

**CORPORATE GOVERNANCE PRACTICES AND PERFORMANCE
OF SMALL SCALE TEA PROCESSING COMPANIES IN KENYA**

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DECLARATION


I declare that project is my original work and has not been presented for academic award in any other learning institution.

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DEDICATION

This research project is dedicated to Spouse Beatrice, my children, Ashley, Leans, Joy and Abigael for their understanding and moral support throughout my studies.

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ABSTRACT

The study looked the corporate governance practices and the performance in small scale tea factory companies in Kenya. Companies are continuously under immense pressure to maintain superior performance in areas of finance, operations and growth as well as the non financial parameters. Good cooperate governance is linked to superior forms' performance Corporate governance is concerned with key areas of Organization responsibility to the shareholders, management leadership within organization and issues of transparency, accountability and efficient utilization of resources. The study used a cross-sectional descriptive survey design. This design research was informed by the set up of the tea industry and specifically the target small scale sector as well as the number of companies that were involved in the study and the need to conduct comparative analysis. The objectives of the study were to establish the corporate governance practices in the small scale teas processing companies and the influence it has on organizational performance. The study set to gather both primary and secondary data by way of questionnaire and secondary data which were obtained from the managing agent of the companies. To achieve the purpose of the objectives of the study, corporate governance practice was based on the best code of practice guidelines while performance was base on the balance scorecard and other four key areas of performance measurement; quality, Percentage of total income payout to grower, final payment rate in Kenya shillings per Kilogram of green leave and market price per kilogram of made tea the study utilized. Both descriptive statistics and correlation analysis through regression of key performance indicators against six corporate governance practices was presented in the summarized regression statistics for the From findings the small scale tea sector has establish, implemented the corporate governance practices and adopted at various levels their applications, which have influenced the operations and decision making of the companies hence influencing the organizational performance of the tea processing Companies in Kenya. It was concluded that corporate governance best code of practice provides a structured approach to the principle agent arrangement. The practices as adopted in the small scale tea industry from the findings are extensively applied. However certain aspects have not been fully appreciate by some players thus discrepancies in application and also benefit derivation as show by the wide

performance indicator bases established. Some factories exhibited high level of corporate governance practice while others presented weak practices this in correlation to the performance against exhibited variance

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ACCRONYMS AND ABBREVIATIONS

AEO	African Economic Overview
BSC	Balanced Score Card
CCG	Centre for Corporate Governance
CG	Corporate Governance
CTCL	Chai Trading Company Limited
ESOPs	Executive Stocks Ownership Programmes
GFL	Green Fedha Limited
HR	Human Resources
ICT	Information Communication Technology
IPMS	Integrated Performance Measurement System
KETEPA	Kenya Tea Packers
KTDA	Kenya Tea Development Agency
MIB	Majani Insurance Brokers
MS	Management Services
NYSE	Nairobi Stock Exchange
OECD	Organization for Economics and Development
PSCGT	Private Sector Corporate Governance Trust
PWC	PriceWaterhouseCoopers
ROCE	Return on Capital Employed
ROI	Return on Investment
SCDA	Special Crops Development Authority
SMART	Specific Measurable Achievable, Reliable Timely

CHAPTER ONE: INTRODUCTION

1.1 Background of the study

Corporate governance has come under the spotlight in recent times due to the demand by stakeholders for accountability, transparency and true value in their investments in light of the global financial crisis, the corporate scandals, and collapses, and public concerns over the lack of effective boards and perceived excessive executive remuneration packages (Mallin, 2010). Further increased global customers' demands and competition, cross border trading, new economic coalitions, political integration and integration of world financial system has resulted in demands for new dimensions of standards, regulations and practices of corporate governance (Claessens, 2003). All organizations in either side of the sectoral divide are now placing far more emphasis on good governance practices. The separation between ownership and control in companies leads to the need for corporate governance (Berle and Means, 1932; Shleifer and Vishny, 1997). Corporate governance practices vary across institutional environments; they reflect differences in culture, traditional financing options, corporate ownership patterns, and legal origin. (Aguilera and Jackson, 2003).

The saying 'You cannot manage what you cannot measure' seems to hold true. Organizational performance measurement is the process where companies quantify the efficiency and effectiveness of their actions, decisions and operations (Neely, Platts & Gregory (2005). Performance measure involves setting of specific targets and identifying

strategic choices from the strategic planning process, and measurement of the achievements of the same. Competition, changes, turbulence environment, universal, competitive raw materials and markets, quality initiatives, external and internal demand dynamics, technological advancement, organizational roles (management, boards, and employees) and globalization have jointly put pressure on organizations to be sustainable competitive, deliver better value chains, sustainable growth and overall organizational prosperity (Atkinson, 2005). According to Hendry (1988) and Pearson & Robinson (2009) all enterprise should strived to attain world class status in operations, quality, products, customer service and efficiency (operational excellence) which form the acceptable balance performance measurement criteria (Garengo and Bititic, 2007).

