

**THE RELATIONSHIP BETWEEN CORPORATE GOVERNANCE AND
OWNERSHIP STRUCTURES OF FIRMS LISTED AT THE NAIROBI STOCK
EXCHANGE**

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DECLARATION

This research project is my original work, and has not been presented for the award of a degree in any other University.

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

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ABSTRACT

Corporate governance structures can be defined as the systems or mechanisms designed to monitor managers and improve corporate transparency (Tsui and Gui, 2000). Typically corporate governance structures adopted by firms experiencing declining performance results in changes in; board meeting frequency (Klapper and Love, 2003); board composition (McCord, 2002) insider share ownership (Morck, Shleifer, and Vishny, 1998); and executive compensation (Monks and Minow, 2004). Board meeting frequency potentially carries important governance implication as it is less costly for a firm to adjust the frequency of its board meeting to attain better governance of the firm, than to change the composition of its board or ownership structures.

For the purposes of this study, the researcher will apply a descriptive research design. A descriptive study is concerned with determining the frequency with which something occurs or the relationship between variables. Primary data will be collected from one head of the various departments in the 52 firms listed at NSE. The respondents will be selected from various departments such corporate strategy, human resources, regulatory and business development, sales and marketing department. In order to establish the relationship between corporate governance and ownership structure for firms listed at NSE, self-administered drop and pick questionnaires will be distributed among thirty sampled employees currently employed by the listed firms head office in Nairobi in Kenya. Quantitative data collected will be analyzed by the use of descriptive statistics using SPSS to do a regression analysis and presented through percentages, means, standard deviations and frequencies. The information will be displayed by use of bar charts, graphs and pie charts and in prose-form.

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CHAPTER ONE

INTRODUCTION

1.1 Background to the Study

Corporate-governance mechanisms assure investors in corporations that they will receive adequate returns on their investments (Shleifer and Vishny, 1997). If these mechanisms did not exist or did not function properly, outside investors would not lend to firms or buy their equity securities. Businesses would be forced to rely entirely on their own internally generated cash flows and accumulated financial resources to finance ongoing operations as well as profitable investment opportunities. Overall economic performance likely would suffer because many good business opportunities would be missed and temporary financial problems at individual firms would spread quickly to other firms, employees, and consumers.

A great deal of attention has been given to understanding how corporate governance and ownership structures affect firm performance. Corporate governance can influence a firm's performance whenever a conflict of interest arises between management and shareholders and/or between controlling and minority shareholders. In the management-shareholder conflict, the agency problem manifests itself in management's low effort and unproductive investments, usually known as perquisites. In the controlling-minority shareholder conflict, controlling shareholders use their power to benefit themselves at the expense of the minority shareholders, in what is called expropriation or private benefits of control. The root of both conflicts is the fact that the managers in the first case, and the controlling shareholders in the second case, receive only a portion of the firm's net revenue, while they fully appropriate the resources diverted. Thus, it is conceivable that, in light of this incentive structure, insiders will maximize their (pecuniary and non-pecuniary) utility even when the firm as a whole will not
(Bebczuk, 2005)

Of course, the ability to fulfill these goals is conditioned on the power insiders have in the company's decision-making process. Managers will enjoy more power as they are part of

the board or act in connivance with the board and the controlling shareholders. In turn, the power of controlling shareholders relies in how effectively they can manipulate board decisions by way of voting majorities and other means; distortionary policies will then increase as the ratio of voting to cash flow rights is higher (La Porta and Shleifer, 1999, and Claessens, Klingebiel and Schmukler, 2002). Outsiders have two main instruments to counterbalance this power: the enforcement of adequate corporate governance standards and the quality of the regulatory and legal environment, which should discourage detrimental actions by insiders and, once committed, allow affected stakeholders to challenge them through corporate and judicial channels.

The role of large owners in the economy is one of the most important topics in corporate governance. Theoretically, large owners (block holders) may play a valuable role by reducing the (type 1) agency problems between shareholder and managers, but recent research has emphasized that large block holdings give rise to a second (type 2) agency problem between block holders and minority investors (Shleifer and Vishny, 1997). Type 1 agency problem is the traditional conflict of interest between managers and shareholders for instance awarding themselves large perks. Type 2 agency problem involves conflicts of interest between corporate insiders, such as managers and controlling shareholders (blockholders), on the one hand, and outside investors, such as minority shareholders, on the other hand (Jensen and Meckling, 1976). The insiders who control corporate assets can use these assets for a range of purposes that are detrimental to the interests of the outside investors. They can divert corporate assets to themselves, through outright theft, dilution of outside investors through share issues to the insiders, excessive salaries, asset sales to themselves or other corporations they control at favorable prices, or transfer pricing with other entities they control (Shleifer and Vishny, 1997). Alternatively, insiders can use corporate assets to pursue investment strategies that yield them personal benefits of control, such as growth or diversification, without benefiting outside investors (Jensen, 1986).

One of the principal remedies to agency problems is the law. Corporate and other law gives outside investors, including shareholders, certain powers to protect their investment against expropriation by insiders. These powers in the case of shareholders range from the right to

receive the same per share dividends as the insiders, to the right to vote on important corporate matters, including the election of directors, to the right to sue the company for damages. The very fact that this legal protection exists probably explains why becoming a minority shareholder is a viable investment strategy, as opposed to just being an outright giveaway of money to strangers who are under few if any obligations to give it back (La Porta et al. 2000).

1.1.1 Corporate Governance Structures

The concept “corporate governance” has attracted various definitions. Metrick and Ishii (2002) define corporate governance from the perspective of the investors as “both the promise to repay a fair return on capital invested and the commitment to operate a firm, efficiently given investment”. The implication of this definition is that corporate governance has an impact on an investment and thus ultimately the dividend policies. Corporate governance is a system by which business corporations are directed and controlled. The corporate governance structures specifies the distribution of rights and responsibilities among different participants in the corporation, such as the board managers ,shareholders and other stakeholders and spells out the rules and procedures for making decisions on corporate affairs. By doing this, it also provides the structures through which company’s objectives are set, the means of attaining those objectives and monitoring performance (OECD, 1999 and Cadbury Committee, 1992).

Typically corporate governance structures adopted by firms experiencing declining performance results in changes in; board meeting frequency (Klapper and Love, 2003); insider share ownership (Morck, Shleifer, and Vishny, 1998); and executive compensation (Monks and Minow, 2004). Board meeting frequency potentially carries important governance implication as it is less costly for a firm to adjust the frequency of its board meeting to attain better governance of the firm, than to change the composition of its board or ownership structures. Hermalin and Weisbach (1998) find that outsiders are more likely to join a board after a firm performs poorly or leaves an industry. Once inference may be the need for additional outside guidance in companies undergoing strategic shifts.

1.1.2 Ownership Structures

Adenikinju and Ayorinde (2001) define ownership concentration as the proportion of shares held by the top 10 shareholders. Firms are different both in terms of ownership mix and also in terms of ownership concentration. The resultant distribution of ownership among different groups can impact on managerial opportunism, which subsequently has implications for managerial behavior and corporate performance. Shleifer and Vishny (1997) concluded that higher outsider ownership concentration is associated with high performance because outsider ownership with large stake in the firm will monitor and change the management whenever necessary. Large block shareholders have strong incentives to monitor management closely. In today's modern corporations, various forms of ownership exist. There are institutional ownership, managerial ownership, private and public ownership, family ownership, diverse and concentrated ownership, indigenous and foreign ownership and so on.

1.1.3 Nairobi Stock Exchange

This market was started in the 1920's by the British as an informal market for Europeans only. The administration of the Nairobi Stock Exchange Limited is located on the 1st Floor, Nation Centre, Kimathi Street, Nairobi. As a capital market institution, the Stock Exchange plays an important role in the process of economic development. It helps mobilize domestic savings thereby bringing about the reallocation of financial resources from dormant to active agents. Long-term investments are made liquid, as the transfer of securities between shareholders is facilitated. The stock exchange has also enabled companies to engage local participation in their equity, thereby giving Kenyans a chance to own shares.

The Nairobi Stock Exchange deals in both variable income securities and fixed income securities. Variable income securities are the ordinary shares which have no fixed rate of dividend payable as the dividend is dependent upon both the profitability of the company and what the board of directors decides (with ratification by the shareholders in an AGM). The fixed income securities include Treasury and Corporate Bonds, preference shares, debenture stocks - these have a fixed rate of interest/dividend, which is not dependent on profitability. The stock market consists of both the primary and secondary markets. In the

primary or new issue market, shares of stock are first brought to the market and sold to investors. In the secondary market, existing shares are traded among investors.

The Nairobi Stock Exchange has 52 companies listed at the market. The companies used are on NSE are classified into four sectors namely; Agriculture, Commercial and Services, Finance and Investment, and Industrial and Allied. It is categorized into three segments namely Main Investment Market segment, Alternative segment and the Fixed Income Security Market segment.

1.2 Statement of the Problem

In Kenya the majority of listed firms are owned by a few large owners who essentially own more than 25% of the issued share capital and the other remaining portion being dispersed to a wide range of minority investors whom the legal system tries to protect (Mulinge, 2008).

Several studies have been done on the relationship between corporate governance, ownership structure and firms performance with varying findings. One argument is that there is no significant relationship between ownership concentration and performance of firms (Demsetz and Lelin, 1985). Shleifer and Vishny (1997) concluded that higher outsider ownership concentration is associated with high performance because outsider ownership with large stake in the firm will monitor and change the management whenever necessary. Brown et al. (2004) conducted a research on many major American companies and found that firms with weaker corporate governance perform poorly compared to those with stronger corporate governance in terms of stock returns, profitability, riskiness and dividend payment.

Previous research done on corporate governance and firm performance in Kenya include a study of corporate governance by Jebet (2001) in which she set to determine the existing corporate governance structures in publicly quoted companies in Kenya. Her findings were that most listed firms had both executive and non executive directors as the supreme control body which is assisted by various committees. Other research studies conducted in the area of corporate governance and board of directors are: Mululu (2005), the relationship between the board activity and firm performance who concluded that those firms with active boards performed better than those with inactive boards. Mululu (2005), study found out that the frequency of board meetings is related to the number of corporate governance variables,

such as the board size, the number of executive directors, number of total shares held by largest shareholders, the number of shares held by unaffiliated block holders, the number of percentage of shares held by officers and directors and the number of other directorship held by outside directors. From the study there was evidence that the number of board meetings decrease with the board size.

