies quoted at the NSE. Jebet (2001) conducted a study of corporate governance practices among the quoted companies in Kenya. More recently, Mwangi (2013) researched on the effects of Corporate Governance on the financial performance of listed companies at NSE.

Most of the studies done on the subject of corporate governance are conducted in the context of the developed countries. Whereas there are several studies on corporate governance in Kenya, there lack sufficient knowledge base on the subject matter in Kenya as compared to the developed world. In addition, none of the local studies have examined the effectiveness of corporate governance as a strategic management tool in improving performance of listed companies in Kenya. This research is therefore designed to fill this knowledge gap by addressing the following research question: What is the extent to which listed companies in Kenya have integrated corporate governance guidelines into their corporate strategies? What is the effectiveness of corporate governance as a strategic tool to improve performance of listed companies in Kenya?

1.3 Objectives of the Study

1. To determine the extent to which listed companies in Kenya have integrated corporate governance guidelines into their corporate strategies.

2. To determine the effectiveness of corporate governance as a strategic tool to improve performance of listed companies in Kenya

1.4 Value of the Study

This study will provide empirical evidence to scholars and students on whether the practice of corporate governance is an affective strategic tool to improve corporate performance. Scholars and students will be able to borrow from the findings of this research to support literature citations as well as identify knowledge gaps and therefore be able to develop themes for further research. Further, students will use this study as a basis for discussions on the effect of corporate governance on corporate performance of listed companies at NSE. Investors and potential investors will find the research findings useful in making investment decisions as they will be able to decide which companies to invest in based on level of compliance with corporate governance. The study will be of specific importance to listed companies at NSE in their formulation of strategies. The NSE, CMA, other regulators and government agencies will also find the results of this study useful in formulating future policies and regulations regarding corporate governance with an aim of increasing investor's value. In addition, the government will be able to gauge the level conformity with the laid down corporate governance guidelines by the listed companies and therefore develop a corrective mechanism.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter presents theoretical and empirical studies on corporate governance as a strategic management tool in the small, medium and large enterprises. In particular, the chapter reviews theories and empiricism on corporate governance, strategic management, and relationship between corporate governance, strategic management and performance of an organization as well as the conclusion.

2.2 Theoretical Foundation of the Study

All knowledge in this research is founded on theoretical framework as a structure to support the rationale and context of the study and to clarify relationship of this current research with previous studies. The researcher used a combination of several theories to create a better understanding on the concept and practice of corporate governance. The use of theories further enabled the researcher in explaining, constructing meaning and interpreting concepts and models with a purpose of predicting relationships among phenomena understudy. There are several theories in corporate governance, the oldest being the agency theory from where other theories evolved including stewardship theory, the resource dependency theory, transaction cost theory, political theory and ethics related theories. This study only focused on agency, stewardship and stakeholders' theories as they are more relevant to corporate governance as a strategic tool to improve corporate performance.

2.2.1 Agency Theory

According to Berle and Means (1932), there is a fundamental agency problem in modern firms arising from separation between management (agents) and ownership (principals). According to Jensen and Meckling (1976), the agents serve their own interests of building empires rather than serving the interests of shareholders of profit maximization. This is the agency problem since the objectives of managers differ from those of the shareholders and the cost resulting to such variance is the agency cost. Corporate governance is about putting in place disclosures, monitoring, oversight and corrective systems that can align the objectives of the principals and agents and hence minimize agency costs. The theory views corporate governance mechanisms and especially the board of directors, as essential monitoring devices to minimize the problems resulting from the principal-agent relationships (Letting', 2011). The boards should consist of outside and independent directors and the position of the chairman and the CEO should be separate (Daily and Dalton, 1994).

2.2.2 Stewardship Theory

Unlike the agency theory, this theory assumes that managers are stewards whose behaviours are aligned with the objectives of their principals of maximising the long-term stewardship of a company. According to Davis et al. (1997), the manager will make decisions in the best interest of the organization putting collectivist options above self-servicing options. Managers are loyal to the company and interested in achieving high performance. The dominant motive which directs managers to accomplish their job is their desire to perform excellently and thereby gain recognition from peers and bosses. According to this theory, an organization requires a structure that concentrates power and authority in a single person by having the roles of CEO combined with those of the Chairman. This will ensure that the CEO exercises complete, unambiguous and unchallenged authority over the corporation. In addition, majority of the directors should be insiders (executives) as they understand the business and therefore can make better decisions than outsiders (non-executives directors).

2.2.3 Stakeholder Theory

According to Freeman (1984), a company should be managed taking into consideration the interests and relationships of all its stakeholders. This theory considers a wider constituent rather than focusing on shareholders. Proponents of this theory have therefore advocated for ethics in business to discourage practices aimed at shareholder value maximization at the expense of other stakeholders. Such practices could include unfair trade competition, company downsizing and other negative impacts on employees, environment and local communities. Arising from the presumptions of this theory, it is increasingly becoming a requirement for boards to create corporate codes of ethics, social and environmental reporting. All these are aimed at ensuring that directors acknowledge the wider corporate obligations beyond maximising shareholder value or that such objective is attained within certain ethical constraints.

2.3 Corporate Governance and Strategy

Research literature support the position that corporate governance influences firm's strategic direction by guiding the firm towards optimal strategic actions for achieving sustainable competitive advantage. Corporate governance is therefore viewed as a differentiator among firms. The focus of corporate governance is therefore now shifting from mere obligation and compliance with laws and listing standards to creating sustainable competitive advantage. In addition to creating sustainable competitive advantage, corporate governance is also viewed as a strategic management tool for improvement and protection of corporate reputation as well as for business goals achievements (Argenti and Druck 2004). Argenti and Druck (2004) contend that it is very difficult for a company to survive or to make progress without good reputation.

For a company to use corporate governance as a differentiator and therefore attain sustainable competitive advantage, it should integrate corporate governance practices into its corporate strategy. According to Kemboi (2012), corporate governance is of great concern in the world today because of its influences on the effectiveness and relevance of an organization's strategy. A weak corporate governance results in weak organizational strategy, which seriously compromises the strategic positioning and success of an organization (Kemboi, 2012).

2.4 Corporate Governance and Performance

A lot of literature supports the position that corporate governance is a performance driver of the firm, a crucial criterion for its valuation and a guarantee of the credibility of its financial and accounting reports. According to Argenti and Druck (2004), corporate governance is a key driver of performance, corporate growth, long term value creation, competitiveness and presents opportunities to manage risks. Jensen and Meckling (1976) found out that firms which practice good governance have more efficient operations, resulting in a higher expected future cash-flow stream. In spite of this commonly held position, Eisenberg et al. (1998) found negative correlation between board size and profitability. Still some studies have found no relationship between corporate governance and firm performance (Park and Shin, 2003). MacAvoy and Millstein (2003) found that board composition does not have any effect on financial performance while Gompers et al. (2003) found no significant relationship between firm's governance and operating performance.

2.5 Corporate Governance, Strategy and Performance

Research literature suggests that corporate governances improves corporate strategy, creates positive corporate reputation, results to competitive advantage and intensifies corporate performance. According to Wiederman and Buxel (2005), corporate reputation helps companies to get good employees, attract consumers, in-crease consumers' loyalty, which may be implemented as a factor of competitive performance and useful in obtaining the capital. Kemboi (2012) argues that, in order to protect stakeholders' interests and attain expected performance, organizations should integrate corporate governance practices into their corporate strategies. The CMA guidelines (2002) for public listed companies in Kenya cover wide areas of corporate governance. To measure compliance with the corporate governance guidelines, this study will only focus on the requirement for Audit Committee, Company Secretary and Board Composition as provided for on the corporate governance guidelines for CMA (2012).

The audit committee plays a crucial role in the control, oversight of the accounting process and appraising the financial and operational controls which give meaning to corporate governance. According to CMA (2002), the audit committee should be made of at least three independent and non-executive directors who reports to the board and the chairman should be an independent and non-executive director. The committees should also have adequate resources and authority to discharge its responsibilities. Audit committees must be active; indeed, an audit committee eager to carry out its functions of control appropriately must maintain a constant level of activity and best practices suggest three or four meetings a year (Cadbury Committee, 1992).