1.1.1 Corporate Governance

Corporate governance has varied definitions, according to Denis and McConnell (2003) it is as a set of mechanisms that induces the self-interested managers of a company to make decisions that maximize the performance of the company to its shareholders. It's a set of relationship between a *company board* , *its shareholders* and other stakeholders, (Organization for Economic Co-operation Development, 1999); it deals with the limits of residual control rights of management's discretionary decision making (Shleifer & Vishny, 1997), and includes such internal mechanisms as levels and use of executive compensation programmes, internal control procedures and auditing, board of directors' responsibilities, and the structure of ownership in guiding the organization in its objectives and goals pursuit. Further it refers to the manner in which the power of a

corporation is exercised in the stewardship of the corporation's total portfolio of assets and resources with the objective of maintaining and increasing shareholder value and satisfaction of other stakeholders in the context of its corporate mission (Private Sector Corporate Governance Trust, 1999). This makes the concept variedly defined in relation to the application context in each institution.

Good corporate governance addresses the principal-agency problem through use of company laws, by laws, self regulation and best practices on governance in industry. It is meant to guard against bankruptcy, take-overs, loss of competitive advantage and market positioning. According to Johnson and Scholes (2004) corporate governance encompasses a whole range of issues; "who" does the organization exist to serve, "what" are the priorities and purpose of the organization, "what" is the hierarchy of communication and reporting as well as authority, "what" are the organization's, "issues" of accountability and transparency. Issues that arise in corporate governance practice influence the efficiency and effectiveness of decision making, the intensity and effectiveness of strategic planning and the overall company performance.

1.1.2 Organizational Performance

Organizational performance looks at three areas of organizational outcomes: financial performance (profits, return on assets, return on investment); product market performance (sales, market share); and shareholder return (total shareholder return, economic value added). In recent years, many organizations have attempted to manage organizational performance using the balanced scorecard methodology where performance is tracked

and measured in multiple dimensions such as; financial performance (shareholder return), customer service, social responsibility (corporate citizenship, community outreach), employee stewardship. Mintzberg (1988) postulate that in face of realization by organization of the umbilical connection of governance and performance they have increasingly been forced to design performance measurement system that encourage the effective and efficient implementation of strategic plans for attainment of objectives and goals. Prior to the 1980s organizational performance meant good financial returns; profitability, returns on involvement (ROI) and earnings per share (Goves et al, 2006).

In the 1990 according to Decoens and Bruggenman (2006). among other performance measurement models include; performance matrix, performance pyramid system, balanced scorecard (BSC), Results and determinant frame work, Cambridge performance measurement process, macro process model, integrated performance measurement system (IPMS) performance prism and the six sigma. In recent years, many organizations have attempted and adopted to manage organizational performance measurement by using the balanced scorecard methodology where performance is tracked and measured in multiple dimensions such as; financial performance (e.g. shareholder return), customer service, social responsibility (e.g. corporate citizenship, community outreach), employee stewardship. Balanced scorecard enables organizations to measure internal business processes performance with respect to activities in the organization that are crucial to meeting customers and financial objectives (Decoens and Bruggenman, 2006). It's centered on core competencies, capabilities, critical technologies and market leadership,

Thakkar (2007). Key indicators are costs, quality, efficiency, productivity, employment skills and other characteristics of products and service.

1.1.3 Kenya's small scale tea sector

The tea industry operates under the auspices of the Ministry of Agriculture with an elaborate structure. The Tea Board of Kenya (TBK) was established in June 1950 to regulate the tea industry to the best interests of the stakeholders within the areas of tea growing and factory licensing, marketing and maintaining vital industry data for technical and policy guidance. The Tea Research Foundation of Kenya (TRFK) handles breeding, husbandry, control of pests, diseases through and at the bottom are producers and tea manufacturing factories. The East African tea trade association handles trading, while Kenya Tea Packers (KETEPA) does the blending and packing. At the heart of it all is the small scale tea sector under Kenya Tea Development Agency Ltd (KTDA) working with about 560,000 small-scale tea farmers accounting for 60% of tea exports from Kenya as at the end of 2009/2010. The plantations sector falls under KTGA (Tea board of Kenya, 2010).

The tea industry remains the leading foreign exchange earner for Kenya and contributes up to 4 per cent of the GDP. The industry provides livelihoods for a significant Percent of the population (estimates place this at 4 million people) across the value chain which is has a stabilizing role in the economy. Further the tea sector and in particular the small

scale sector under KTDA contributes to rural industrialization and are major industrial installations providing employment and livelihood to many of people across the value chain (TBK, 2010). As a result, in many parts of the country, tea remains the most profitable cash crop and therefore the contribution of this industry to rural economies is invaluable (Central bank of Kenya, 2010).

Small scale tea factories operate under the management of KTDA through a management agreement. The agency provides the following technical services to the factory: Give advice on tea cultivation techniques; Collects, weighs, handle and pay farmers for green leaf delivered; Manufacture green leaf into made tea; Market the manufactured tea; Offer Accounting services to the factory; Develop and provide services in procurement, ICT and HR; handles strategic planning and Investment. The agency works with tea factories to manage costs, enhance efficiency in farm and production processes and invest prudently in order to secure the farmers' financial future. A board elected by shareholders governs the factories. There are 6 directors responsible for; Governance and policy making, Contracting Management Agent (KTDA), Authoring policy on procurement of goods and services and recruitment of employees, Formulate policy for payment to farmers, Approve annual budgets and accounts and Monitoring of financial expenditure (Kenya Tea Development Agency, 2010).