Onyango (2004) looked at the relationship between ownership structure and value of the firm; he identified a positive relationship between ownership structure and firm value. He argues that firm's value is maximized at higher levels of ownership concentration. Oltetia (2002) did a study on the relationship between ownership structures and financial performance of firms. He concluded that, the influence of the state, institutions and individual shareholders to firm's profitability is insignificant. However, foreign investors when taken as a group have a significant impact on firm's performance.

The basis of this research project therefore will hinge on these apparent gaps, with a view to first understanding the effect corporate governance has on the ownership structures of firms. The need for a study of this kind is even more important in an environment like Kenya, which is characterized by growing calls for effective corporate governance and appropriate ownership structures. It will have some implication on the ongoing privatization programme that the government of Kenya is currently undertaking. Further, it will investigate whether the fear of expropriation by minority investors will lead to change in ownership structures. The study attempts to answer the following questions: Is the ownership structure affected by corporate governance? Are the Kenyan financial decision makers sensitive to the influence of block holder owners while making capital structure decisions?

1.3 Objective of the Study

To establish the relationship between corporate governance and the ownership structures of a firm.

1.4 Importance of the Study

This study will be important to the following user groups.

Investors; The study will be significant to investors at NSE especially retail investors due to the fact that the retail investors form the bulk of the investing public at NSE and they rely only on the legal protection in the corporate governance guidelines. Investors will be in a position to make better investment decisions aided by the findings of this research.

Financial Managers; Financial managers will be more sensitive to the influence that the block holder owners may have to the decisions they make with regard to the corporate governance decisions of quoted companies. Financial Managers will further identify whether minority investors have a role to play.

Government and regulators; Regulators makers who may wish to incorporate findings of the research as they formulate legislation and policy on ownership structure and governance structures of companies in Kenya. Alternatively the government policy makers will pursue corporate governance reforms that will influence the ownership structures; in this agency problems reforms will be aimed at eliminating bias against type 2 agency conflicts by quoted companies and other firms.

Scholars and academicians; Scholars will study the dividend theory that will be made aware of the association between the ownership structures and corporate governance of quoted companies. The results of this study will fill in the gap of knowledge and lay a foundation for further research.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter summarizes the information from other researchers who have carried out their research in the same field of study. The specific areas covered here are theoretical review, corporate governance, corporate ownership structure, corporate governance, firm performance, and capital structure, corporate debate, agency costs, corporate governance and ownership structure, corporate governance practices in Kenya, empirical review and conclusion.

2.2 Theoretical Review

2.2.1 Shareholder Theory

There are two main theories of shareholder-oriented governance: the principal-agent or finance model and the myopic market model. The principal-agent model regards the central problem of corporate governance as self-interested managerial behaviour in a universal principal-agent relationship. Agency problems arise when the agent does not share the principal's objectives. Furthermore, the separation of ownership and control increases the power of professional managers and leaves them free to pursue their own aims and serve their own interests at the expense of shareholders (Jensen and Meckling, 1976). There are two problems occurring in the agency relationship with which agency theory is concerned. The first is that because it is difficult or expensive for the principal to verify what the agent is actually doing, the principal cannot verify that the agent has behaved appropriately. Those two problems bring about a particular type of management cost incurred as principals attempt to ensure that agents act in principals' interests: "agency cost" (Jensen and Meckling, 1976). To solve those problems, agency theory must determine the most efficient contract governing the principal-agent relationship and an optimal incentive scheme to align the behaviour of the managers with the interest of owners.

The myopic market model shares a common view with the principal-agent model that the corporation should serve the shareholders' interests only, but criticizes that the Anglo-

American model of corporate governance because of “competitive myopia” and its consequent pre-occupation with short-term gains in return, profit, stock price and other performance measures induced by market pressures. The myopic market model holds that what is wrong with corporate governance is that the system encourages managers to focus on short-term performance by sacrificing long-term value and competitiveness of the corporation. The myopic market view contends that corporate governance reform should provide an environment in which shareholders and managers are encouraged to share long-term performance horizons. Shareholders' loyalty and voice should increase, whereas the ease of shareholders' exit should reduce. Policy proposals for the reform include the encouragement of “relationship investing” to lock financial institutions into long-term positions, restrictions on the takeover process and on voting rights for short-term shareholders, and the empowerment of other groups such as employees and suppliers that have long-term relationships with the firm (Keasey et al., 1997).

2.2.2 Stakeholders Theory

There are two main theories of stakeholder governance: the abuse of executive power model and the stakeholder model. Supporters of such a view argue that the current institutional restraints on managerial behavior, such as non-executive directors, the audit process, the threat of takeover, are simply inadequate to prevent managers abusing corporate power. Shareholders protected by liquid asset markets are uninterested in all but the most substantial of abuses. Incentive mechanisms, such as share options, are means through which managers can legitimize their abnormal overpayment (viewed by some as a symptom of the breakdown of governance (Keasey et al., 1997). The abuse of executive power is particularly embedded in the problem of executive overpay since executive remuneration has risen far faster than average earnings and there is at best a very weak link between compensation and management performance. The only restraint on executive pay seems to be the modesty of executives themselves, and the creation of so-called independent remuneration committees by large companies is not effective. What is worse is that it legitimizes self-serving managerial behaviors. The basic objective of corporate governance in this guise is “managerial freedom with accountability”, to allow executive management

the power to develop the longer term business, while holding them rigorously responsible to all stakeholders involved in the business.

Perhaps the most fundamental challenge to the orthodoxy is the stakeholder model, with its central proposition is that a wider objective function of the firm is more equitable and more socially efficient than one confined to shareholder wealth (Keasey et al., 1997). The well-being of other groups such as employees, suppliers, customers and managers, who have a long-term association with the firm and therefore a “stake” in its long-term success, is recognized. The goal of corporate governance is to maximize the wealth creation of the corporation as a whole. Specifically, a stakeholder is defined as “any group or individual who can affect or is affected by the achievement of the firm's objectives” .These definition were formulated form the base that modern corporation is affected by a large set of interest groups, including at a minimum shareholders, lenders, customers, employees, suppliers and management, which are often referred to as the primary stakeholders, who are vital to the survival and success of the corporation. To these the corporation adds secondary stakeholders, such as the local community, the media, the courts, the government, special interest groups and the general public, that is society in general. From this perspective, corporate governance debates often proceed with a fixation on the relationship between corporate managers and shareholders, which presupposes that there is only one right answer. In fact, shareholders are difficult and reluctant to exercise all the responsibilities of ownership in publicly held corporations, whereas other stakeholders, especially employees, may often too easily exercise their rights and responsibilities associated as owners. This is a compelling case for granting employees some form of ownership.

2.2.3 Agency Theory

Historically, definitions of corporate governance also took into consideration the relationship between the shareholder and the company, as per “agency theory”, i.e. director-agents acting on behalf of shareholder-principals in overseeing self-serving behaviors of management. However, broader definitions of corporate governance are now attracting greater attention (Solomon and Solomon, 2004). Indeed, effective corporate governance is currently understood as involving a wide number of participants. The primary participants

are management, shareholders and the boards of directors, but other key players whose interests are affected by the corporation are employees, suppliers, customers, partners and the general community. Therefore, corporate governance, understood in these broadening social contexts, ensures that the board of directors is accountable not only to shareholders but also to non-shareholder stakeholders, including those who have a vested interest in seeing that the corporation is well governed. Some corporate governance scholars (Carter and Lorsch, 2004; Leblanc and Gillies, 2005) also argue that at the heart of good corporate governance is not board structure (which receives a lot of attention in the current regulations), but instead board process (especially consideration of how board members work together as a group and the competencies and behaviors both at the board level and the level of individual directors). As a result, the current scholarly discourse about the nature of corporate governance has come to reflect this body of research.

This separation is however, linked and governed through proper “agency relationship” at various levels, among others “between shareholders and boards of directors, between boards and senior management, between senior and subordinate levels of management” (ISDA, 2002). In such a principal-agent relationship, there is always “inherent potential for conflicts within a firm because the economic incentives faced by the agents are often different from those faced by the principals” (ISDA, 2002). According to ISDA (2002), all companies are exposed to agency problems, and to some extent develop action plans to deal with them. These include establishing such measures as: “controls on the actions of agents, monitoring the actions of agents, financial incentives to encourage agents to act in the interest of the principals, and separation of risk taking functions from control functions” (ISDA, 2002).

2.2.3.1 Agency Problems and Legal Regimes

Conflicts of interest between corporate insiders, such as managers and controlling shareholders, on the one hand, and outside investors, such as minority shareholders, on the other hand, are central to the analysis of the modern corporation (Jensen and Meckling, 1976). The insiders who control corporate assets can use these assets for a range of purposes that are detrimental to the interests of the outside investors. Most simply, they can divert corporate assets to themselves, through outright theft, dilution of outside investors through share issues to the insiders, excessive salaries, asset sales to themselves or other corporations

they control at favorable prices, or transfer pricing with other entities they control (Shleifer and Vishny, 1997). Alternatively, insiders can use corporate assets to pursue investment strategies that yield them personal benefits of control, such as growth or diversification, without benefiting outside investors (Jensen, 1986). This problems may be mitigated by having a bigger than a smaller board.

What is meant by *insiders* varies from country to country. In the United States, the U.K., Canada, and Australia, where ownership in large corporations is relatively dispersed, most large corporations are to a significant extent controlled by their managers. In most other countries, large firms typically have shareholders that own a significant fraction of equity, such as the founding families (La Porta et al. 1999). Then controlling shareholders can effectively determine the decisions of the managers (indeed, managers typically come from the controlling family), and hence the problem of *managerial* control per se is not as severe as it is in the rich common law countries. On the other hand, the controlling shareholders can implement policies that benefit themselves at the expense of minority shareholders. Regardless of the identity of the insiders, the victims of insider control are minority shareholders. It is these minority shareholders who would typically have a taste for dividends.

Bondholders are protected by some covenants against the possibility of managers trying to take advantage of them. According to Jensen (1976) these covenants hamper the corporation's legitimate operations to some extent. He further puts it that the costs of lost efficiency plus those incurred by monitoring the covenants are what are referred to as agency costs. Agency costs increases the cost of debt and at the same time reduces the value of equity as noted by Musili (2005). Kamere (1987) noted that agency problems may bring about an optimal ratio of debt and equity financing when agency costs related to debt and equity financing are considered. Costs associated with protective covenants are substantial and rise with the amount of debt financing. Shareholders incur monitoring costs to ensure manager's actions are based on maximizing the value of the firm. Jensen and Meckling (1976) noted that with increasing costs associated with higher levels of debt and equity, an optimal combination of debt and equity may exist that minimizes total agency costs.