Every listed company in Kenya is required to have a company secretary who is a member of ICPSK (CMA, 2002). According to ICPSK (2014), the Company Secretary should not be a member of the board but should attend all board meetings and provide guidance to the board on their duties and responsibilities on matters of governance. The company secretary should also assist the board in carrying out effective board meetings, board induction and training, updating the board and committee charters, preparation of board work plans, board evaluation, governance audit, have custody of the seal of the organization and account to the board for its use, maintain and update the register of conflicts of interest, file statutory returns and facilitate effective communication between the organization and the shareholders (ICPSK, 2014).

In her study on the role of the company secretary in promoting corporate governance for companies listed on the NSE, Maina (2012) found out the Company Secretary plays a significant role in enhancing good corporate governance practices in most companies listed on the NSE. She argued that the increase in poor corporate governance practices in Kenya was as a result of companies failing to tap the services of company secretaries as required by law and global best practices. In addition, she observed that company secretaries were keen in ensuring compliance and adoption of corporate governance practices for their respective companies, as such compliance was a key success factor for such listed companies on the NSE which are subject to strict scrutiny by the public and regulatory bodies. Maina (2012) however noted that there are no elaborate provisions in the Companies' Act and the Capital Markets Act on the roles of the Company Secretary. Maina (2012) recommended that all companies secretaries need to ensure the adoption of corporate governance practices as it has a tremendous impact in improving the strategic direction of a company and plays a critical role in ensuring the success of the organization in the long term.

According to CMA (2002), the board of directors should reflect a balance between independent, non-executive directors and executive directors; the independent and non-executive directors should form at least one third of the membership of the board; the structure of the board should also comprise a number of directors, which fairly reflects the company's shareholding structure; the composition of the board should also provide a mechanism for representation of the minority shareholders without undermining the collective responsibility of the directors. According to Wandabwa (2010), boards with a majority of independent directors are more effective in monitoring management and are more likely to replace poorly performing CEOs More independent boards are also more likely to hire a replacement CEO from outside the firm rather than promote an internal candidate (Wandabwa, 2010). Letting' (2011) contends that Executive directors are also important because they have insider knowledge of the organization which is not available to outside directors, but they can misuse this knowledge by transferring wealth of other stockholders to themselves. Moreover, for advice, inside directors are available to the CEO as a function of their employment with the firm; their appointment to the board is not necessary for fulfillment of this function (Johnson et al., 1993; Dalton and Daily, 1999).

According to agency theory, good governance should lead to higher stock prices or better long-term performance because managers are better supervised and agency costs are decreased. Poor governance on the other hand is fertile soil for corruption and corruptive symbiosis between business and political circles (Manyuru, 2005). There is therefore need to establish effective legal and regulatory framework to ensure good governance and eradicate unethical business practices. The Companies Act, Cap 486, should be reviewed to incorporate key principles of good governance (Jebet (2001).

2.6 Summary of Literature Review and Knowledge Gap

From the literature review documented this far, it is evident that there is little research done in the area of corporate governance in developing economies especially those in Africa (Shleifer & Vishny, 1997). In addition, not all corporate governance practices as applied in the developed countries may be applicable to developing economies due to contextual differences. There is therefore need to develop models of corporate governance that appreciate the local environment. To the best of the researchers' knowledge, no study has been done linking corporate governance, strategic management and performance of listed companies in Kenya. This study therefore seeks to fill this gap by investigating the role of corporate governance as a strategic tool to improve performance of listed companies in Kenya.

In the reviewed literature, it is evident that there is bias in employing financial parameters as the only measure of corporate performance. This study has therefore used both quantitative and qualitative measures of corporate performance in order to give an all-inclusive view of performance. Different researchers also used different indicators to measure corporate governance. For instance, Hermalin & Weisbach (2003) used the parameter of board independence to measure corporate governance and shareholders' value enhancement as a measure of corporate performance. Hermalin & Weisbach (2003) used board composition as a measure of corporate governance. This study has expanded the measure of corporate governance by including parameters such as the company secretary, audit committee, and compliance with CMA guidelines. Corporate governance is an evolving field, in this regard, although some of the studies reviewed could be the same with the current study in terms of the concept, methodology and population, the studies were conducted at different times and therefore a lot could have changed since then. The reviewed literature has therefore provided a foundation to identify knowledge gaps along conceptual, contextual and methodological lines. These identified knowledge gaps and how the current research seeks to fill such gaps are summarized in Table 2.1.

Table 2.1 Summary of Knowledge Gap

Study	Focus	Methodology	Findings and Conclusions	Knowledge Gap	Focus of Current Study
Wanyama and Olweny (2013)	Effects of Corporate Governance on Financial Performance of Listed Insurance Firms in Kenya	Did a Survey. Used descriptive design	A strong relationship exists between the Corporate Governance practices under study and financial performance.	Companies other than those in the insurance sector were not considered	Study focuses on all listed companies across all the sectors
Mwangi (2013)	The Effects of Corporate Governance on the Financial Performance of Listed Companies	Did a Survey. Used research design	Practice of Corporate Governance affects financial performance.	Listed companies as at December 2012 were considered. Since then, a lot has changed.	Study is ore current as it focuses on listed companies as at December 31st 2014.
Wandabwa (2010)	The Relationship Between Corporate Governance and Financial Performance Among Broadcasting Stations in Kenya	Did a Survey. Used descriptive design	Board size and composition, splitting of the roles of chairman and chief executive, optimal mix of inside and outside directions and number board of directors affected the financial performance of the companies.	Focused on Broadcasting Stations. Did not study other companies in other sectors.	Focuses on all sectors of the economy as represented on the NSE.
Maina (2012)	The Role of The Company Secretary in Corporate Governance in Kenyan Listed Companies	Did a Survey. Used research design	Company Secretary plays a pivotal role in the promotion of good governance.	Focused only on the role of a company secretary.	Focuses on several corporate governance elements including board composition and audit committee.

Manyuru (2005).	Corporate Governance & Organizational Performance. The Case of Companies Quoted at the NSE.	Did a Survey. Used descriptive design	Corporate Governance practices affects financial performance	The study was done in year 2005.	Study is more current and uses current data.
Muriithi (2005)	The Relationship between Corporate Governance Mechanisms and Performance of Firms Quoted on the NSE.	Did a Survey. Used research design	Strong relationship exist between Corporate Governance and financial performance	Only quantitative measure of firm's performance was used, that is financial performance	Study uses both qualitative and quantitative measures of corporate performance.
Letting' (2011)	Board of Directors' Attributes, Strategic Decision-Making and Corporate Performance of Firms Listed on the NSE	Did a Survey. Used research design	Positive relationship between board of director's involvement in strategic decision making and corporate performance	Did not consider integration of corporate governance guidelines in the corporate strategy	Study has taken into account integration of corporate governance guidelines in the corporate strategy
Irungu (2007)	The Effect of Top Management Teams in Performance of Publicly Quoted Companies in Kenya	Did a Survey. Used research design	Top management teams impact performance differently in different sectors	Effect of corporate governance was not considered in performance of companies	Effect of corporate governance was considered in performance of companies

Source: Researcher (2015)

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter presents the procedures and methods that were used in the study to satisfy the research objectives. It explains the research design, target population, data collection methods as well as how the data will be analyzed and presented.

3.2 Research Design

A research design is a procedural plan that is adopted by the researcher to answer questions validly, objectively, accurately and economically (Kumar, 2005). This study adopted a descriptive research design. According to Mugenda and Mugenda (2003), descriptive research is a process of collecting data in order to test hypotheses or to answer questions concerning the current status of the subjects in the study. A descriptive study determines and reports the way things are. This approach assisted the researcher in collecting detailed information through descriptions on the state of affairs already existing in the field and without manipulating any variable, be able to generalize the findings to a larger population.

3.3 Population of the Study

Mugenda and Mugenda (2003) described population as the entire group of individuals or items under consideration in any field of inquiry and have a common attribute. This was a census study and targeted all the 63 companies quoted on the NSE as at December 31, 2014. A cross-sectional census survey approach was used to study how corporate governance practices have been used as a strategic tool to improve performance of companies listed in the Nairobi Securities Exchange. A census collects information from every unit in a population and therefore data is truly representative of the whole population.

3.4 Sample Design

A sample design provides a basic plan or methodology of selecting a sample and is made of sampling frame and sampling technique. Mugenda and Mugenda (2003) defines a sampling frame as a list, directory or index of cases from which a sample can be selected. According to Mugenda and Mugenda (2003) a sampling technique is the procedure that a researcher uses to gather things, places or people to study. Sampling is therefore the process by which inference is made to a whole by examining a part. For this study, the sampling frame is identical to the population since the sample is the entire population of all the 63 companies quoted on the NSE as at December 31, 2014. For this reason, a direct element sampling was used and hence this study is a census survey. A census is a process that involves a complete enumeration of a population or group at a point in time with respect to well defined characteristics (Kumar, 2005).