Factory companies are constrained by inadequate rural infrastructure including poor rural roads and transport system; high dependence on rain-fed agriculture particularly in

smallholders' areas; inadequate input application; inaccessibility to credit for smallholders and especially women farmers; limited application of agricultural research findings because of inadequate extension activities and support; low budgetary provision for the agricultural sector; cultural constraints as related to gender discrimination in the ownership, transfer, and usage of land; and poor coordination of major actors. Lack of value addition in the agricultural sector has also been noted as a major constraint. There is cut-throat competition for raw materials following the "liberalization" of the industry with several factories almost closing due to the pressure from the unregulated hawking "Mangirito" of raw materials (KTDA 2010).

With a highly centralized system of corporate governance, standardized operational systems, products, markets, plant and machinery as well as strategic planning; KTDA still faces the challenges of increasing per unit productivity and profitability. During the financial 2009/2010 the companies recorded the highest returns but wide disparities in performance in the areas of sales, return to growers "Bonus" and profitability were recorded. The companies' further exhibit apparently varied levels of operational efficiencies or inefficiencies in most non financials performance measurement indicators KTDA, (2010). As per media reports during the time most of the companies were dissatisfied with the wide gaps in performance with others agitating through highly publicized protests. As more returns seem to find its way to the growers doubling as shareholders it is punctuated by more outcry on alleged inequalities, high operational cost and claims of mismanagement seem and expropriation. The matters being a subject of

proposed radical amendments to the tea act cap 343 of 2000 in the 10th parliament to address ‘these perennial’ issues (Nyangito & Kimura, 1999; Kenya law reports, 2011).

1.2 Statement of the Problem

Corporate governance has been cited in various research findings as having an effect in overall performance of the firm. Corporate governance revolves around stakeholder’s political power interest and influence as well as overall direction and leadership of organizational operations (Johnson, Scholes, & Whittington, 2006). Ideally the Agency – principal theory indicate that good governance practices involves decision making and placing the best interests of shareholders and stakeholders. The organization’s purpose and responsibility should be primarily about the shareholder so that the influence expected from board of directors on the formation, implementation and evaluation of the strategic planning process will determine the success or failure in performance of the organization. Board would be better equipped to tackle the problems associated with principal-agent arrangement if there have good corporate governance practice and organizational superior and sustainable performance is the ultimate qualifying of outcome (Donnelly, Gibson & Ivancevich, 2003).

There is no doubt concerning the need for good corporate governance practice in all type of institutions the world over which must be distinct from just ‘governance’. Good corporate governance practices by boards is recognized to have an overall effect on the quality of financial reporting, operational, and business issues, which in turn has an

important impact on the quality of decisions by management and ultimately sets the standard on the level of competitiveness of the firm, the quality of its products and market positioning, the efficiency in resource optimization, quality of operational and control systems, staff efficiency and motivation and the profitability to the shareholder.

The small scale tea industry with almost identical operational, structural and systemic processes still has glaring disparity in organizational performance level. Others are competitive compared to other; the major difference could be the boards of directors. To the extent that good corporate-governance means better actual corporate-governance practices, which should translate into improved operating performance, a higher market value, better monitoring of insiders (management) to invest in projects with a positive net present value and to reduce perks and waste, so that more of the benefits flow back to outside investors (stakeholders).

Studies have pointed out to a correlation between corporate governance and financial or other form of performance (Gitari, 2005; Marnet, 2004; Kerich, 2005; Ngugi, 2007; Kiamba, 2008; Matengo, 2008). Studies on various forms of performance have also been carried out (Gatagama, 2008; Kweya, 2008; Matengo, 2008; Wada, 2001) however there are no conclusive findings as to the level of positive or negative correlation between corporate governance and organizational performance. Other researchers (Bett, 2003; Karugo, 2003; Mukhweso, 2003; Gichuru, 2006; Gikang'a, 2008; Ngari, 2008) have done research on various aspects in the KTDA as well as the larger tea industry with good insights into the issues of governance, quality, value addition, pricing, marketing and strategy. From the existing body of literature, no standard set of corporate governance and

performance indicators features have been agreed upon. Neither has research been specific on corporate governance and performance in the small scale tea subsector. In conclusion Matengo (2008) and Masiga (2008) on corporate governance and performance in the banking and Coffee industries said that good corporate governance affected performance in a positive way. In light of the varied performance of the companies, the challenges enumerated and the need to increase shareholders value, it can therefore be postulated that companies that have better overall performance have boards with better practices of good corporate governance hence good corporate governance practice maybe function of organizational performance.

1.3 Objectives of the Study

The study was designed to explore the corporate governance and features of performance for companies in the small scale tea sector. The objective of the study were;

- (i) To establish the corporate governance practice by the small scale tea processing Companies in Kenya.
- (ii) To determine the influence of corporate governance practices on the organizational performance of small scale tea processing companies in Kenya.