Grossman and Hart (1983) point out that the dividend payouts mitigate agency conflicts by reducing the amount of free cash flow available to managers, who do not necessarily act in the best interests of shareholders. Jensen (1986) agrees and argues that a company with substantial free cash flows is inclined to adopt investment projects with negative net present values. If managers increase the amount of dividend, all else being equal, it reduces the amount of free cash flows, thereby mitigating the free cash flow problem. Thus, dividend payouts may help control agency problems by getting rid of the excess cash that otherwise could result in unprofitable projects. Furthermore, dividends help alleviate agency conflicts by exposing firms to more frequent monitoring by the primary capital markets because paying dividends increases the probability that new common stock has to be issued more often. This, in turn, leads to an investigation of management by investment banks, security exchanges, and capital suppliers.

The importance of monitoring by investment banks has been recognized in literature. Shleifer and Vishny (1986) note that institutional investors prefer to own shares of firms making regular dividend payments, and argue that large institutional investors are more willing and able to monitor corporate management than are smaller and diffuse owners. As a result, corporate dividend policies can be tailored to attract institutional investors, who in turn may introduce corporate governance practices.

2.3 Corporate Governance

In an important and oft-cited paper, Gompers, Ishii, and Metrick (GIM, 2003) study the impact of corporate governance on firm performance during the 1990s. They find that stock returns of firms with strong shareholder rights outperform, on a risk-adjusted basis, returns of firms with weak shareholder rights by 8.5 percent per year during this decade. Given this result, serious concerns can be raised about the efficient market hypothesis, since these portfolios could be constructed with publicly available data. On the policy domain, corporate governance proponents have prominently cited this result as evidence that good governance (as measured by GIM) has a positive impact on corporate performance.

There are three alternative ways of interpreting the superior return performance of companies with strong shareholder rights. First, these results could be sample-period

specific; hence companies with strong shareholder rights during the current decade of 2000s may not have exhibited superior return performance. In fact, in a very recent paper, Core, Guay and Rusticus (2005) carefully document that in the current decade share returns of companies with strong shareholder rights do not outperform those with weak shareholder rights. Second, the risk adjustment might not have been done properly; in other words, the governance factor might be correlated with some unobservable risk factor(s). Third, the relation between corporate governance and performance might be endogenous raising doubts about the causality explanation.

There is a significant body of theoretical and empirical literature in corporate finance that considers the relations among corporate governance, management turnover, corporate performance, corporate capital structure, and corporate ownership structure. Hence, from an econometric viewpoint, to study the relationship between any two of these variables one would need to formulate a system of simultaneous equations that specifies the relationships among these variables.

2.4 Corporate ownership structure, corporate governance, firm performance, and capital structure

It is well recognized by now that good corporate governance creates value. Studies by Gompers et al (2003), Black et al (2003), Klapper and Love (2002) and several other papers show that in various countries better corporate governance is associated with a higher firm's market value. Ultimately, sound corporate governance practices help channeling private sector funds into profitable projects and, thus, contribute to the economic development of a country Claessens (2002). While many of the economies of the former Soviet republics have been growing relatively fast over the last years, they still have a long way to go to catch up with the OECD countries. One of the likely impediments to growth in these countries is poor corporate governance. Therefore, it is important to understand where the incentives of managers and controlling owners to adhere to high corporate governance standards can come from and what should be done to improve these incentives.

In Kenya a study by Kihara (2006) on the relationship between ownership structure, governance structure and performance of firms listed at the NSE concluded that privately owned enterprises had better governance structures which further improved their performance compared to state corporations. Her study however was limited to one aspect of corporate governance that is the structure and looked at ownership structures from the point of view of whether a firm is state or private owned. This study seeks to broaden the measures of corporate governance in addition to looking at ownership structures in terms of debt and equity. Oltetia (2002) looked at ownership structure and the financial performance of listed companies in Kenya; he argued that, the influence of the state, institutions and individual shareholders to firm profitability is insignificant. However, foreign investors when taken as a group have a significant impact on firm's performance. Theoretically, one of the main incentives to establish good corporate governance practices is the need for outside finance. Corporate governance helps establish commitment mechanisms that ensure adequate return for outside investors (Shleifer and Vishny 1997) and, hence, lowers the cost of outside finance for a firm.

Most theorists and practitioners agree that improving the quality of corporate governance and increasing transparency would help firms in CIS countries to attract outside finance and would eventually accelerate the development of CIS economies. Unsurprisingly, corporate governance has recently become one of the widely debated issues in Russia and other CIS countries. However, there has been no solid empirical evidence that firms with better corporate governance in transition countries are indeed more successful in attracting outside finance. Firms in transition economies are characterized by high degree of ownership concentration. Empirical studies suggest that ownership concentration is related to firms' corporate governance, financing and investment policies. In a sample of firms from 27 mostly developing and transition economies, Durner and Kim (2005) find a positive association between ownership concentration and corporate governance.

Some governance features may be motivated by incentive-based economic models of managerial behavior. Broadly speaking, these models fall into two categories. In agency models, a divergence in the interests of managers and shareholders causes managers to take

actions that are costly to shareholders. Contracts cannot preclude this activity if shareholders are unable to observe managerial behavior directly, but ownership by the manager may be used to induce managers to act in a manner that is consistent with the interest of shareholders. Grossman and Hart (1983) describe this problem. Adverse selection models are motivated by the hypothesis of differential ability that cannot be observed by shareholders. In this setting, ownership may be used to induce revelation of the manager's private information about cash flow or her ability to generate cash flow, which cannot be observed directly by shareholders.

In the above scenarios, some features of corporate governance may be interpreted as a characteristic of the contract that governs relations between shareholders and managers. Governance is affected by the same unobservable features of managerial behavior or ability that are linked to ownership and performance. However, Demsetz (1985) argues that since we observe many successful public companies with diffused share ownership, clearly there must be offsetting benefits, for example, better risk-bearing. Also, for reasons related to performance-based compensation and insider information, firm performance could be a determinant of ownership. For example, superior firm performance leads to an increase in the value of stock options owned by management which, if exercised, would increase their share ownership. Also, if there are serious divergences between insider and market expectations of future firm performance then insiders have an incentive to adjust their ownership in relation to the expected future performance. Himmelberg et al. (1999) argue that the ownership structure of the firm may be endogenously determined by the firm's contracting environment which differs across firms in observable and unobservable ways. For example, if the scope for perquisite consumption is low in a firm then a low level of management ownership may be the optimal incentive contract

The link between ownership and corporate governance is not well understood by economists. On the one hand, higher ownership concentration creates incentives for the principal owner to increase firm value, which may induce him to practice good governance. On the other hand, greater accumulation of control allows the controlling shareholder ignore the rights of minority shareholders and eliminates pressures of the market for corporate

control. Another possible reason why higher ownership concentration may lead to worse corporate governance is that the two may be substitutes: a large stake of a controlling shareholder signals his commitment to the mechanisms. The combination of these (and possibly other) factors may potentially lead to a non-monotonic link between ownership concentration and corporate governance. A separate problem is that ownership structure may be endogenous and may itself depend on the firm's corporate governance.

2.4.1 Corporate Governance, Ownership and Performance

A great deal of attention has been given to understanding how corporate governance and ownership structures affect firm performance. Corporate governance can influence a firm's performance whenever a conflict of interest arises between management and shareholders and/or between controlling and minority shareholders. In the management-shareholder conflict, the agency problem manifests itself in management's low effort and unproductive investments, usually known as perquisites. In the controlling-minority shareholder conflict, controlling shareholders use their power to benefit themselves at the expense of the minority shareholders, in what is called expropriation or private benefits of control. The root of both conflicts is the fact that the managers in the first case, and the controlling shareholders in the second case, receive only a portion of the firm's net revenue, while they fully appropriate the resources diverted. Thus, it is conceivable that, in light of this incentive structure, insiders will maximize their (pecuniary and non-pecuniary) utility even when the firm as a whole will not.

While a wedge between control and cash flow rights is likely to harm minority shareholders and corporate valuation, Jensen and Meckling (1976) and Morck et al. (1988) make the point that concentrated ownership may actually have an ambiguous effect: on one hand, there may be a beneficial effect on performance and valuation (the so-called "incentive effect") in that higher cash flows rights in the hands of a few shareholders tends to reduce the free riding problem associated with dispersed ownership when it comes to monitoring and punishing opportunistic managers; on the other hand, the negative effect (the "entrenchment effect") above mentioned may take place whenever there is high concentration of control rights and/or separation between control and cash flow rights.

According to Mayer (1997), corporate governance is concerned with ways of bringing the interest of investors and managers into line and ensuring that firms are run for the benefit of investors. Corporate governance is concerned with relationship between the internal governance mechanisms of corporations and society's conception of the scope of corporate accountability. It has also been defined by Keasey et al. (1997) to include the structure, processes, cultures and systems that engender the successful operation of organizations. Corporate governance is also seen as the whole set of measures taken within the social entity that is an enterprise to favour the economic agents to take part in the productive process, in order to generate some organizational surplus, and to set up a fair distribution between the partners, taking into consideration what they have brought to the organization. It may be stated more generally that different systems of corporate governance will embody what are considered to be legitimate lines of accountability by defining the nature of the relationship between the company and key corporate constituencies. Thus, corporate governance systems may be thought of as mechanisms for establishing the nature of ownership and control of organizations within an economy. In this context, "corporate governance mechanisms are economic and legal institutions that can be altered through the political process – sometimes for the better (Shleifer and Vishny, 1997).

International evidence has greatly increased in the last few years. Shleifer and Vishny (1986) developed a model to demonstrate that certain degree of ownership concentration is desirable in order for the takeover move to work more effectively. Claessens et al. (1999), Klapper and Love (2002) and La Porta et al. (2002) are prominent efforts in proving the nexus between corporate governance and performance using cross-country data, while other studies look at individual countries, such as the United States (Gompers, Ishii and Metrick, 2003), Korea (Black, Jang and Kim, 2003) and Germany (Drobetz, Schillhoffer and Zimmermann, 2003). By aiming to analyze the relationship between corporate governance and ownership structure with performance (as measured by the return on assets and Tobin's q) in Argentina in 2000-2003, the present work forms part of the latter country-level line of research.