3.5 Data Collection

The study used both primary and secondary data. Primary data was collected by means of a questionnaire, which consisted of both open-ended and closed-ended questions. The structured questionnaire was consisted of three parts and was to be self-administered through a drop and pick latter method to the directors, chief executives, company secretaries or any other senior managers. These officers were considered important respondents for this study since they are involved in formulation and implementation of strategies in their companies and therefore significantly determine level of corporate governance compliance of such companies. The study also used secondary data from published financial statements, websites and other publications by the companies understudy in addition to data obtained from, NSE, CMA and CDSC.

3.6 Data Analysis

The data collected was both quantitative and qualitative. Qualitative data, which is data that makes general statements on how categories of data are related, was analyzed through content analysis. Content analysis involves analyzing information collected by a researcher in a systematic way in order to come up with useful conclusions and recommendations about the phenomenon under study and then establish patterns, trends and relationships thereof (Mugenda and Mugenda, 2003). Quantitative data was coded, tabulated and analyzed using both inferential and descriptive statistics. Some of the descriptive statistics techniques used include measures of central tendency, measures of variability and measures of frequency. According to Mugenda and Mugenda (2003), descriptive statistics enable meaningful description of a distribution of scores or measurements using a few indices or statistics. Inferential statistics that was used in the analysis include the chi-square test that enabled the researcher to test whether there is any relationship between corporate governance and corporate performance of a firm. The Statistical Package for Social Scientists (SPSS) was used to analyze data in this study. The data, once analyzed, was presented inform of tables, pie charts and bar graphs. Percentages were used to present the data in a clear and a more understandable way. Qualitative data was presented inform of explanatory notes.

CHAPTER FOUR

DATA ANALYSIS, RESULTS AND DISCUSSION

4.1 Introduction

This chapter presents findings and analysis of data obtained on the use of corporate governance as a strategic tool to improve performance of listed companies in Kenya. The data is analyzed and presented in the form of tables, graphs as well as charts.

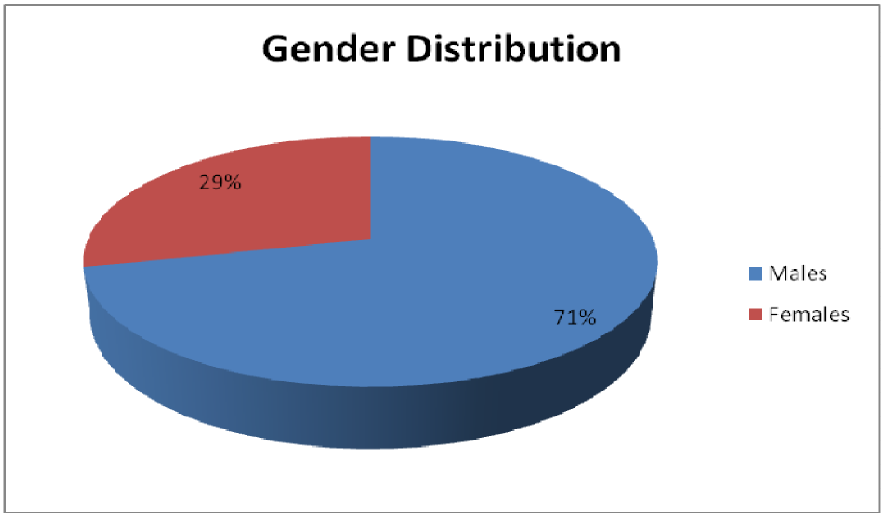
4.2 Response Rate

This study targeted all the 63 companies that were listed on the NSE as at December 31, 2014. Data was obtained from 39 of these companies representing a response rate of 62% which according to the researcher was good enough. The researcher used structured questionnaires as the main data collection instrument for primary data. The questionnaires had both open and close-ended questions were either dropped or sent on email to at least one respondent in each of the companies occupying the position of a shareholder, director, senior manager or company secretary. The close-ended questions provided more structured responses to facilitate tangible recommendations. The open-ended questions provided additional information that may not have been captured in the close-ended questions. Secondary data sources were also employed through the use of previous documents or materials to supplement the data received from questionnaires. Secondary data was collected from the companies' financial statements and reports in order to get the financial position of the companies. All required secondary data required for this study was easily obtained from the companies' websites or websites of NSE and CMA.

4.3 Demographic Information

The respondents were requested to provide general information regarding their gender, age, level of education, and positions they were holding in their respective organizations.

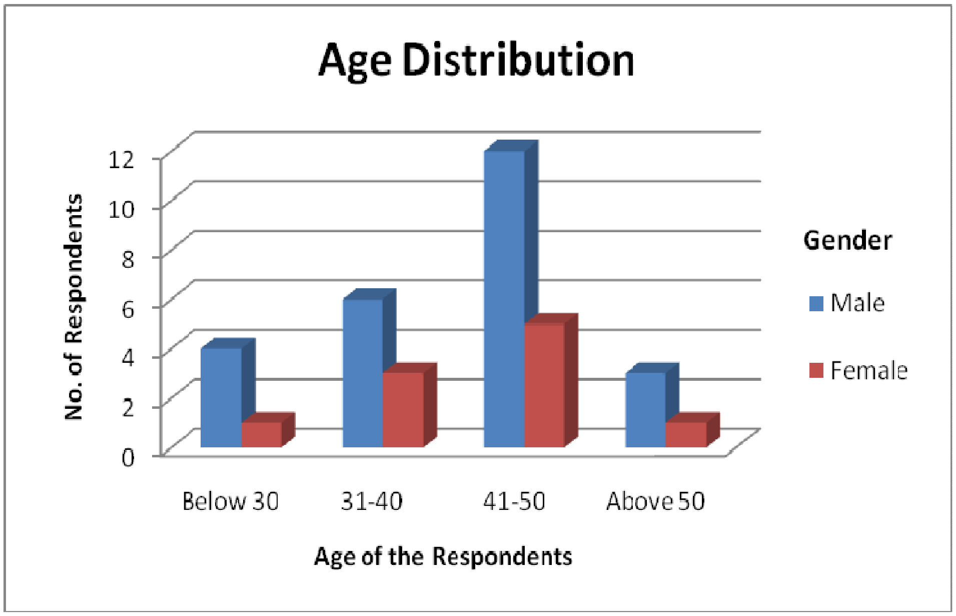
Figure 4.1 Respondents by Gender



Source: Field Data (2015)

Figure 4.1 demonstrates the results obtained from the respondents in terms of their gender. It is clearly demonstrated that majority of the respondents for this study were male represented by 71% compared to 29% females. This could imply that there are more male employees at the higher level management in the sampled companies. This could further indicate that most listed companies at the NSE have significantly more males than females occupying the positions of shareholders, directors, chief executive officers, company secretaries, and senior management.

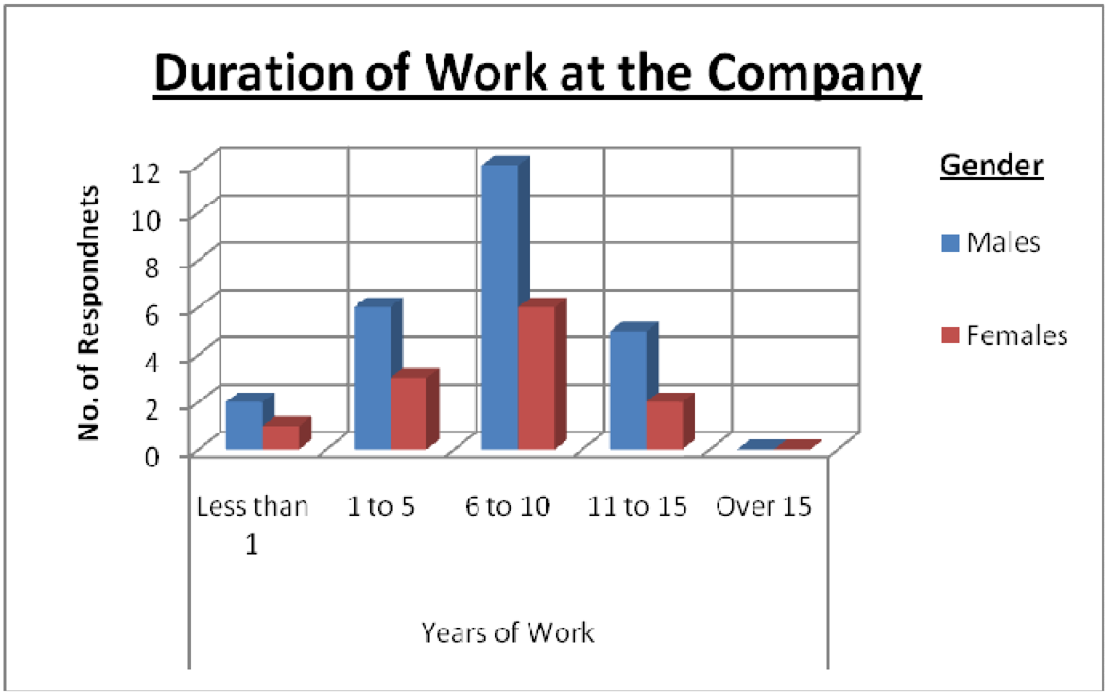
Figure 4.2 Ages of the Respondents



Source: Field Data (2015)