1.4 Value of the Study

The findings of the study will add to the body of knowledge on corporate governance best practices and the perceived or real effect that it has on organizational performance

and management. Further the practices as operationalised will for a basis for section of variable for further studies. The testing of the correlation has shed more light on the true influence of good corporate governance practice on organizational performance while shedding light on the variables with less influence informing the body of knowledge and theory as well as informing future policy formulation guidelines. This will benefit academia, industry and the small scale tea sector as the study in setting target practices to achieve sustainable competitive and distinctive advantage.

Shareholders of the small scale tea sector are a large family and there has been discontent with the performance disparities, generating questions of competence, dedication and commitment in ensuring best results for each company. The finding will not only provide better understanding on the dynamics of corporate governance and relationship to performance in the factory companies but also to other organizations and may form a basis for developing more robust strategies for responding to the challenges of the business environment. The research has been carried out based on gaps and challenges of one industry, earlier researches have formed part of the literature, in the same breath this particular research will be of use to later researchers in terms of literature, methodology and recommendations for further research

CHAPTER TWO: LITERATURE REVIEW

2.1 Introduction

There exist rich body of knowledge and literature around the concept corporate governance and organizational performance in for profit and not for profit organizations. Literature and research in existence has not been unanimous as to whether there is explicit positive correlation between corporate governance on one part and performance. The study will delve into issues related to corporate governance; definitions, related theories, historical perspectives, empirical issues and challenges, best practices and why past studies in organizations and in particular the tea industry. Further the study will cover organizational performance concept, the definition measurement, theory, practices and challenges and eventually recast the literature on the relationship between corporate governance and performance.

2.2 Concept of Corporate Governance

Corporate governance is concerned with key areas of Organization responsibility to the shareholders, management leadership within organization and issues of transparency, accountability and efficient utilization of resources. The board of directors' role, composition and internal auditors are key factors in corporate governance. Other issue of concern with size and composition, competences with the board, frequency of meetings, role of management, ownership, management of the agency problem and the interest matrix (Johnson & scholes 2003).

According to Marnet (2004) corporate governance is a system of processes, customs, policies, laws, institutions and mechanism for directing, administrating and controlling the interest and external business environment of organizations in an accountable and transparent make in order to reduce the agency problem. Corporate governance has further been defined as the mechanism by which investors interests are protected against insider expropriation. It also means by which suppliers or provides of finances to companies assure themselves that returns will be forthcoming from their investment (Shelief and Vishny 1967; La Porta et al, 2001). Corporate governance is aimed at protecting the shareholder rights through enhance disclosure of information and transparency in transacting company issue so as to improve on effectiveness of functions of the board and management. The guiding force in present day goal corporate governance practice include the country laws, company's bylaws, self regulation and best practice with industry (Centre for Corporate Governance, 2003).

Directors role are very specific according to Grinstein and Tolkowsky (2004) they are to plan, budget, direct, monitor performance and policy formulation; implementation of strategy is best done by management. The board also participates in development of the vision, mission, operational guidelines, strategies and provision of resource. Corporate government according to (Baker and Paul, 2009) focuses on size of the board (for optimality), its composition (diversity and synergy), executive compensation system, and ownership and organization performance. It is less involved at the business level strategy but more of the corporate level strategies. Due to increase activities in the global arena,

the level of bilateral and multilateral economic development and offshore loans policy issues and practice of management have attracted more attention than before. There is increase investment decision by organizations due to cross listing of companies. Financial and political integration, global technological advancement and companies going global means that issue of governance practice and policy direction have to be reforecast in line with the fundamental shift in way of business management (Claessens, 2003).

According to Davis and Macdonald (2003) corporate governance provides a set of mechanism internally and market based that induces self-interest on controllers of firm to make decisions that optimize value for the owners and stakeholders. According to Power (2000), it defines the manner in which the power of the firm is exercised in managing the total portfolio of assets and resources in order to maintain and increase shareholder long term value. The Agent's responsible for the shareholder interest. Investors and shareholder have to be protected through enforcement of laws and regulatory standards. The financial reporting standards spell out the disclosure requirements, accounting rules and information flow between the agent and the principal. Dividends should also be paid on pro rata basis while shareholders should have right to elect directors through democratic voting system. Creditors will be concerned with issues of bankruptcy, liquidity and securing of collaterals while shareholder is keen on competitiveness, sustainability on extreme cases takeovers, and liquidation at receivership (CCG, 2003).

Corporate Governance sets out the relationship between company management and the board on one hand and shareholders on the other. This is done in distinctive objectives setting, a means to attain the same (Strategy), the monitoring of performance. Board should give incentive to management while not reneging on the shareholders objectives with effective monitoring so that resources can be utilized appropriately. The power of the company is exercised in the stewardship of the total portfolio as assets and revenue. The objectives should revolve around maintaining and increase the shareholders value and accomplishment of the mission. Shareholder will be interested in the efficient use of resource, profitability and proper use of delegated power. Good corporate governance should nature and encourages the evolvement of best practices. Also corporate governance a process concerned with System, practice, procedures, formula, rules that governs the company relationship and leadership (Claessens, 2003).