2.5 Corporate Debate

During the late 1950s a number of large UK companies failed, some of them as a result of large-scale travel by directors. These companies include Polly Peck and Maxwell Communications. The failures were largely attributable to lack of accountability and commitment from the company's Board of Directors and management. To ensure the achievement of the Corporate set objectives and minimize the failure of firms, new standards setting regimes for both financial accountability and reporting were set up, they include; The Cadbury Report (Committee on the financial accountability of corporate bodies); The Greenbury Report (Directors' remuneration); and The Hampel Report.

The Cadbury committee was set up in 1991 to examine the reporting and control functions of Board of Directors and the role of auditors and shareholders. The committee concentrated on the financial aspects of corporate governance. Compliance with the code of best practice was voluntary. However, the London Stock Exchange (LSE) listing rules requires UK – incorporated listed companies to include a statement as to whether they had complied with the standards in their annual financial statements. Non-compliance had to be explained.

Broadly the Cadbury report covered the following: The board must meet regular, have a formal agenda, encourage openness etc; Reporting and disclosure (including disclosure of director's remuneration packages, involvement and on internal control systems); Membership of the Board with effective division of responsibility (combination of executive and non-executive directors); Independence of the Board (no financial connection with the company except fees and shareholdings); Separate audit and remuneration committees be established and service contract over three years be approved by shareholders and be made up entirely of independent directors; Audit committee must meet with the external auditors at least once a year and without executive directors; Fees for independent directors should be the time they spend on the company business; The directors should state in the financial report that the company is a going concern, report on the effectiveness of the company's system of internal control.

The Greenbury Report (Directors' remuneration) was a response to the increasing public concern that financial statements still did not adequately reflect companies' directors and management remuneration. The report set out a code of best practice in determining and accounting for director's remuneration. The detailed provisions were prepared with large companies mainly in mind, but the committee stated that the principles apply equally to small companies.

All listed companies registered in UK were required to comply with the Greenbury code from 1995 onwards. They had to include a statement about their compliance in the annual reports to shareholders or in the annual report of the remuneration committee. Any areas of non-compliance were to be explained and justified. While both the Cadbury and Greenbury reports concentrated on preventing abuses, the Hampel report is concerned with the positive contribution which corporate governance can make. Throughout, it aims to restrict the regulatory burden facing companies and substitute broad principles where practical. Each company's circumstances are different. A 'one – size – fits – all' approach to corporate governance issues is not appropriate. Instead, each listed company is required to introduce corporate governance practices which suites it's position and disclose the same in it's annual financial report a narrative explaining how the broad principles of corporate governance have been applied.

The general message of Hampel report is that a board need not approach various corporate governance requirements in a compliance mentality: the-so called "tick box" approach. Good corporate governance is not achieved by satisfying a checklist. Directors must comply with the substance as well as the letter of all best practice pronouncements.

2.6 Agency Costs, Corporate Governance and Ownership Structure

Agency problems are increasingly inherent in the modern-day corporation, owing to the widening separation of ownership and control responsibilities, growing business diversification and segmentation across industry and business lines, and investor emphasis on near-term performance and return outcomes. Agency costs can manifest in various forms under these circumstances, including self-serving behavior on the part of managers focused

on status or empire-building objectives, excessive perquisite consumption, non-optimal investment decision-making or acts of accounting mismanagement or corporate fraud. The adverse implications of these actions are then felt in the form of the destruction of shareholder wealth and wider impacts on other corporate stakeholders, such as debt providers, employees and society in general. The realization of the consequences flowing from the incidence of agency problems have led to emphasis being placed on the importance of competitive markets for managerial labour and corporate control as monitoring mechanisms designed to limit the degree of agency divergence, the role of institutional shareholders as substitute agency devices and the development and enforcement of codes of corporate governance practice to enhance director and management oversight and create desirable incentive structures within firms.

A number of approaches have been employed within the literature to shed light on the existence of agency costs within corporations and the attributes that aid in mitigating such undesirable costs. Firstly, there is a stream of research evaluating the association between different agency-mitigating mechanisms and interpreting from this the agency cost consequences and the attributes that impact prominently on agency costs. Early studies in this regard include Jensen et al. (1992) which identified an interrelationship between levels of inside ownership, leverage and dividend payout, with inside ownership negatively impacting on debt and dividend levels. This suggests that inside ownership and financing policy (leverage and dividend payout) are substitute mechanisms in potentially reducing agency costs. Agrawal and Knoeber (1996) provide some evidence of interrelationships between alternative agency mechanisms, including leverage use, insider ownership, institutional ownership, the existence of block holders and takeover market activity.

The second approach taken in the empirical literature has been the evaluation of the association between agency control mechanisms and firm performance outcomes, with positive performance effects of agency attributes intimated through their contribution to lowering agency costs. Although this strain has spurred extensive research, substantial inconsistency is observed across studies evaluating the impact of individual agency-controlling mechanisms on firm performance. Potential governance related attributes that

have been evaluated in this context include the size of the board of directors (Jensen, 1993 and Yermack 1996), the composition of the board of directors (Hermalin and Weisbach, 1991 and Agrawal Yermack 1996), CEO and board chairperson duality, board committee formation and independence, and managerial remuneration and compensation structure (Shleifer and Vishny, 1997).

There has also been significant investigation into the role of shareholding influences on firm performance, with Morck et al. (1988), McConnell and Servaes (1990), Hermalin and Weisbach (1991), providing evidence of a statistically significant non-linear relationship between managerial ownership and firm performance, and McConnell and Servaes (1990) identifying positive relationships between performance and levels of institutional and large external ownership respectively.

Given the inconsistent findings based on the examination of individual attributes, increasing focus has been placed on considering the overall governance or agency structure of firms, using measures such as shareholder rights or takeover vulnerability indices. This approach relates to the expectation that firms offering lower protection for shareholder claims, those with poorer governance practices or firms that are increasingly immune to takeover threat are more likely to experience agency and managerial entrenchment problems leading to incurrence of agency costs and lower relative performance. The evidence in this regard is much more conclusive, with La Porta, et.al. (1999) , Black (2003), Gompers, et al. (2003) and Klapper and Love (2002), all finding a positive association between measures representative of superior corporate governance quality, stronger shareholder rights or increased takeover vulnerability and firm performance.

The final relevant subset of literature, and that which is most closely aligned to this study, involves those studies that have directly attempted to measure (or proxy for) the level of agency costs inherent in firms, and then evaluated the factors that significantly impact on the variation in firm agency costs within cross-sectional or longitudinal sample constructs. Agency costs were found to be negatively related to the manager's ownership interest and the extent of external bank monitoring and positively related to the number of shareholders

and the existence of an outside (non owner) manager. Doukas et al (2002) examined agency cost determinants for listed US firms and concluded that greater analyst following generally reduces agency costs, but its effect is more prominent for single-segment as opposed to diversified firms. They also provided evidence of non-linear relationships between inside ownership and leverage and the level of agency costs, whereas agency costs are found to be positively associated with the level of institutional ownership.

2.7 Corporate Governance Practices in Kenya

The Capital Markets Authority (CMA) developed, and gazetted in May 2002, the guidelines for good corporate governance practices for listed companies in Kenya in response to the growing importance of governance issues both in emerging and developing economies and for promoting growth in domestic and regional capital markets. It is also in recognition of the role of good governance in corporate performance, capital formation and maximization of shareholders value as well as protection of investor's rights.

CMA developed the guidelines by taking into account the work which had been undertaken extensively by several jurisdictions through many task forces and committees included but not limited to the United Kingdom, Malaysia, South Africa, Organization for Economic Corporation and Development (OECD) and the Commonwealth Association for Corporate Governance. Prior to CMA's promulgation of the guidelines for good corporate governance, the Private Sector Corporate Governance Trust, Kenya, had in November 1999 issued a code of best practice for corporate governance in Kenya. Most of the provisions in this code were incorporated in the CMA's guidelines.

Manyuru (2005), the study looked at the extent corporate governance cut across the industries and it was established that all the four sectors scored highly. The results indicated that Agricultural sector exhibited a high positive correlation between performance and corporate governance. Finance and Investment sector also showed a high correlation. Kihara (2006) found no relationship between ownership structure, governance structure and performance. All ownership variables except foreign ownership were found to have a weak

relationship with performance of firms whereas all governance variables were found to have no significant relationship with the firm's performance.

2.8 Empirical Review

A number of empirical studies on outside directors support the beneficial monitoring and advisory functions to firm shareholders. Bhagat and Black (2002) found no significant relationship between board composition and financial performance. Yermack (1996) also showed that, the percentage of outside directors does not significantly affect firm financial performance. Agrawal and Knoeber (1996) suggest that boards expanded for political reasons often result in too many outsiders on the board, which does not help financial performance.

Previous empirical studies have provided the nexus between corporate governance and firm financial performance (Gompers et al., 2003 and Black et al., 2003) with inconclusive results). Others, Bebchuk and Cohen (2004) have shown that well-governed firms have higher firm performance. The main characteristic of corporate governance identified in these studies include board size, board composition, and whether the CEO is also the board chairman. Recently, some empirical papers appear to focus on the relationship between corporate governance ratings and firm financial performance: Gompers et al. (2003), Brown and Caylor (2004), for the USA; Drobetz et al. (2003) and Bauer et al. (2004).

Bauer et al. (2004) argued whether good corporate governance leads to higher common stock returns, firm value or operating performance using a sample of 269 firms from the FTSE Eurotop 300 over the period 2000-2001. The authors used Deminor's corporate governance ratings in order to measure the firms' quality of corporate governance. Deminor's rating can be attributed to four categories: shareholder rights, takeover defenses, disclosure on corporate governance and board structure and functioning. They argue that good corporate governance will increase investor trust and subsequently lower corporate risk and a lower expected rate of return; furthermore a lower expected rate of return leads to a higher firm valuation. However, they found an insignificant relationship between corporate governance and firm valuation. Finally, the relationship between corporate governance and firm performance is statistically negative.

Empirical evidence on the association between outside independent directors and firm financial performance is mixed. Studies have found that having more outside independent directors on the board improves financial performance (Daily and Dalton, 1994), while other studies have not found a link between independent NEDs and improved firm financial performance (Hermalin and Weisbach, 1991). The point that can be made from these studies is that there is no clear benefit to firm financial performance provided by independent NEDs. As for the association between role duality and financial performance, Abdul Rahman and Haniffa (2003) documented that Malaysian companies with role duality seem not to perform as well as their counterparts with separate board leadership based on accounting performance measurement.