Figure 4.2 illustrated the ages of respondents. It indicates that majority of the respondents were aged between 41 -50 and followed by those aged between 31-40 years. There were very few respondents below the age of 30 years or above the age of 50 years. This could imply that the sampled companies preferred directors, company secretaries and other senior management staff with significant experience to drive the strategic management agenda of the companies. It could also indicate that the employees who are below 30 years of age occupy the lower level positions as they gain the relevant experience to be promoted to the higher positions. The results could further imply that in a significant number of listed companies, employees were proceeding on retirement after exceeding 50 years, and hence the small number of employees over the age of 50 years.

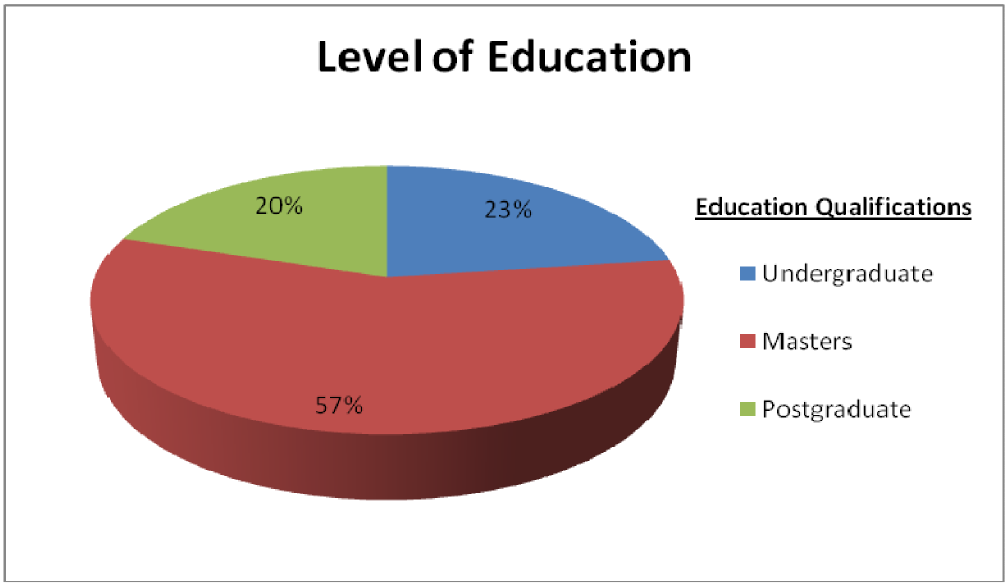
Figure 4.3 Length of Service with Company



Source: Field Data (2015)

Figure 4.3 illustrates the length of service of respondents in their respective companies. Majority of the company secretaries and other senior managers have been in those positions for more than four years. There is an insignificant number of officers who have been in those positions either for less than 1 year or over 15 years. This indicates that there is high retention for company secretaries and senior managers who are custodians of the corporate governance structures. This also imply that the information received for the study's objective is satisfactory given that majority have had significant years of experience with the company and its strategic formulation as well as implementation. It is also implies that most listed companies at the NSE have good policies on succession planning as the senior officers were not holding those positions for unreasonably very long time, in this case above 15 years.

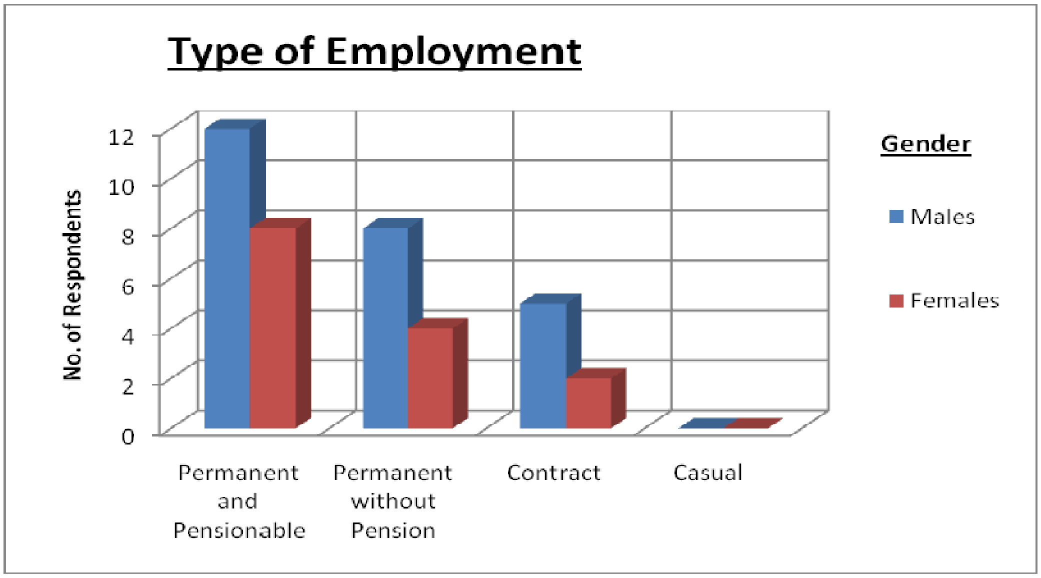
Figure 4.4 Respondents' Level of Education



Source: Field Data (2015)

Figure 4.4 illustrates the level education qualifications by the respective respondents as measured in terms of attaining undergraduate masters or post graduate qualifications. The results show that 57% of the respondents had Masters Degree while further 23% had an Undergraduate degree. 20% had other qualifications like Postgraduate studies and were members of professional bodies like ICPAK, ICPSK, Kenya Institute of Human Resource Management and Kenya Institute of Management. These results show that the respondents were well informed on the subject of study and thus appropriate for the study and offered the answers to the questionnaires as appropriate as possible. This also imply that most of the listed companies at the NSE employ educated officers at the top management with the majority having at least a masters degree. Persons with such qualifications are intellectually able to handle the complex corporate governance issues and dynamic business requirements in their respective companies.