The Cadbury code 2003 established that failure by boards to be vigilant can result in lapse. The Treadings commission, the Blue Ribbon commission and the Sarbanes – Oxley act of 2002 was geared towards corporate governance which among other things results in; add market value for well management companies Organization for Economic Co-operation and Development (2005), improve capital flow due to improved governance (PriceWaterhouseCoopers 2007), quality decision making, easy access to capital market, boast in consumer confidence, long term prosperity, efficiency, wealth creation increase profitability, transparency, honesty, responsibility and improve relationship between the three players of companies. Governance should encourage best

practice in process, system, formal internal roles and gives the company access to the global equity market. It enhance investment confidence (PWC, 1997), effective and successful planning long term prosperity, independence in sourcing finance, increase profitability enterprises efficiency, sustainable employment ,better of service and benefit to stakeholders (Kibet, 2008).

Good corporate governance enhances legitimate responsibility and responsiveness resulting in improved, stakeholder satisfaction and management of employee, management, customers, supplies and communities (PSCGT, 2007). Corporate governance should also place the organization at distinctive advantage over rivals it has high standards and performance in efficient use of resources, or control of strategic resource, accountability and transparency in all areas of business transaction, strong stewardship and improved management practices in delivery of service (PSCG, 2002). In the public sector the above attributes would be useful in building stakeholder confidence and precluding corruption (CCG, 2006). The board according to OECD (2005) together with management has to be accountable both in decision and action; should be responsive to the shareholders and so build and sustain the confidence of equity investors and have a reputation of risk avoidance as well as preventing losses of funds.

Corporate governance has only recently come to prominence in the business world and everyday use. Mallin (2010). There are however theories that affected the development corporate governance: the Agency theory, identifies the relationship between the principle and the agent; the transaction cost economics, views the firm as a governance

structure which must be appropriate; stewardship theory, directors are stewards of company assets and stakeholders theory, view the owners inclusive of other interest groups, Mallin (2010). This must be looked at the backdrop different business, environments, legal and cultural discourse. The practice of corporate governance has evolved over a long time. In the USA, during the 19th century corporate laws that governed the general relationship of the director, companies and the shareholders existed. They were aimed at making the corporate governance effective and efficient. Shareholders rights were derivative and issue that arouse include pay for directors, shareholders loss and administrative gap.

In the 20th century the first Wall Street crash came 1929 lasting to 1932 resulting in the worst world economic depression. This was the true genesis of the debate and conception of corporate guidance (Berle and Mines, 1932). Over the period corporate governance has come to signify issues like transaction cost, why firms are founded and who owns them, the agency theory and the contractual obligation to shareholders (Eisenhardt, 1989), shareholders right and ownership with ensuring need for value for the shares. In the 1990s, financial fraud, dismissals of chief executive officers by board became common feature of response to governance issues. Most writers and researchers on cooperate governance have highlighted similar issues: (Gitari, 2008); corporate governance and financial performance, Grinstein (2004); role of board of directors in capital budgeting, Jersen (1976); theory of the farm managerial behavior; *agency cost and ownership*,

behavioral aspects of corporate governance; board characteristics and involvement in strategic planning and Brehman (1999); agency theory and corporate governance.

Most recently the global financial crisis, the corporate scandals, and collapses, and public concerns over the lack of effective boards and perceived excessive executive remuneration packages (Mallin, 2010) have contributed to research into the field. The net effect has been the formation of task forces, issuance of reports and guidelines (the Cadbury report, 1992; Greenbury report, 1995; Hampel report, 1998; Turnbull, 1999; Myners, 2001; Sarbane- Oxyley, 2002; Higgs, 2003), development of codes of best practices, (Combined code, 1998; NYSE Corporate governance rules, 2003; OECD, 2004; Smith guidance, 2008; PSCGT, 1999) has listed the following initiatives that have helped come up with best code of practice and principles of good corporate governance; Global initiatives on corporate governance and the Global corporate governance forum sponsored by World Bank Group and the Organization for Economic Co-operation and Development have established; Corporate Governance in the Commonwealth during the October 1997 Commonwealth Heads of Government Meeting in Edinburgh; Corporate Governance in Africa and Corporate Governance in Kenya, Consultative Corporate Sector seminars held in November 1998 and March 1999. The development has resulted in the development of best code of practice of corporate governance.

2.3 Corporate Governance Practices

Corporate Governance is concerned with the establishment of an appropriate legal, economic and institutional environment that would facilitate and allow business

enterprises to grow, thrive and survive as institutions for maximizing shareholder value while being conscious of and providing for the well-being of all other stakeholders and society. It is the responsibility of the owners of the corporation to elect competent directors and to ensure that they govern the corporation in a manner consistent with their stewardship. Good corporate governance dictates that the Board of Directors governs the corporation in a way that maximizes shareholder value and in the best interest of society PSCGT (1990).

Members have the authority and duties of protecting and preserving the supreme authority of the corporation in general meetings. They have ensure that only competent and reliable persons, who can add value, are elected or appointed to the Board of Directors; who should be accountable, transparent and responsible for the efficient and effective governance of the corporation so as to achieve corporate objectives, prosperity and sustainability. Persons appointed have able to add value and bring independent judgment to bear on the decision-making process. The Board of Directors should determine the purpose and values of the corporation, determine the strategy to achieve that purpose and implement its values in order to ensure that the corporation survives and thrives and that procedures and values that protect the assets and reputation of the corporation are put in place.