Locally several studies have been done on the effect of corporate governance and ownership structure on firm performance. Muriithi, (2004) studied the relationship between corporate governance mechanisms and performance of firms quoted on the NSE and found that the size and the composition of the board of directors together with the separation of the control and the management have the greatest effect on the performance. Onyango, (2004) looked at the relationship between ownership structure and value of the firm; he identified a positive relationship between ownership structure and firm value. He argues that firm's value is maximized at higher levels of ownership concentration. Oltetia, (2002) stated that the only form of ownership that boosted performance on firms listed at the NSE is foreign ownership.

2.9 Conclusion

Corporate governance refers to the manner in which the power of a corporation is exercised in the stewardship of the corporation total portfolio and resources with an objective of obtaining increasing stakeholders value with a satisfaction of other stakeholders within the context of individual organizations corporate mission and vision as spelt out in the strategic plan of an institution. The main corporate governance themes that are currently receiving attention are adequately separating management from the board to ensure that the board is directing and supervising management, including separating the chairperson and chief executive roles; ensuring that the board has an effective mix of independent and non-

independent directors; and establishing the independence of the auditor and therefore the integrity of financial reporting, including establishing an audit committee of the board.

The research conducted on firm-level data of corporate governance ratings reveals that better corporate governance is correlated with better operating performance and market valuation. Corporate governance mechanisms assure investors in corporations that they will receive adequate returns on their investments evidence suggests that corporate governance has a positive influence over corporate performance. The literature also establishes that good corporate governance results in a lower cost of capital. One explanation is that good corporate governance will lead to lower firm risk and subsequently to a lower cost of capital. Good governance is a signal or symptom of lower agency costs – a signal not properly incorporated in market prices it may be effective to control the managers' incentive by being large. The concentration of ownership can avoid the free rider problem. A more concentrated ownership structure may lead to reduction in the value of the firm due to the fact that, managers will consume perquisites and misuse the firm's resources due to their increased power.

Several mechanisms can be used to overcome the problems associated with separation of ownership and control: alignment of shareholders' interest with managerial interests (compensation plans, stock options, bonus schemes); board monitoring by large shareholders and lenders; legal protection of (minority) shareholders from managerial expropriation through shareholder rights and the market for corporate control as an external device. The number board of directors is assumed to have an influence on performance. The board is vested with responsibility for managing the firm and its activities. The studies cited in the literature mostly concentrate on the developed countries whose strategic approach and CG systems are not similar to that of Kenya. The studies have also been done on other companies other than the broadcasting stations. To the best of the researchers' knowledge, no study has been done on the relationship between corporate governance and financial performance among broadcasting stations in Kenya. This study seeks to fill this gap by investigating the relationship between corporate governance and ownership structure of firm listed at NSE.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

In this chapter the research methodology was presented in the following order, research design, target population, sampling procedure, data collection methods, instruments of data collection and finally the pilot study.

3.2 Research Design

Research design refers to the method used to carry out a research. For the purposes of this study, the researcher applied a descriptive research design. A descriptive study is concerned with determining the frequency with which something occurs or the relationship between variables. This approach was appropriate for this study, since the researcher intends to collect detailed information through descriptions and was useful for identifying variables and hypothetical constructs.

3.3 Population

The population of this study was consisting of all the 55 companies listed on the main investment segment of the Nairobi Stock Exchange during the years 2005 to 2009. To improve validity of the results, the items in the population was grouped according to industry classification at the Nairobi Stock Exchange as at 31st December 2009. Primary data was collected from one head of the various departments in the 55 firms listed at NSE. The respondents was selected from various departments such corporate strategy, human resources, regulatory and business development, sales and marketing department. This population was considered appropriate because the head of various departments are versed with the relationship between corporate governance and ownership structure.

The choice of companies listed in NSE gives this study a chance to look at all sectors of the economy, expect that banks and other financial institutions will be excluded because of their huge debt structure which is very much different from other firms. Also financial companies

operate under the Banking Act, which compels them to have certain corporate governance structures, including ownership which non-financial companies are not obliged to have. Financial companies are also closely monitored by the Central Bank of Kenya in order to safeguard depositors' funds and this may influence performance of these companies. The relationship between corporate governance and performance was therefore difficult to determine.

3.4 Sample

This study was restricted to those that have no regulated capital and those that have not been suspended from the NSE and those that were listed by year 2005. The total number of companies listed at NSE is fifty five (55), thirteen are financial institutions which have regulated capital, while three (3) have been suspended from trading and 4 were not listed by year 2005, and the study have a target population of thirty five (35) companies (appendix iii). The study period will be from year 2005 to 2009.

3.5 Data Collection

In order to establish the relationship between corporate governance and ownership structure for firms listed at NSE, self-administered drop and pick questionnaires was distributed among thirty sampled employees currently employed by the listed firms head office in Nairobi in Kenya. The researcher used structured questionnaires as the main data collection instrument. The questionnaires were having both open and close-ended questions. The close-ended questions were providing more structured responses to facilitate tangible recommendations. The open-ended questions were 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. Data on ownership structures was obtained from the Nairobi Stock Exchange database and company registry. In order to achieve set objectives data was collected from NSE database and from companies under study.

3.6 Data Analysis and presentation

Before processing the responses, the completed questionnaires were edited for completeness and consistency. Quantitative data collected was analyzed by the use of descriptive statistics using SPSS to do a regression analysis and presented through percentages, means, standard deviations and frequencies. The information was displayed by use of bar charts, graphs and pie charts and in prose-form. This was done by tallying up responses, computing percentages of variations in response as well as describing and interpreting the data in line with the study objectives and assumptions through use of statistical package for social sciences (SPSS) version 17.0.

Model Specification

The Q was calculated as the market value of the firm at financial year end divided by the book value of equity at the financial year end.

The first regression equation contains BOARDSIZE as the dependent variable and it refers to the number of directors on the board of the company.

Assuming that all relations are linear then we have:

$$\text{BOARDSIZE}_i = \alpha_0 + \alpha_1 \cdot \text{OUTSIDE}_i + \alpha_2 \cdot \text{LEV}_i + \alpha_3 \cdot \text{OWNERSHIP}_i + \alpha_4 \cdot \text{SIZE}_i + \alpha_5 \cdot \text{GOV}_i + \alpha_6 \cdot \text{ROA}_i + \alpha_7 \cdot \text{IND}_i + e_i$$

The extent of outside membership on the board was measured as OUTSIDE, i.e. the percentage of board seats held by non-officers and members without relationship to the founding family (if any). This was the dependent variable which will form the second equation.

$$\text{OUTSIDE}_i = \alpha_0 + \alpha_1 \cdot \text{BOARDSIZE}_i + \alpha_2 \cdot \text{LEV}_i + \alpha_3 \cdot \text{OWNERSHIP}_i + \alpha_4 \cdot \text{CEO}_i + \alpha_5 \cdot \text{ROA}_i + \alpha_6 \cdot \text{GOV}_i + \alpha_7 \cdot \text{IND}_i + e_i$$

The third internal governance mechanism is the firm leverage, denoted by LEV, is the ratio of total (non-equity) liabilities to total assets.

$$\text{LEV}_i = \alpha_0 + \alpha_1 \cdot \text{BOARDSIZE}_i + \alpha_2 \cdot \text{OWNERSHIP}_i + \alpha_3 \cdot \text{OUTSIDER}_i + \alpha_4 \cdot \text{SIZE}_i \\ + \alpha_5 \cdot \text{AGE}_i + \alpha_6 \cdot \text{GROWTH}_i + \alpha_7 \cdot \text{IND}_i + e_i$$

The other variable was the ownership structure and it was the percentage of cumulated voting rights exercised by large investors with more than 50% of voting rights. The gearing ratio was also be used as a measure of ownership structure. For firms with unitary shares, this was equivalent to the percentage of actual stockholdings.

$$\text{OWNERSHIP}_i = \alpha_0 + \alpha_1 \cdot \text{BOARDSIZE}_i + \alpha_2 \cdot \text{LEV}_i + \alpha_3 \cdot \text{OUTSIDE}_i + \alpha_4 \cdot \text{SIZE}_i + \\ \alpha_5 \cdot \text{RESTR}_i + \alpha_6 \cdot \text{GROWTH}_i + \alpha_7 \cdot \text{IND}_i + e_i$$

RESTR is a dummy variable that is one if the firm has different share categories with different voting rights and hence deviates from the one share-one-vote principle.

In the final regression equation the cross-sectional relationship between the mechanisms and firm valuation is examined and it is measured by TOBIN's Q.

$$Q_i = \alpha_0 + \alpha_1 \cdot \text{BOARDSIZE}_i + \alpha_2 \cdot \text{LEV}_i + \alpha_3 \cdot \text{OUTSIDER}_i + \alpha_4 \cdot \text{OWNERSHIP}_i \\ + \alpha_5 \cdot \text{SIZE}_i + \alpha_6 \cdot \text{GROWTH}_i + \alpha_7 \cdot \text{ROA}_i + \alpha_8 \cdot \text{IND}_i + e_i$$

To establish the magnitude and direction of the relationship between ownership structure and corporate governance of quoted. This will be accomplished by use of correlation analysis.

CHAPTER FOUR

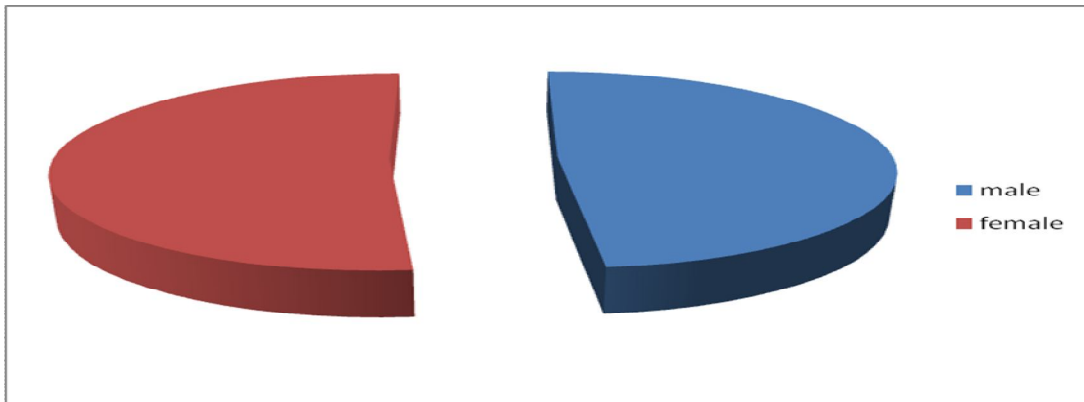
DATA ANALYSIS

4.1 Introduction

This chapter presents the data findings and analysis there-to on the relationship between corporate governance and ownership structures of firms listed at the NSE. The study targeted all the 35 firms that had consistently operated from 2005 to 2009. The study had targeted 35 respondents out of which 33 responded and returned their questionnaire. This constituted 94.28% response rate. Data analysis was done through Statistical Package for Social Sciences (SPSS) version 17.0. Frequencies and percentages were used to display the results which were presented in tables, charts and graphs.