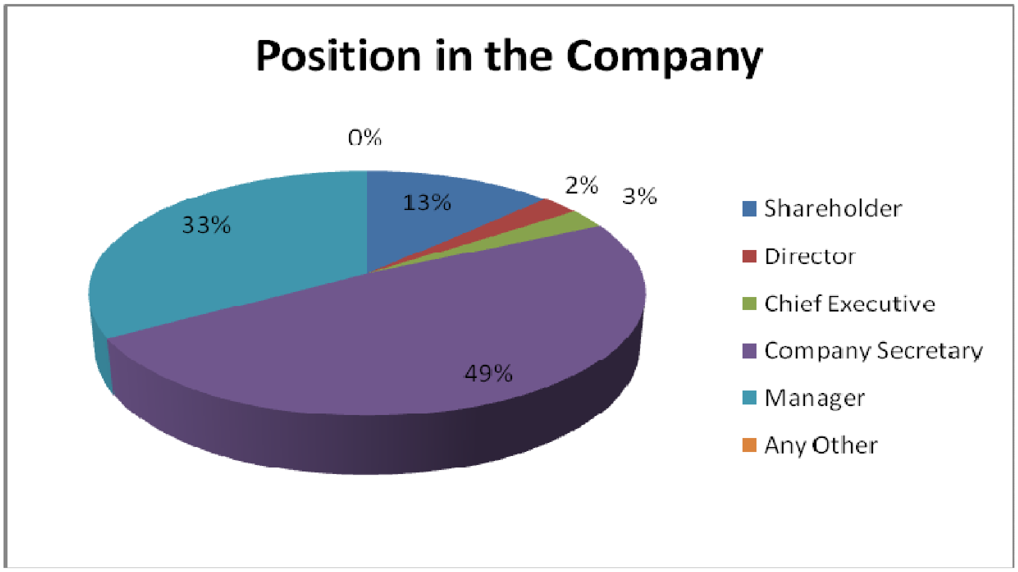
Figure 4.5 Respondents' Employment Type



Source: Field Data (2015)

Figure 4.5 illustrates the type of employment in which the respondents of this study were engaged in. The type of employment was measured in terms of whether it was permanent and pensionable, permanent without pension, contract or casual. The analysis indicated that 51% of all sampled employees were permanent and pensionable. 31% of the respondents are employed on permanent without pension basis while only 18% of the respondents were on contract basis. There are no employees working on casual basis demonstrating the job security with regard to the sampled population. This could imply that most companies listed at NSE adheres to international best practices in the hiring and recruitment their employees. By having employees at the higher level management on permanent and pensionable engagement, this could be intended to enhance retention levels and therefore provide the much needed stability and certainty at such high level management.

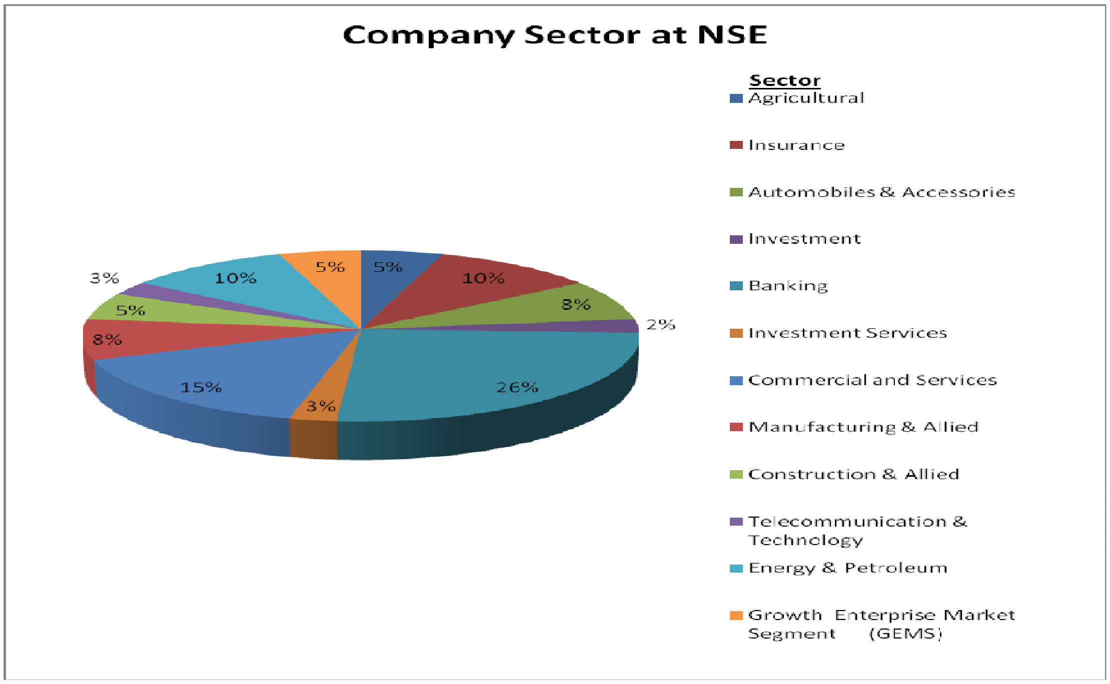
Figure 4.6: Employees' Position in the Company



Source: Field Data (2015)

Figure 4 shows the positions held by the respondents in their respective positions. It shows the percentage of the respondents that were either shareholders, directors, chief executive officers, company secretaries or managers at the listed companies. As demonstrated above, majority of the respondents were Company Secretaries and Managers at 49% and 33% respectively while. Shareholders came in third at 13% while only 2% and 3% of directors and chief executive officers respectively gave feedback to this study. Majority or over 80% of the sampled population were senior managers capable of influencing major decisions in the company. Implementation of corporate governance practices in these companies is majorly the responsibility of these personnel. Almost half of all the respondents were company secretaries. Such percentage is significant noting that for most listed companies, the company secretaries are principally responsible of corporate governance.

Figure 4.7: Company Sector at Nairobi Securities Exchange



Source: Research Findings (2015)

Figure 4.7 presents the responses received when the respondents were requested to indicate in which sector at NSE under which their companies was classified. The sectors were classified from agriculture, insurance, automobile and accessories, investment, banking, commercial and services, manufacturing and allied, telecommunication and technology, energy and petroleum and finally growth enterprise market segment. Majority of the respondents at 26% were from banking industry. This was followed at 15% from commercial and services. There were a few respondents who represented other sectors like insurance and agriculture although at small numbers. In addition to the listed companies in the banking sector being regulated by the CMA, they are also regulated by the Central Bank of Kenya, this could explain the reason for high compliance in terms of good corporate governance requirements.

4.4 Application of Corporate Governance Practices

Respondents were requested to give their views on the applications of corporate governance in their respective companies. Respondents were requested to state whether specific aspects of corporate governance were practiced and to what such practices were applied.

Table 4.1: Corporate Governance Practices

No.	Corporate Governance Practices	Not at All	Less Extent	Moderate Extent	Large Extent	Very Large Extent
1.	The Company has adopted the Corporate Governance guidelines by the Capital Markets Authority	2	1	4	6	26
2.	The Company has its own customized internal Corporate Governance guidelines	0	3	2	18	16
3.	The Company has integrated the Corporate Governance Practices into its corporate strategy	1	2	2	5	29
4.	The audit committee plays a crucial role in the control and the oversight of the accounting information process	0	0	1	3	35
5.	Audit committee is independent, active and meets at least three times in a year.	0	0	0	4	35
6.	The Company Secretary is qualified as per the requirements of the Certified Public Secretaries of Kenya Act Cap 534.	0	0	0	1	38
7.	The Company Secretary is not a board member but attends all board meetings and provides guidance to the board on their duties and responsibilities and on matters of governance.	0	0	0	0	39

8.	The Company has one third of its Board of directors as independent and non-executive directors	0	0	0	1	38
9.	The structure of the board comprises a number of directors which fairly reflects the Company's shareholding structure.	0	0	2	30	7
10.	The composition of the board provides a mechanism for representation of the minority shareholders.	0	0	0	2	37

Source: Field Data (2015)

Table 4.1 shows the summary of respondents' views on the applications of corporate governance in their respective companies. Of the respondents who participated in this research, 26 of them believed that to a very large extent, companies listed at the NSE have adopted corporate governance guidelines provided by the Capital Markets Authority. To a very large extent, 16 respondents agreed that Companies listed at the NSE have their own customized internal Corporate Governance guidelines. To a very large extent, 29 respondents from the research agreed that majority of companies listed at Nairobi Security Exchange have integrated the Corporate Governance Practices into their corporate strategy. The distribution of their views was diverse; with majority viewing that incorporation of corporate governance into corporate strategies played a significant role in the strategic direction of the company.

In addition, 35 respondents believed to a very large extent that the audit committee plays a crucial role in the control and the oversight of the accounting information process. This notion was further supported by a similar number of 35 respondents who to a very large extent observed that the audit committees are independent, active and meet at least three times in a year. Noting CMA requires listed companies to have independent and functional audit committees, this particular observation was significant on the general compliance to the CMA corporate governance guidelines. Compliance to guidelines set out by various professional bodies is a key parameter to measure the practice of good governance by a company. In this regard, all the respondents agreed that the Company Secretary is qualified as per requirements of the Certified Public Secretaries of Kenya Act Cap 534 to work in such a position. All respondents agreed that the Company Secretary was not a board member but attended all board meetings and provided guidance to the board on the board's duties and responsibilities and on matters of governance.