Further The Board should ensure that a proper management structure is in place and make sure that the structure functions to maintain corporate integrity, reputation and responsibility; monitor and evaluate the implementation of strategies, policies and

management performance; compliance with all relevant laws, regulations, governance practices, accounting and auditing standards and communicate with all its stakeholders effectively. Boards have to be accountable to members and responsible to stakeholders. Other corporate practices include: balance of powers, to guard against miss-use; internal control procedures; assessment of performance of the Board of Directors including CEO; induction of new directors, development and strengthening of skills of Board; appointment and development of executive management; adoption of technology and skills and the management of Corporate Risk. Boards are also expected to foster best corporate culture; develop a robust social and environmental responsibility programe; recognize utilize professional skills and competencies as necessary; recognize and protect of members' rights and obligations

2.4 The Concept of Organizational performance.

Organizational performance encompasses three specific areas of firm outcomes of financial performance (profits, return on assets, return on investment, etc.); product market performance (sales, market share, etc.); and shareholder return (total shareholder return, economic value added, etc.). Mintzberg (1988) postulate that in face of realization by organization of the umbilical connection of governance and performance they have increasingly been forced to design performance measurement system that encourage the effective and efficient implementation of strategic plans. Barsky and Breinser (1999); Bourne et al (2000) views that globalization, the resultant competition and turbulence in

the business environment means business have to incorporate more non-financial measurement of performance to attain more value creation and enhance control.

Companies are more concerned with establishing competitiveness, pursuing growth strategies which are sustainable and lead to long term prosperity. Head (1988) said that companies can attain world class enterprises status if they can overcome poor strategic planning, and have formal decision making process. Reliance by companies on the traditional financial performance measurement, leads to strategic planning disorientation, short term vision and hence sub optimal performance (Garengo and Bititci, 2007). Performance also involves setting of specific targets and identifying strategic choices from the strategic planning process and the performance measurement system to be used as well as information management method. In an organization performance is looked at both financial and non financial performance measures ranging from markets performance, customer satisfaction, competitive positioning and the performance of suppliers. The system should be designed in order facilitate accuracy proactively, integration (organization wide), dynamic (responsiveness to changes in the environment), visible, accessible and lead to faster quality discussion making by the key players.

Success lies in aligning key measures of performance to strategy and implementation so as to influence appropriate behavior (Kaplan and Norton, 1992). According to Mintzberg (1988) there is a realization that strategy consists of streams of best alternative decisions and actions which if properly aligned to a well crafted performance measurement system

will encourage successful implementation of strategy. Business performance measures provide the organization with direction and are useful in communication crucial incremental decision issues to the employee. The performance management system also helps to seal performance gaps and address areas of shortfalls through identity advantages that the organization stands to gain in quality, customer service, response value and other variable that enhances control (Bourne et al, 2000).

Organizational performance measurement is a strategic process of quantifying the efficiency and effectiveness of management action and decision (Neely et al, 2005). It's a process that can be carried out periodically with shorter time span that is geared towards achieving long term corporate objectives and reporting of results to the decision makers in an attempt to improve overall programme performance (Neely et al 1995). It involves all the critical activities in the performance management cycle. It's a vehicle for effective deployment of strategy. Performance allows for the planning and utilization of organizational resources in pursuit of goals and objectives (Donely et al 1995) performance measure traditionally is concerned with financial measures of profitability, return on investment (ROI), profit margins, ROCE carried quantitatively and qualitatively over shorter time and longer periods.

Performance measurement also allows the company to address level of waste, productivity levels, flexibility to seasonal variation (Low and high season), flatter

organization, communication authority, and decision making structures, a well trained and motivated staff (Santori and Anderson, 1987; Kibet, 2007). This shows the strategic importance of non-financial performance measures. The system should be designed to be simple, effective, and flexible, with shorter decision making chain, provide better understanding of the works, and respond to custom duties and effective in delivery sustainable competitiveness. Its part of the strategic control cycle, Weelly et al (1994). Performance measurement helps management to identify and pursue superior performance, by setting SMART targets and hence can go for success and avoid failure in the overall objective and mission. Performance management is a pillar in effective strategic planning; it's crucial for strategic competition (Thakkar et al, 2007) in is part of management process.

Banker et al (1999) and Kaplan & Norton (1992) hold the view that traditional financial performance measures of ROI and profitability don't provide complete information thus inadequate in assessing areas such as productivity and continuous improvement cycle. They tent to mislead and can give varied sets of results which lead to sub optimization of strategic planning process. Fawcett et al (1997) say the financial measures are very narrow and present an incomplete picture. Traditional accounting measure further may generate lags as they are backward looking, historical based and tend to lead companies to reactionary trend than proactive strategic planning mode Drucker (1993), Bourne et al (2000), Nixon (1998), Comby and Conrod (2001). Financial measure will lacks in their usefulness to effective monitoring and controlling quality, responsiveness, flexibility and

customer issues as well as giving inaccurate business evaluation (Drucker 1993), it's static, poor in response and agility Barly (1994); Bititci et al (1998). Drucker (1990) suggest that the tradition measures of finance on performance are inappropriate for manufacturing set up, as they have nothing on customer service levels, innovation, first time quality, employee development, share and profit growth among other hence lacks in guiding management to excellence.