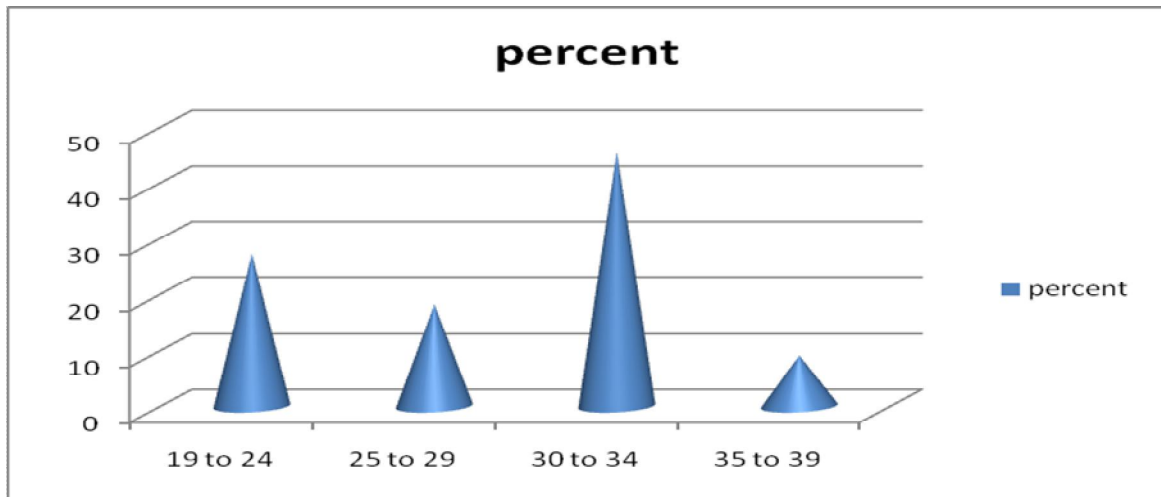
4.2 General Information

Figure 1: Distribution of respondent by gender



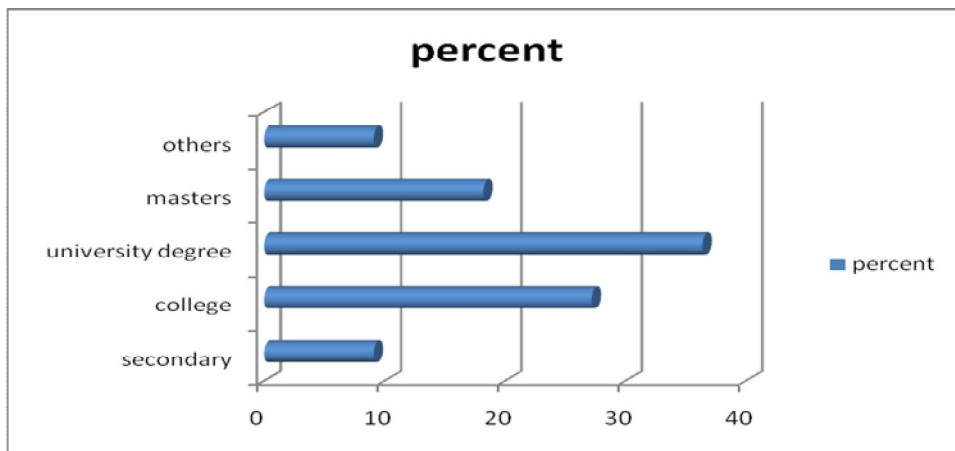
From the finding in table majority of the respondent were females as shown by 51.5% while 48.5% were males. This information shows that firms listed at NSE employed both male and female employee.

Figure 2: Respondent Age bracket



The study sought to know the age of the respondent and therefore requested them to indicate their age bracket, from the results the study found that 45.5% of the respondents were aged between 30 to 34 years, 27.2% were aged between 19 to 24 years, those aged between 25 to 29 years were shown by 18.2% and those aged between 35 to 39 years were shown by 9.1%. This shows that employees listed in the NSE were managed by relatively young employees and employees were well distributed in terms of age.

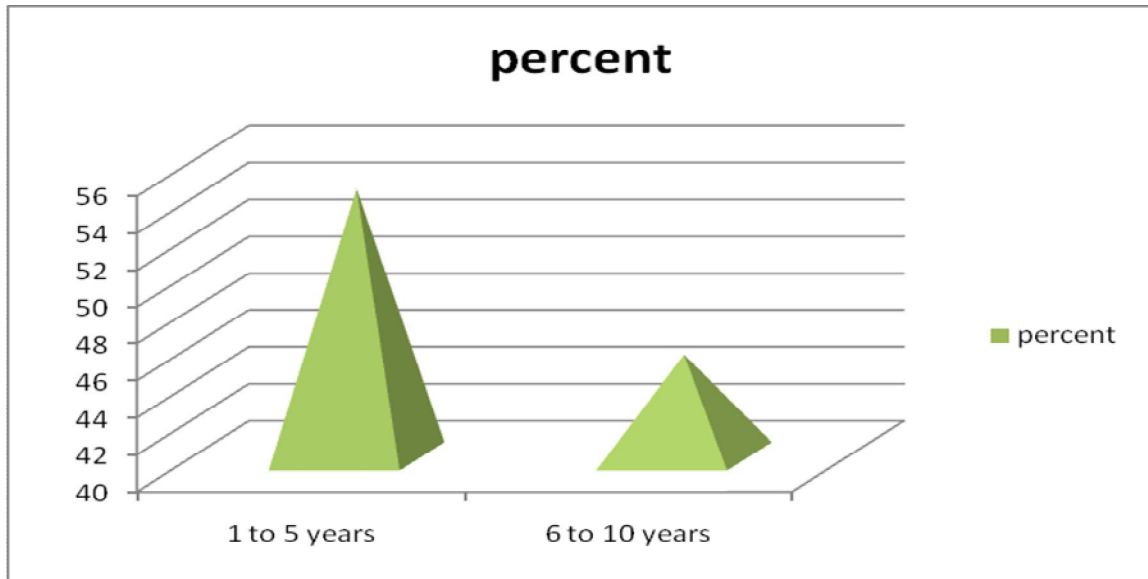
Figure 3: Distribution of respondent by Level of education



On the respondent level of education the study found that 36.4% of the respondents had university degree, 27.2% of the respondent had attained colleges education, 18.2% indicated that they had attained masters education, those who indicated that they had secondary

education, and other qualification were shown by 9.1% in each case. This information shows that firms listed at NSE were being managed by well educated personnel.

Figure 4: Respondent Length of work



From the findings in the table the study found that majority as shown by 54.5% of the respondent had worked with their respective firms for 1 to 5 years and 45.5% had worked in the respective firms for 6 to 10 years. This information shows that most of the respondents were in their respective firm's long enough to give credible information to the study.

4.3 Corporate Governance and Governance Systems

Table 1 : Rating the effectiveness of governance systems

	very effective	Effective	Moderately effective	Less effective	Very ineffective	Mean
Limited partnership agreements at the top level that prohibit headquarters from cross-subsidizing one division with the cash from another	18	12	3	0	0	1.5667
High-equity ownership on the part of managers and board members; board members who in their funds directly represent a large fraction of the equity owners of each subsidiary company	9	18	6	0	0	1.9333
Small boards of directors, typically consisting of not more than eight people	4	14	12	3	0	2.4667
CEOs who are typically the only insiders on the board	7	18	9	0	0	2.2000
CEOs who are seldom the chairman of the board	13	11	6	3	0	1.9667

The study sought to know the respondent rating of the various governance systems, from the findings the study found that most the respondents indicated the following as effective, they include limited partnership agreements at the top level that prohibit headquarters from cross-subsidizing one division with the cash from another as shown by mean 1.5667, high-equity ownership on the part of managers and board members; board members who in their funds directly represent a large fraction of the equity owners of each subsidiary company as shown by mean of 1.933, CEOs who are seldom the chairman of the board as shown by mean of 1.9667, CEOs who are typically the only insiders on the board as indicated by mean of 2.20 and Small boards of directors, typically consisting of not more than eight people as shown by mean of 2.4667. This information shows that corporate governance systems were very effective in the listed firms. The study also established that incorporation of corporate

governance system firms listed at NSE was done by CEO, board of directors and top management of the firms. The study further revealed that firms listed at NSE regularly reviewed and collected data on customer feedback for services provided this was done through baseline surveys.

Table 2: Respondent level of agreement with various statements on corporate governance

	Strongly agree	agree	Moderately agree	Disagree	Strongly disagree	Mean
Good corporate governance approach aims at performing the main function of separating the firm's principals and agents.	33	0	0	0	0	1.0000
Corporate governance themes in your station separates management from the board	3	17	13	0	0	2.3333
Corporate governance systems are mechanisms for establishing the nature of ownership and control of organizations within an economy.	15	15	3	0	0	1.7667
Agency problem arises as a result of the relationships between shareholders and managers	17	6	10	0	0	1.7667
Corporate governance would not apply to the sector since the agency problems are less likely to exist.	10	14	3	3	3	2.2667

The researcher sought the respondent's level of agreement with various aspect of corporate governance, from the results in table most of the respondents strongly agreed that good corporate governance approach aims at performing the main function of separating the firm's principals and agent as shown by mean of 1.0. Respondents agreed that agency problem arises as a result of the relationships between shareholders and managers and corporate governance systems are mechanisms for establishing the nature of ownership and control of organizations within an economy as shown by mean of 1.7667 in each case, corporate

governance would not apply to the sector since the agency problems are less likely to exist as shown by mean of 2.2667 and corporate governance themes in your station separates management from the board as shown by mean of 2.333.