To a very large extent, 34 respondents shared the view that companies comprises of at least one third of its board of directors as independent and non-executive directors. To a large extent, majority of respondents shared the notion that the structure of the board comprises a number of directors which fairly reflects the company's shareholding structure. This was from 2 respondents to a large extent, 30 respondents to a large extent and 7 respondents to a very large extent. Lastly, 37 respondents believed to a very large extent the composition of the board provides a mechanism for representation of the minority shareholders. This view was also supported by a large extent of 2 respondents.

4.5 Corporate Governance, Strategy and Performance

Respondents were asked to indicate the extent to which corporate governance affected strategic planning and implementation in the different areas indicated with a scale of very great extent, great extent, moderate extent, negatively and not at all.

Table 4.2 Strategic Planning and Implementation Areas Affected by Corporate Governance

Strategic Area	Very great extent	Great extent	Moderate extent	Negatively	Not at All
Production & Operations	20	10	6	1	2
Marketing Strategy	33	5	0	0	1
Financial Planning & Budgeting	34	3	2	0	0
Product Development	29	9	1	0	0
Human Resource Strategy	38	1	0	0	0
Expansion Strategy	39	0	0	0	0
Procurement	37	2	0	0	0

Source: Field Data (2015)

Table 4.2 illustrates respondents' views on the extent to which various strategic planning and implementation areas affected by the practice of corporate governance. Good governance to a very great extent affected production and operations of various companies. This was corresponded by over 89% of the total population sampled. With regard to marketing strategy, 93% of the respondents agreed that corporate governance to a very great extent affected how companies enhanced their marketing capabilities. 98% of the respondents to a very great and great extent agreed that corporate governance is essential with regard to financial planning and budgeting. A similar number agreed that product development is highly affected by corporate governance. Over 99% of the respondents concurred to a very great extent with the assertion that corporate governance affects human resource management. 100% of the respondents agreed that expansion strategy is highly affected by corporate governance in all its aspects. 37 respondents representing 98.8% of the respondents to a great extent believed that procurement procedures and practices are affected by corporate governance.

Table 4.3 Factors Affecting Corporate Performance

No	Factors affecting corporate performance	Agree	Strongly Agree	Disagree	Strongly Disagree
1.	Complying with corporate governance has enabled the company achieve its strategic goals.	94.9%	5.1%	0	0
2.	Corporate governance implementation has resulted to improved financial performance.	84.6%	15.4%	0	0
2.	Implementation of corporate governance consumes a lot of time and resources at the expense of the day to day operations of the company.	0	0	17.9%	82.1%
4.	Implementation of corporate governance has been a cost with no corresponding benefits to the company.	0	0	5.1%	94.9%

Source: Field Data (2015)

Table 4.3 summarizes the responses received when respondents were presented with various aspects affecting corporate governance with a scale of agreeing, strongly agreeing, disagreeing or strongly disagreeing. All the respondents either agreed or strongly agreed that complying with corporate governance had enabled the company achieve its strategic goals. This is demonstrated by 95% and 5% of the respondents who agreed and strongly agreed with the notion of proper implementation of corporate governance in enhancing the achievement of organizational strategies. There was also a unanimous agreement among the respondents that corporate governance implementation had resulted to improved financial performance. All the 39 questionnaires received back indicated strongly agree and agree at 15% and 85% respectively.

However, there were strong sentiments against the notion that implementation of corporate governance consumes a lot of time and resources at the expense of the day to day operations of the company. This was represented by 18% and 82% of the respondents respectively. Finally, all the respondents in the study strongly disagreed and disagreed that implementation of corporate governance was a cost with no corresponding benefits to the company. The responses were very significant to the research especially noting that most of the respondents were the functional heads charged with the day to day operations of their respective companies. This implies that the respondents were well informed on the benefits of corporate governance.

Table 4.4 Analysis of Variance (ANOVA)

Model	Sum of Sq	Df	Mean Sq	F	Sig
Regression	75.432	4	16.465	8.907	0.000
Residual	286.330	132	2.432		
Total	361.762	136			

Source: Research Data (2015)

Table 4.4 illustrates the analysis of variance of the independent and dependent variables plus their relationships. It is worth noting that the degrees of freedom used in the analysis are 5% and 10% respectively. As per the analysis, corporate performance was measured by profitability of the listed companies understudy obtained from their audited financial statements. The tabulation represents the results of the coefficient estimates from the analysis. Corporate governance and the performance of the companies measured by their profitability was found to be statistically significance at both 5% and 10% degrees of freedom. There was also a positive relationship between the manner a company approaches and practices the aspects of corporate governance with its profitability which was indicated by the F value of 8.907. This demonstrates a statistical significance between corporate governance and profitability of companies at NSE.

Table 4.5 Regression Analysis

	Unstandardized Coefficients		Standardized Coefficients	T	Sig.
	B	Std. Error			
(Constant)	.529	0.207			
Audit Committee	0.019	0.007	0.335	1.704	0.006
Board Composition	0.182	0.049	1.332	3.489	0.034
Company Secretaries	0.052	0.024	1.097	3.215	0.023
Corporate Governance Guidelines	0.105	0.042	0.125	.654	0.028

Source: Research Data (2015)

Table 4.5 represents results obtained from the regression analysis of various independent variables against the dependent variable. The audit committee, board composition, company secretaries and compliance with corporate governance guidelines are the parameters to measure corporate governance while profitability as obtained from the financial statements is the measure on corporate performance. The established regression equation was Y = 0.529 **+** 0.019 X1 + 0.182 X2 + 0.052 X3 + 0.105 X4

Table 4.6 Regression Analysis Model Summary

Model	R	R Squared	Adjusted R Squared	Std. Error of the Estimates
I	.924	.879	.869	.45328

Source: Research Data (2015)

Table 4.6 is the regression analysis model summary where adjusted R squared is coefficient of determination which tells us the variation in the dependent variable due to changes in the independent variable. From the regression analysis, Audit Committee, Board Composition, Company Secretaries and Corporate Governance Guidelines of firm to a constant zero, financial performance of listed companies would stand at 0.529, a unit increase of the a functional and efficient audit committee would increase profitability by 0.019, a unit increase of board composition with regard to independence would increase profitability 0.182, a unit increase in efficiency of a company secretary is likely to increase profitability by 0.052 while a unit increase adoption and internalization corporate governance guidelines increases profitability by 0.105.

At 5% level of significance and 95% level of confidence, audit committee had 0.006 level of significance, while board composition had a level of significance at 0.034, while company secretaries level of confidence was at 0.023 and finally guidelines to corporate governance guidelines was at 0.028. This demonstrates that, the board composition and its independence had the greatest level of confidence as well as significance at 0.034. The findings of adjusted coefficient of determination R squared was 0.869 an indication that there was variation of 86.9% on the profitability of listed companies due to changes in Audit Committee, Board Composition, Company Secretaries and Corporate Governance

Guidelines at 95% confidence interval. This shows that 86.9% changes in profitability of listed companies could be accounted for by Audit Committee, Board Composition, Company Secretaries and Corporate Governance Guidelines.

4.6 Chapter Summary

The chapter has examined the practice of corporate governance and its effects on company's performance. The key parameters of corporate governance that were under study included adoption of corporate governance guidelines; integration of the corporate governance practices into corporate strategy; function and effectiveness of the audit committee; appointment, function and effectiveness of company secretary; and Board composition. Noting the voluminous laws, regulations and guidelines that listed companies are required to comply with, the chapter also examined whether corporate governance was an unnecessary cost that consumes time and resources with no corresponding benefits to the listed companies at NSE.

The effect of corporate governance practices to the achievement of strategic goals was critically examined. Here, the chapter examined the extent to which various areas of strategic planning and implementation are affected by corporate governance. More specifically, the strategic areas examined were production and operations; marketing; financial planning and budgeting; product development; human resource; expansion and procurement. In this line, good governance was considered to help companies in executing their strategies in a highly competitive market. Corporate governance was also considered as an essential factor in boosting the company's financial performance.

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMENDATIONS

5.1 Introduction

This chapter provides the summary of the findings from chapter four and gives conclusions and recommendations based on the objectives of the study. The objectives of this study was to determine the extent to which listed companies in Kenya have integrated corporate governance guidelines into their corporate strategies and to determine the effectiveness of corporate governance as a strategic tool to improve performance of listed companies in Kenya. The chapter further discusses the limitations of the study and makes recommendations for further research.