According Atkinson and Brown (2001) strategic business planning considers not only the financial measurement features but also non financial measures ranging from quality of service, flexibility of production system, customization of operations, innovation, rapid response and customer service. The BSC for example considers four key areas of measurement; financial aspect, customer perspective, internal business process and innovation, learning or growth perspective (Kaplan and Norton 1997) hence widely adopted. In the BSC system performance is directly linked to operational action by and large connected to the business strategy. This tends to motivate employees and management to achieve organization objectives (Nanni et al, 1992). Total quality management system helps small and large companies alike to manage efficiently and effectively crucial resource.

2.5 Corporate Governance Practices and Organizational Performance.

Corporate governance envisages good strategic planning process and organizational performance measurements. The corporate governance is hinged on structure of the organization and is more concerned about protecting the interest of the shareholder. The advancement of globalization and economic integration as well as increased investment in transnational and multinational companies has made corporate governance a very important feature of management. Further corporate governance deals with good corporate citizenship and the responsibilities of directors on the backdrop of new and developing concepts of acquisition and mergers, increasing shareholder value, participating management, directors' and management remuneration (ESOPs), structure and composition of the board as well as supervisory activities (Saite and Dutra, 2000).

Strategic performance management gives rise to strategy options which is used to building organizations capabilities and in turn are useful in building sustainability and competitiveness in the environment (Mohamed et al, 2008) further it allows the organization to anticipate and change dynamical with strategies to specific situation and elevate the organization strategic planning for the long term orientation. Santori and Anderson (1987) hold the position that should be simple to understand, implemented and should evolve with the business environment.

Good corporate governance is likely to strengthen private investment, corporate performance and growth within the firm. While corporate performance may be centered

on the bottom line of profitability, other issues have come to the fore. Cases of money laundry, corruption bribery and social responsibility are key features the world over but particularly in the African continent (Musaali, 2007). These have raised the issue of the principal agent framework (Jensen –Mecktin, 1976). It's postulated that the agent (management) may not act in the interest of the principal always while directors may resort to misuse of power and engage in taking ventures that may expose the principal to risks (Blair 1996).

Based on agency theory (Jensen & Meckling, 1976), a positive relationship between corporate-governance and company performance should exist. To the extent that good corporate-governance means better actual corporate-governance practices, which should translate into improved operating performance, a higher market value, better monitoring forces insiders (management) to invest in projects with a positive net present value and to reduce perks and waste, so that more of the benefits flow back to outside investors (stakeholders) (Shleifer & Vishny, 1997). Good corporate governance by boards is recognized to have an effect the quality of financial reporting, which in turn has an important impact on investor confidence (Levitt, 1998 and 2000). Further there is a growing body of cross-sectional evidence linking good corporate governance to good performance (Black, Jang, and Kim, 2006; Black, Love, and Rachinsky, 2006; Cheung et al., 2007, 2008; Connelly, Limpaphayom, and Nagarajan, 2008).

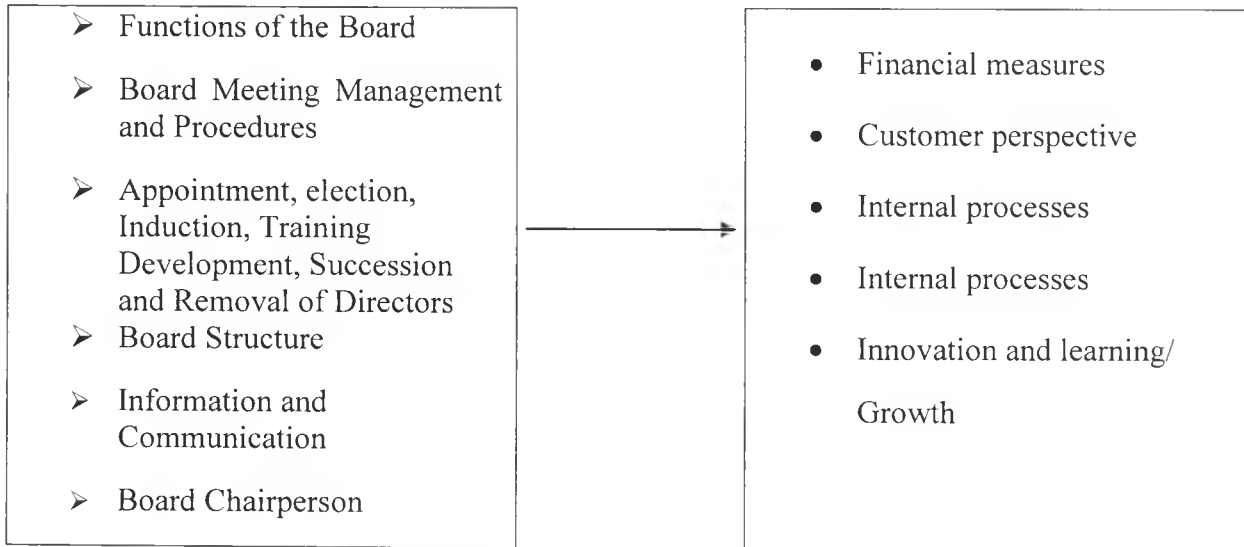
It remains an open question as to whether firms with good performance adopt good corporate governance practices or if the adoption of good corporate governance practices leads to improved performance. Some studies attempt to address this issue by using time-series data in emerging market settings (Black et al., 2006; Black et al., 2008; Cheung et al., 2010). Even though prior empirical literature is extensive, many studies have thus far failed to establish firm evidence that corporate-governance ratings, devised either by rating agencies or by researchers positively affect company performance or value. The dilemma has led to considerable debate and research in recent times concerning the need for good corporate governance, with country institutions around the world drawing up guidelines and codes of practice to strengthen governance (Cadbury, 1997 and PSCGT, 1999).