4.4 Good Corporate Governance and Financial Performance

Table 3: Respondent Rating the determinant of strong corporate governance

	Very significant	Significant	Moderately significant	Slightly significant	Insignificant	Mean
Split Chairman/CEO Roles	11	17	3	3	0	1.9333
Board Size	0	14	16	3	0	2.7333
Independence of Committees	16	12	5	0	0	1.6333
Independent Directors	11	19	3	0	0	1.8333
Any other	19	8	6	0	0	1.5667

The findings in the table shows the respondents rating of the various determinant of strong corporate governance, from the findings the study found that most of the respondents indicated the following were significant other factors as shown by mean of 1.5667, independence of committees as shown by mean of 1.6333, independent directors as indicated by mean of 1.8333 and Split Chairman/CEO roles as indicated by mean of 1.9333. Board Size was rated as significant as shown by mean of 2.7333. This information shows that the various determinant of strong corporate governance like independence of directors, independence of committees, board size and Split Chairman/CEO Roles were very important in their firms.

Table 4: Respondent level of agreement on various aspects of corporate governances enhancing financial performance

	Strongly agree	agree	Moderately agree	Disagree	Strongly disagree	Mean
Good corporate governance shields the station from vulnerability to future financial distress	24	3	3	3	0	1.7000
Governance structure of the station affects the firm's ability to respond to external factors that have some bearing on its financial performance	12	10	8	3	0	2.1667
Good governance generates investor goodwill and confidence	3	13	17	0	0	2.4667
Better corporate framework benefits the station through greater access to financing and lower cost of capital	6	24	0	3	0	2.0000
Good corporate governance is important for increasing investor confidence and market liquidity	17	7	6	3	0	2.0333
Companies with better corporate governance guarantee, the payback to the shareholder and limit the risk of the investment	6	15	6	3	0	2.5000
Better corporate governance is correlated with better financial performance and market valuation	3	21	6	3	0	2.3000
Corporate governance mechanisms assure investors in corporations that they will receive adequate returns on their investments	6	2	13	2	0	2.3667
Good corporate governance will lead to lower firm risk and subsequently to a lower cost of capital.	11	13	6	3	0	2.0333
Good corporate governance increases firm valuation and reduces the financial fraud	12	9	12	0	0	2.0000
There is no relation between the proportion of outside directors and various financial performance measures	10	12	6	3	2	2.2667
There is a significant relationship between board composition and financial performance.	3	15	12	3	0	2.5000
Percentage of outside directors significantly affects firm financial performance	10	14	3	3	3	2.3667
Good corporate governance increase investor trust and subsequently lower corporate risk and a lower expected rate of return	16	9	5	3	0	1.9333

The researcher sought the respondent's level of agreement on various aspects of corporate governances enhancing financial performance. From the findings in table 4.4 the study found that most of the respondent agreed that good corporate governance shields the station from vulnerability to future financial distress as shown by mean of 1.7, good corporate governance increase investor trust and subsequently lower corporate risk and a lower expected rate of return as shown by mean of 1.933, good corporate governance increases firm valuation and reduces the financial fraud and better corporate framework benefits the station through greater access to financing and lower cost of capital as shown by mean of 2.0 in each case, good corporate governance will lead to lower firm risk and subsequently to a lower cost of capital and good corporate governance is important for increasing investor confidence and market liquidity as indicated by mean of 2.0333 in each case, governance structure of the station affects the firm's ability to respond to external factors that have some bearing on its financial performance as shown by mean of 2.1667, There is no relation between the proportion of outside directors and various financial performance measures as shown by mean of 2.2667, better corporate governance is correlated with better financial performance and market valuation as indicated by mean of 2.3, corporate governance mechanisms assure investors in corporations that they will receive adequate returns on their investments and percentage of outside directors significantly affects firm financial performance as shown by mean of 2.3667 in each case and good governance generates investor goodwill and confidence as shown by mean of 2.4667. Respondent moderately agreed that there is a significant relationship between board composition and financial performance as shown by mean of 2.5. The above information depicts that various aspects of corporate governances enhance financial performance for firms listed at NSE.

Table 5: Rating various aspects of board size and composition affecting the financial performance

	Very great extent	Great extent	Moderate extent	Little extent	Not at all	Mean
Splitting of the roles of chairman and chief executive	18	12	0	0	0	1.4000
Number of non-executive directors	9	15	3	3	0	2.0000
Executive remuneration	10	14	3	3	0	1.9667
Optimal mix of inside and outside directions	9	18	3	0	0	1.8000
Participation of outside directors	5	9	16	0	0	2.3667
Proportion of outside directors	9	18	3	0	0	1.9000
Number board of directors	5	12	10	3	0	2.4667

On rating of various aspects of board size and composition affecting the financial performance, the study found that most of the respondent rated Splitting of the roles of chairman and chief executive to very great extent as shown by mean of 1.4. Those rated to great extent optimal mix of inside and outside directions as shows by mean of 1.8, proportion of outside directors as shown by mean of 1.9, Executive remuneration as shown by mean of 1.9667, number of non-executive directors as shown by mean of 2.0, participation of outside directors as shown by mean of 2.3667 and number board of directors as indicated by mean of 2.4667.

Table 6: Rating effects of corporate governance on financial performance

Financial performance measure	Very great extent	Great extent	Moderate extent	Little extent	Not at all	Mean
Turnover	24	6	3	0	0	1.4000
Disbursement	6	24	3	0	0	1.9000
Surplus Or Net Profit	16	11	3	3	0	1.9667
Market share Price	15	9	6	3	0	1.9000
Return on assets	18	12	3	0	0	1.6000
Stock returns	12	15	6	0	0	1.8000
Dividend payout	8	25	0	0	0	1.7333

The study sought to establish the effect of corporate governance on various aspects of financial performance. From the findings, most of the respondents rated turnover to a very great extent as shown by a mean of 1.4. Those rated to a great extent were return on assets as shown by a mean of 1.6, dividend payout as shown by a mean of 1.7333, stock returns as shown by a mean of 1.8, market share price and disbursement as shown by a mean of 1.9 in each case and surplus or net profit as indicated by a mean of 1.9667.

4.5 Regression Analysis

The study further regressed price-to-book values against corporate governance and presented the data in table 4.7 below.

Table 7: Regression coefficients

	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	19.29881	14.04255		1.37431	0.400456
Board Size	-2.53231	2.865508	-0.54578	-0.88372	0.539247
Leverage	0.743081	0.186248	0.919489	3.989738	0.156343
Outsider	2.645539	19.81538	0.09976	0.133509	0.915505
Ownership	4.640091	8.5707	0.483821	0.540684	0.684451
Size	0.2459	0.2801	0.4522	0.8780	0.4446
growth	3.0283	0.1476	3.0987	0.1916	0.8603
ROA	1.339	0.202	1.477	1.674	0.193
Industry	0.693	0.169	1.170	4.109	0.026

The regression equation was:

$$\text{Tobin Q} = \alpha + \alpha \text{ Board Size} + \alpha \text{ leverage} + \alpha \text{ outsider} + \alpha \text{ ownership} + \alpha \text{ Size} + \alpha \text{ growth} + \alpha \text{ ROA} + \alpha \text{ industry}$$

The study thus determined the regression equation to be:

$$\text{Tobin Q} = 19.3 - 2.53 \text{Board Size} + 0.74 \text{leverage} + 2.64 \text{ outsider} + 4.64 \text{ ownership} + 0.25 \text{ Size} + 3.03 \text{ growth} + 1.34 \text{ROA} + 0.69 \text{ industry}$$

The regression results shows that when value of the corporate governance indicators/measures used in the study (board size, leverage, outsider, ownership, size, growth, ROA and industry) are zero, then the market value of the firms ' assets relative to their book value becomes 19.3. The results also shows that when there is unit increase in board size this would result to decrease in firms market performance by a factors of 2.53, unit increase in leverage would result to 0.74 increase in firms market performance, unit increase in outsider would result to increase in firms market performance by 2.64, unit increase in ownership composition would result to 4.64 increase in firms market performance, unit increase in size of the firms would result to increase in firms market performance by 0.25, unit increase in growth would result to 3.3 increase in firms market performance, unit increase in ROA(profitability) would result to increase in firms market performance by 1.34 and increase in industry would result increase in firm market performance by factors of 0.69.

Table 8: Model Summary

R	R Square	Adjusted Square	R	Std. Error of the Estimate	Durbin-Watson	
.975a	0.949985	0.749923		1.578726	1.270923	
	Sum of Squares	df		Mean Square	F	Sig.
Regression	47.340	4		11.835	4.748	.330a
Residual	2.492	1		2.492		
Total	49.832	5				

The model summary presented in table 4.8 below, shows that the relationship was strong as the R square value was 0.95. However the model was insignificant for prediction as the f significance was 0.33 meaning that the model might be 33% wrong in its prediction. From the adjusted R² there was 74.9% variation in the dependent variable due to change in independent variable.

CHAPTER FIVE

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

From the analysis and data collected, the following summary, conclusions and recommendations were made. The responses were based on the objectives of the study. The researcher had intended to determine the relationship between corporate governance and the ownership structures of a firm.

5.2 Summary

On corporate governance and governance systems the study found that that most the respondents indicated the following as effective, they include limited partnership agreements at the top level that prohibit headquarters from cross-subsidizing one division with the cash from another, high-equity ownership on the part of managers and board members; board members who in their funds directly represent a large fraction of the equity owners of each subsidiary company, CEOs who are seldom the chairman of the board, CEOs who are typically the only insiders on the board and Small boards of directors, typically consisting of not more than eight people. This information shows that corporate governance systems were very effective in the listed firms. The study also established that incorporation of corporate governance system firms listed at NSE was done by CEO, board of directors and top management of the firms. The study further revealed that firms listed at NSE regularly reviewed and collected data on customer feedback for services provided this was done through baseline surveys.

On various aspect of corporate governance, the study found that respondents strongly agreed that good corporate governance approach aims at performing the main function of separating the firm's principals and agent. Respondents agreed that agency problem arises as a result of the relationships between shareholders and managers and corporate governance systems are mechanisms for establishing the nature of ownership and control of organizations within an economy, corporate governance would not apply to the sector since the agency problems are less likely to exist and corporate governance themes in your station separates management

from the board.