5.2 Summary of the Findings

The study population comprised of 63 companies which were listed at NSE as at December 31, 2014. Questionnaires were used to collect primary data and were sent to at least one person who was either a shareholder, director, senior manager or company secretary in each of the targeted companies. 39 questionnaires were completed and returned, representing a response rate of 62%. Secondary data was obtained from published and audited financial annual reports of the listed companies under study. The research found out that 71% of the respondents for this study were male implying that there are significantly more male employees at the higher level management in the sampled companies. Similarly, majority of the respondents were aged between 41 -50 and followed by those aged between 31-40 years while there were very few below the of 30 years. This could have been influenced by the requirement to have well experienced directors and senior management staff.

The study found out that most listed companies in Kenya comply with corporate governance guidelines as issued by CMA. The study further found that corporate governance was as a strategic tool that most listed companies use to improve their performance. Most of the companies had tailored made their own internal corporate governance guidelines and integrated the governance practices into their strategic plans. In this regard, respondents indicated that good governance significantly and positively affected production, operations, marketing strategy, financial planning and budgeting, product development, human resource management, expansion strategy, and procurement procedures. They further indicated that complying with corporate governance had enabled their respective companies achieve the set strategic goals and had resulted to improved financial performance. The respondents however disapproved the notion that implementation of corporate governance consumes a lot of time and resources at the expense of the day to day operations of the company and that it is a cost with no corresponding benefits to the company.

Good governance enables a company to attract and retain qualified and competent human resource. Most of the listed companies on the NSE were observed to have low staff turnover and this could mean that employees are well motivated by a favorable working environment arising from good human resource management and policies. This is deduced from the number of years that employees had worked in the various companies. More than half of the employees in the sampled companies had worked between six to ten years with a quarter working for more than ten years. Noting the cost of replacing an employee at senior management, this is a further proof that good governance practices saves resources for a company.

The process of developing strategic plans could at times be a very costly affair. However, such well-developed strategic plans can only add value to a company if they are effectively and efficiently implemented and monitored. In a competitive environment, it is the duty of every manager to ensure that their companies effectively achieve their strategic goals. The research found that the respondents were unanimous that complying with the principles and practices of good corporate governance had enabled their companies to achieve the set strategic goals.

As a competitive strategy, an organization should ensure its business activities and procedures minimize production costs so as increase surpluses. The research identified that 100% of the respondents disagreed with the view that implementation of corporate governance consumed a lot of time and resources at the expense of the day to day operations of the company. All the respondents also disagreed with the impression that implementation of corporate governance was a cost with no corresponding benefits to the company. The respondents therefore generally believed that good governance would improve efficiency in the operations of the company, reduce costs, and hence increase profits and general performance and profitability.

According to the agency theory, the major interest of shareholders in a company is profit maximization. Among the key reasons why investors buy shares in companies listed at the NSE is to increase their own wealth through dividends and possibly selling the shares at higher prices than they originally bought. This is only possible if a company is making profits and therefore continually improving financial performance. The study found out that all the respondents believed that corporate governance implementation had resulted to improved financial performance of their respective companies. This is represented by 84.6% agreed and 15.4% strongly agreed.

The research identified a strong positive correlation between corporate governance and financial performance. From the research findings, 86.9% changes in profitability of listed companies could be directly attributed to changes in audit committee, board composition, company secretaries and corporate governance guidelines. Listed companies can therefore significantly increase their profits by increasing the effectiveness of their company secretaries and audit committees; ensure that their Boards are well composed; and ensure that the practice of corporate governance is institutionalized and well integrated into their corporate plans.

5.3 Conclusion of the Study

From the research findings, it is evident that good governance leads to retention and attraction of competent human resource; better marketing strategies, efficient operations and production; improved financial planning and budgeting; superior product development; successful expansion strategies; and effective and efficient procurement procedures. All these areas cumulatively lead to better financial performance and therefore maximize the wealth of the shareholders. The research found out that listed companies that adhere to the practice of good governance attract and retain better employees, clients, investors, suppliers and creditors due to the confidence portrayed in the market as a result of their corporate image and performance. This study therefore concluded that corporate governance is an effective strategic tool to improve performance of listed companies in Kenya.

5.4 Recommendations of the Study

In line with the findings as discussed in the above chapters of this study, it is evident that the practice of good governance immensely improves the competitive capabilities of companies and enhances their capacity to accomplish their strategic goals and meet the interest of their stakeholders. This in return improves the corporate image and thereby attracting capital at lower cost, attracting and retaining quality employees, clients and suppliers. If all the listed companies were therefore to embrace the highest standards of good governance, the net effect would be improved economy and society at large. In this regard, CMA and other regulators should put in place adequate strategies to ensure highest compliance levels by the listed companies on governance practices.

Noting that the role of company secretaries all over the world is evolving from just a compliance officer to that of a corporate governance advisor, listed companies should empower their company secretaries to oversee the practice of good governance in the company. This would entail allocating adequate resources to enable the company secretary facilitate awareness creation and capacity building activities on the practice of corporate governance in the company. The company secretary should also ensure that periodic assessments on the level of compliance are undertaken and collective actions taken to rectify any weaknesses detected. Such assessment excises could include governance and compliance audit, board evaluation, performance evaluation and participation in governance excellence competition awards.

The research found out that 71% of the respondents for this study were male implying that there are significantly more male employees at the higher level management in the sampled companies. In ensuring gender equity in the access of opportunities, the

Constitution of Kenya 2010 requires that no more than two-thirds of the members of elective and appointive positions should be of the same gender. While this constitutional requirement is mostly interpreted in reference to public institutions, it would however be a good governance practice to be adhered to by all organizations. In this regard, companies listed on the NSE should be required to ensure gender parity in their employment policies. Such gender equality should especially be reflected at the Board and senior management levels.

According to the findings of this study, majority of the respondents were aged between 41 -50 followed by those aged between 31-40 years while there were very few below the age of 30 years. While this could have been influenced by the requirement to have experienced directors and senior management staff, it however marginalizes the youths. The Constitution of Kenya 2010 requires that the government undertake affirmative action measures to ensure the youth have access to relevant education, training and to employment. The youths as defined by the Constitution are those aged between 18 and 35 years. This group constitutes a significant majority of the Kenyan population. In this regard, listed companies should be required to put in place affirmative actions to give employment and promotion opportunities to youths. This should be set as one of the parameters that the listed companies should be measured on in determining their compliance with good governance practices. To support the youths meet qualifications and experience requirements for such positions, the government working with relevant stakeholders should develop effective training, development and internship policies.

5.5 Limitations of the Study

The target group for this study was majorly the senior most officers in their respective organizations and therefore very difficult to meet with. Ensuring that they complete questionnaires within the limited available time posed as the greatest challenge and the researcher had to use a lot of effort to follow up. However, the researcher minimized this challenge by sending the questionnaires on email to the target respondents. They could therefore complete such questionnaires and send them back on email without necessitating a meeting.

Most respondents for this research were generally responsible for developing and implementing strategies and internal governance structures and practices. Some of them therefore viewed the research as a performance evaluation on their effectiveness. This would have resulted into subjective responses while attempting to portray themselves as being effective in their roles. In addition, a few respondents viewed the research suspiciously as investigating and auditing on their organization's compliance level. The respondents feared that the study intended to negatively depict non-complying companies. The researcher however eliminated this by clarifying the objectives of the research and assuring the respondents that the information obtained would be treated in confidence and would not be used for any other purpose except for the study. This study had targeted all the 63 companies that were listed on the NSE as at December 31, 2014. However, only 39 companies returned the questionnaires representing a response rate of 62%. While such a response rate is good, the research would however have been better if data could have been obtained from all the targeted companies.

Due to limitation of resources, the researcher chose a few parameters to measure corporate governance compliance for companies listed at the NSE. Among the parameters used by the researcher include integration of the corporate governance practices into corporate strategy; role of audit committee; appointment and function of company secretary; and composition of the board. While these parameters are adequate to generally assess the level of corporate governance in a company, more parameters could however have been included to ensure more accurate results. In addition, noting that listed companies are very diverse in terms of size and industries that they operate in, such parameters could have been tailored to reflect the specific target companies.

5.6 Suggestions for Further Research

This study was evaluating on the effectiveness of corporate governance as a strategic tool to improve performance of listed companies in Kenya. A significant number of companies list on the securities exchange to attract new investors and therefore embrace corporate governance practices to attract targeted investors. Secondly, most of the listed companies are well established and have significant resources. They are therefore able to comply with the many laws, regulations and corporate governance guidelines that govern them. This may not be the case for most private and owner-managed companies where the owner may not want to lose control to other investors and external managers. In addition, such companies may have inadequate resources to set their structures, processes and policies in accordance with the principles of corporate governance. This study therefore recommends that another research be done to determine the effectiveness of corporate governance as a strategic tool to improve performance of small owner-managed companies in Kenya.

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APPENDICES

Appendix i: Listed Companies on the Nairobi Securities Exchange

Agricultural

1. Eaagads Ltd
2. Kakuzi Ltd
3. Kapchorua Tea Co. Ltd
4. The Limuru Tea Co. Ltd
5. Rea Vipingo Plantations Ltd
6. Sasini Ltd
7. Williamson Tea Kenya Ltd

Automobiles & Accessories

8. Car & General (K) Ltd
9. CMC Holdings Ltd
10. Marshalls (E.A.) Ltd
11. Sameer Africa Ltd

Banking

12. Barclays Bank of Kenya Ltd
13. CFC Stanbic of Kenya Holdings Ltd
14. Diamond Trust Bank Kenya Ltd
15. Equity Bank Ltd
16. Housing Finance Co. Kenya Ltd
17. I&M Holdings Ltd
18. Kenya Commercial Bank Ltd
19. National Bank of Kenya Ltd
20. NIC Bank Ltd
21. Standard Chartered Bank Kenya Ltd
22. The Co-operative Bank of Kenya Ltd

Commercial and Services

23. Express Kenya Ltd
24. Hutchings Biemer Ltd
25. Kenya Airways Ltd
26. Longhorn Kenya Ltd

27. Nation Media Group Ltd
28. Scan group Ltd
29. Standard Group Ltd
30. TPS Eastern Africa Ltd
31. Uchumi Supermarket Ltd

Construction & Allied

32. ARM Cement Ltd
33. Bamburi Cement Ltd
34. Crown Paints Kenya Ltd
35. E.A. Cables Ltd
36. E.A. Portland Cement Co. Ltd

Energy & Petroleum

37. KenGen Co. Ltd
38. Kenol Kobil Ltd
39. Kenya Power & Lighting Co Ltd
40. Total Kenya Ltd
41. Umeme Ltd

Insurance

42. British-American Investments Co.(Kenya) Ltd
43. CIC Insurance Group Ltd
44. Jubilee Holdings Ltd
45. Kenya Re Insurance Corporation Ltd
46. Liberty Kenya Holdings Ltd
47. Pan Africa Insurance Holdings Ltd

Investment

48. Centum Investment Co Ltd
49. Olympia Capital Holdings Ltd
50. Trans-Century Ltd

Investment Services

51. Nairobi Securities Exchange Ltd

Manufacturing & Allied

52. A. Baumann & Co Ltd
53. B.O.C Kenya Ltd
54. British American Tobacco Kenya Ltd
55. Carbacid Investments Ltd
56. East African Breweries Ltd
57. Eveready East Africa Ltd
58. Kenya Orchards Ltd
59. Mumias Sugar Co. Ltd
60. Unga Group Ltd

Telecommunication & Technology

61. Safaricom Ltd

Growth Enterprise Market Segment (GEMS)

62. Home Afrika Ltd
63. Flame Tree Group Holdings Ltd

Source: (Nairobi Securities Exchange, 2014)

Appendix ii: Letter of Introduction

Jeremiah N. Karanja
P.O. Box 1235-01000 Thika
Email: karajen2005@yahoo.com
Phone: 0723-369521

Ref: Karanja/UoN/MBA/2015

June 5, 2015.

Mr…………….
Company Secretary
Xxy Company Ltd
P.O Box xxx, Nairobi.

Dear Sir,

<u>REF: REQUEST FOR RESEARCH DATA</u>

I am a post graduate student undertaking a Master of Business Administration (MBA) degree, Strategic Management option at the School of Business, University of Nairobi. In partial fulfilment of the requirements for award of the MBA degree, I am collecting data to write a project on "*Corporate Governance as a Strategic Tool to Improve Performance of Listed Companies in Kenya"*.

Given your invaluable contribution to the practice of governance in your organization, you have been selected to form part of this study. In this regard, I am kindly requesting your assistance in completing the attached questionnaire. You are also welcome to give any additional suggestions that may add value to the research findings in this area of study.

The information obtained in this exercise will be used solely for academic purposes and a copy of the report on the results of the study will be availed on request.

Yours sincerely,

Karanja Jeremiah Ndung'u

Appendix iii: Data Collection Questionnaire

Section A: Demographic Information

(i) Name (Optional)

……………………………………………………………………………………..

(ii) Gender

Male [ ] Female [ ]

(iii) Age in years

Less than 30 years [ ] 30 – 39 [ ] 40 – 49 [ ] 50 years and above

(iv) Level of education

Certificate/Diploma [ ] Bachelor degree [ ] Masters Degree [ ]

Post-Graduate [ ] Any other (Kindly indicate)……………………………

(v) What position do you hold in your organization?

Shareholder [ ] Director [ ] Chief Executive [ ] Company Secretary [ ]

Manager [ ] kindly specify…………………………………………………….

Section B: Corporate Governance Practices

(i) Indicate the extent to which the following Corporate Governance Practices apply in your organization using the following scale:-

1. Not at all 2. Less Extent 3. Moderate Extent 4. Large Extent 5.Very Large Extent

No.	Corporate Governance Practices	1	2	3	4	5
1.	The Company has adopted the CMA Corporate Governance guidelines					
2.	The Company has its own customized internal Corporate Governance guidelines					
3.	The Company has integrated the Corporate Governance Practices into its corporate strategy					
5.	The audit committee plays a crucial role in the control and the oversight of the accounting information process					

6.	Audit committee is independent, active and meets at least three times in a year.					
7.	The Company Secretary is qualified as the requirements of the CPS Act.					
8.	The Company Secretary is not a board member but attends all board meetings and provides guidance to the board on their duties and responsibilities and on matters of governance.					
10.	The Company has one third of its Board of directors as independent and non-executive directors					
11.	The structure of the board comprises a number of directors which fairly reflects the Company's shareholding structure.					
12.	The composition of the board provides a mechanism for representation of the minority shareholders.					

Section C: Corporate Governance, Strategy and Performance

(i) To what extent does corporate governance affect strategic planning and implementation in the following areas?

Strategic Areas	**Very great extent**	**Great extent**	**Moderate extent**	**Negatively**	**Not at All**
Production & Operations					
Marketing Strategy					
Financial Planning & Budgeting					
Product Development					
Human Resource Strategy					
Expansion Strategy					
Procurement					

(ii) With the introduction of corporate governance in your company, has there been a change in terms of how the organization is managed?

Yes [ ] No [ ]

(iii) If yes, has the changes led to improvement or decline on how the organization is managed?

Improvement [ ] Decline [ ]

(iv) If your answer was decline, indicate the extent to which the decline can be attributed to the factors listed here under using the following scale:-

1. Not at all 2. Less Extent 3. Moderate Extent 4. Large Extent 5. Very Large Extent

No.	**Factors Leading to Corporate Decline**	**1**	**2**	**3**	**4**	**5**
1.	The Board and Management have concentrated on complying with corporate governance at the expense of the company's strategic goals and financial performance.					
2.	Implementation of corporate governance consumes a lot of time and resources at the expense of the day to day operations of the company					
3.	Corporate governance has brought a lot of bureaucracy in management					
4.	Implementation of corporate governance has been a cost with no significant corresponding benefits to the organization.					

(v) Any other comment? Kindly explain

…………………………………………………………………………………………

…………………………………………………………………………………………

…………………………………………………………………………………………

…………………………………………………………………………………………

…………………………………………………………………………………………

Appendix iii: Authority Letter to Conduct Research

UNIVERSITY OF NAIROBI
SCHOOL OF BUSINESS
MBA PROGRAMME

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

P.O. Box 3019
Nairobi, Kenya

DATE JUNE 4, 2015

TO WHOM IT MAY CONCERN

The bearer of this letter JEREMIAH NDUNG'U KARANJA.

Registration No. D61/72098/2011

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

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

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

Thank you.

UNIVERSITY OF NAIROBI
SCHOOL OF BUSINESS
04 JUN 2015
P.O. Box 30197 – 00100, NAIROBI

PATRICK NYABUTO
MBA ADMINISTRATOR
SCHOOL OF BUSINESS