On the various determinant of strong corporate governance, from the findings the study found that most of the respondent indicated the following were significant other factors, independence of committees, independent directors and Split Chairman/CEO roles. Board Size was rated as significant. This information shows that the various determinant of strong corporate governance like independence of directors, independence of committees, board size and Split Chairman/CEO Roles were very important in their firms. On various aspects of corporate governances enhancing financial performance the study found that most of the respondent agreed that good corporate governance shields the station from vulnerability to future financial distress, good corporate governance increase investor trust and subsequently lower corporate risk and a lower expected rate of return, good corporate governance increases firm valuation and reduces the financial fraud and better corporate framework benefits the station through greater access to financing and lower cost of capital, good corporate governance will lead to lower firm risk and subsequently to a lower cost of capital and good corporate governance is important for increasing investor confidence and market liquidity, governance structure of the station affects the firm's ability to respond to external factors that have some bearing on its financial performance , there is no relation between the proportion of outside directors and various financial performance measures, better corporate governance is correlated with better financial performance and market valuation, corporate governance mechanisms assure investors in corporations that they will receive adequate returns on their investments and percentage of outside directors significantly affects firm financial performance and good governance generates investor goodwill and confidence. Respondent moderately agreed that there is a significant relationship between board composition and financial performance. The above information depicts that various aspects of corporate governances enhance financial performance for firms listed at NSE.

From the findings on rating of various aspects of board size and composition affecting the financial performance, the study found that most of the respondent rated Splitting of the roles of chairman and chief executive to very great extent. Those rated to great extent optimal mix of inside and outside directions, proportion of outside directors, executive

remuneration as, number of non-executive directors, participation of outside directors. On the effect of corporate governance on various aspect of financial performance from the findings, turnover was rated to very great extent. Those rated to great extent were return on assets, dividend payout, stock returns, market share price and disbursement and surplus or net profit.

On the relationship between corporate governance and ownership structure the study thus determined the regression equation to be:

$$\text{Tobin Q} = 19.3 - 2.53\text{Board Size} + 0.74\text{ leverage} + 2.64\text{ Outsider} + 4.64\text{ Ownership} + 0.25\text{ Size} + 3.03\text{ Growth} + 1.34\text{ ROA} + 0.69\text{ Industry}$$

The regression results shows that when value of the corporate governance indicators/measures used in the study (board size, leverage, outsider, ownership, size, growth, ROA and industry) are zero, then the market value of the firms' assets relative to their book value becomes 19.3. The results also shows that when there is unit increase in board size this would result to decrease in firms market performance by a factors of 2.53, unit increase in leverage would result to 0.74 increase in firms market performance, unit increase in outsider would result to increase in firms market performance by 2.64, unit increase in ownership composition would result to 4.64 increase in firms market performance, unit increase in size of the firms would result to increase in firms market performance by 0.25, unit increase in growth would result to 3.3 increase in firms market performance, unit increase in ROA(profitability) would result to increase in firms market performance by 1.34 and increase in industry would result increase in firm market performance by factors of 0.69. This information shows that there was a strong relationship between corporate governance and ownership structure. As shown by strong as the R square value was 0.95. However the model was insignificant for prediction as the f significance was 0.33 meaning that the model might be 33% wrong in its prediction. From the adjusted R² there was 74.9% variation in the dependent variable due to change in independent variable.

5.3 Conclusion

From the findings the study concludes that board size negatively affects firm's market performance while leverage, outsider, ownership, size, growth, ROA, industry affects market performance positively the most being ownership structure and unit increase in industry has the least positive influence. The study concludes that corporate governance has a positive relationship with ownership structures. The study also concludes that various aspect of governance systems like limited partnership agreements, high-equity ownership, CEOs who are seldom the chairman of the board, CEOs who are typically the only insiders on the board and Small boards of directors, typically consisting of not more than eight people were very effective in firms listed at NSE.

On various aspect of corporate governance, the study concludes that that good corporate governance approach aims at performing the main function of separating the firm's principals and agent and that agency problem arises as a result of the relationships between shareholders and managers and corporate governance systems are mechanisms for establishing the nature of ownership and control of organizations within an economy. The study concludes that the determinant of strong corporate governance were independence of committees, independent directors and Split Chairman/CEO roles. Board Size. Corporate governance was found to be enhancing financial performance of firms listed at NSE.

5.4 Recommendation

From the above discussion conclusion the study recommends that in order for firms listed at NSE to have better market performances should adopt better corporate governance practices since corporate governance practices affects the market performance of listed firms. The study also recommends that that firm firms listed at NSE should be well in terms of ownership since ownership was found to strongly influence corporate governance. The study recommends that board size of firms listed at NSE should be small as this affects firm's performance negatively. The study further recommends a similar study to be conducted on firms in financial service to see whether the same applies to them.

5.5 Suggestion for Further Research

This was a study on relationship between corporate governance and ownership structures of firms listed at NSE with exception on firms with restricted capital which were financial institution. The study recommends that further studies on relationship between corporate governance and ownership structures of financial institution.

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APPENDICES

Appendix I: Letter of Introduction

TO WHOM IT MAY CONCERN

I am a postgraduate student studying at Nairobi University, currently undertaking a research on relationship between corporate governance and ownership structure of firms listed at NSE.

Your organization is one of the organizations selected for the study.

I kindly request your assistance, and the information that will be collected is solely for academic purpose and will remain confidential. A copy of the final report will be made available to you at your office.

Your assistance will be highly appreciated.

Yours sincerely,

Appendix II: Questionnaire

This interview guide consists of three parts; kindly answer all the questions by ticking in the appropriate box or filling in the spaces provided.

PART A: GENERAL INFORMATION

1. Please indicate your Gender.

Male

Female

2. Your department

3. Your designation.....

4. What is your age bracket?

19 – 24 Years

30 – 34 Years

40 – 49 Years

35 – 34 Years

25 – 29 Years

Over 50 years

5. What is your highest level of education?

Secondary

Masters Degree

College diploma

others (please state)

.....

University degree

6. How many years have you worked in this institution?

1-5 years

16-20 years

26-30 years

6-10 years

21-25 years

Over 30years

11-15years

Part B: Corporate Governance and Governance Systems

1. Effective governance systems in public sector are characterized by the following factors, how effective are they in your institution? Please rate your response in a scale of 1 – 5 where 1 = Very Effective and 5 = Very ineffective.

	1	2	3	4	5
Limited partnership agreements at the top level that prohibit headquarters from cross- subsidizing one division with the cash from another					
High-equity ownership on the part of managers and board members; board members who in their funds directly represent a large fraction of the equity owners of each subsidiary company					
Small boards of directors, typically consisting of not more than eight people					
CEOs who are typically the only insiders on the board					
CEOs who are seldom the chairman of the board					

2. Who incorporates the corporate governance system in this institution?

- a).....
- b).....
- c).....

3. Does your organization regularly review and collect data on customer feedback for services provided?

.....

If yes, which method is widely used (explain briefly)

.....

4. What is your level of agreement with the following statements that relate to corporate governance at your organization? Use a scale of 1 – 5 where 1 = strongly agree and 5 = strongly disagree.

	1	2	3	4	5
Good corporate governance approach aims at performing the main function of separating the firm's principals and agents.					
Corporate governance themes in your station separates management from the board					
Corporate governance systems are mechanisms for establishing the nature of ownership and control of organisations within an economy.					
Agency problem arises as a result of the relationships between shareholders and managers					
Corporate governance would not apply to the sector since the agency problems are less likely to exist.					

Part C: Good Corporate Governance and Financial Performance

5. The following are the determinants of strong corporate governance, how significant is each of the factors in your institution's financial performance?

	Very significance	Significant	Moderately significant	Slightly significant	Insignificant
Split Chairman/CEO Roles					
Board Size					
Independence of Committees					
Independent Directors					
Any other (specify.....)					

6. Various aspects of good corporate governance are said to enhance financial performance of a firm. To what extent do you agree with the following statements that relate to corporate governance and the financial performance of firms listed at NSE? Use a scale of 1 -5 where 1= strongly agree and 5 = strongly disagree.

	1	2	3	4	5
Good corporate governance shields the station from vulnerability to future financial distress					
Governance structure of the station affects the firm's ability to respond to external factors that have some bearing on its financial performance					
Good governance generates investor goodwill and confidence.					
Better corporate framework benefits the station through greater access to financing and lower cost of capital					
Good corporate governance is important for increasing investor confidence and market liquidity					
Companies with better corporate governance guarantee, the payback to the shareholder and limit the risk of the investment					
Better corporate governance is correlated with better financial performance and market valuation					
Corporate governance mechanisms assure investors in corporations that they will receive adequate returns on their investments					
Good corporate governance will lead to lower firm risk and subsequently to a lower cost of capital.					
Good corporate governance increases firm valuation and reduces the financial fraud					
There is no relation between the proportion of outside directors and various financial performance measures					
There is a significant relationship between board composition and financial performance.					

Percentage of outside directors significantly affects firm financial performance					
Good corporate governance increase investor trust and subsequently lower corporate risk and a lower expected rate of return					

7. To what extent do the following aspects of board size and composition affect the financial performance your firm?

	Very great extent	Great extent	Moderate extent	Little extent	Not at all
Splitting of the roles of chairman and chief executive					
Number of non-executive directors					
Executive remuneration					
Optimal mix of inside and outside directors					
Participation of outside directors					
Proportion of outside directors					
Number board of directors					

8. To what extent does corporate governance affect the following aspects of financial performance of your firm?

Financial performance measure	Very great extent	Great extent	Moderate extent	Little extent	Not at all
Turnover					
Disbursement					
Surplus Or Net Profit					
Market share Price					
Return on assets					
Stock returns					
Dividend payout					

Appendix III: Sample Population of Listed Companies

1. A.Baumann & Co Ltd
2. Athi River Mining
3. B.O.C Kenya Ltd
4. Bamburi Cement Ltd
5. British American Tobacco Kenya Ltd
6. Car & General (K) Ltd
7. Carbacid Investments Ltd
8. City Trust Ltd O
9. CMC Holdings Ltd
10. Crown Berger Ltd
11. E.A.Cables Ltd
12. E.A.Portland Cement Ltd
13. Eaagads Ltd
14. East African Breweries Ltd
15. Express Ltd
16. Hutchings Biemer Ltd
17. Kakuzi
18. Kapchorua Tea Co. Ltd
19. Kenol Kobil Ltd
20. Kenya Airways Ltd
21. Kenya Orchards Ltd -
22. Kenya Power & Lighting Co Ltd
23. Kenya Power & Lighting Ltd
24. Limuru Tea Co. Ltd
25. Marshalls (E.A.) Ltd
26. Nation Media Group
27. Olympia Capital Holdings ltd
28. Rea Vipingo Plantations Ltd
29. Sameer Africa Ltd
30. Sasini Ltd
31. Standard Group Ltd
32. Total Kenya Ltd
33. TPS Eastern Africa (Serena) Ltd
34. Unga Group Ltd
35. Williamson Tea Kenya Ltd