2.6 Conceptual Frame Work

Corporate Governance practices conceptualization includes perception of the existence and level of practice of best code of corporate governance base on the principles PSCGT (1999). These include in broad categories; functions of the board; board meetings management and procedures; election, induction, training and succession planning of board; board structure and information and communication. This forms the determinants of organizational performance. On the other conceptualization of business performance include indicators of financial and operational performance indicators of financial performance. Under this framework, it would be logical to treat such measures as financial measure, customers perspective measures, internal processes measure, innovation learning and growth measures

Corporate Governance Practices

Organizational performance



Independent variables

Dependent variables

FIGURE: CONCEPTUAL FRAME WORK

Source: Research Data (2011)

CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Introduction

This chapter describes the procedure the researcher used to collect and analyze data for the study. It includes the research design, population of the study, data collection instruments to be used, and data analysis and presentation procedures to be used.

3.2 Research Design

The study used a cross-sectional descriptive survey design. This design research was informed by the set up of the tea industry and specifically the target small scale sector as well as the number of companies that were involved in the study and the need to conduct comparative analysis. The study was to establish the corporate governance practices in the small scale teas processing companies and the influence it has on organizational performance. The study set to gather both primary and secondary data by way of questionnaire and secondary data which were obtained from the managing agent of the companies. On the objective of corporate governance practices the study use pretested three part questionnaires, in which bio data was collected, a set of practice based on the corporate governance code of best practice, where the respondents were asked to indicate the level to which the practice was true for their organization on a 5 point likert scale with 1 being not practiced at all, 2 less extent, 3 moderate extent 4 large extent and 5 being practice to a very large extent, and for the organizational performance indicators the study adopted the balanced scorecard where also respondents indicate how true the

feature was based on a 5 point likert scale with 1 being not practiced at all, 2 less extent, 3 moderate extent 4 large extent and 5 being practice to a very large extent.

In line with the broad objective of the study, the data obtained was analyzed by use of SPSS programme and presented for analysis, explanation, interpretations and conclusion using descriptive statistics for the bio data, corporate governance and performance perspective and inferential statistics of regression analysis for the influence of corporate governance practice on organizational.

3.3 Population of Study

The study was a cross-sectional census survey targeted thus entire population of 54 small scale tea processing companies which are managed KTDA Ltd. It was imperative for the study to obtain at least sample greater than 30 respondents which is the acceptable to increase the confidence level of the sample in responses to be as close to the populations as possible. Of the mailed and issues questionnaires 42 were received, 33 were validated to be useful at a response rate of above 60%.

The small scale tea sector is under one managing agent; the population is considered homogeneous in corporate governance policies as well as organizational performance perspectives, However there have been disparities in levels of organizational performance hence the need to go for a representative sample of respondent.

3.4 Data Collection

The study made use of primary data and secondary which was largely quantitative. Primary data was collected by way of a mixture of mailed and 'drop and pick' later semi-structured, pretested questionnaires. Factory unit managers were the respondents. Their choice as respondents was informed by the need for objectivity, knowledge and clarity. The respondents sit in the boards of factory companies, are involved in corporate governance matters and performance measure processes.

The questionnaire was in three parts. Part I which captured basic institutional data, Part II was for collecting information on corporate governance practices as adopted from PSCGT, (1999) code of best practices which modified and operationalized to meet the objectives of the study. It was subdivided in six subsections covering; Functions of the Board; Board Meeting Management and Procedures; Election, Induction, Training Development, Succession and Removal of Directors; Board Structure and Information and Communication and Board Chairperson. Part III was used to collect information on performance measurement indicators which were divided into 5 balanced scorecard based sections of the companies. The questionnaire was administered to the companies by mail and 'drop and pick' later method to obtain the information and data required.

Secondary data was obtained from the post AGM published financial reports as well as KTDA comparative management accounts reports for the years 2005/2006-2009/2010. This was to coincide with the end of the last strategic planning cycle period. Further it

was to enable the researcher to obtain average data and reduce the effects periodic variation. The data collected included sales 'market' prices, returns 'bonus' to growers, and payout as Percent of income generated by the companies.

3.5 Data Analysis

Analysis of data was guided by the objectives of the study. The study used descriptive and inferential statistics to analyze the data using frequencies and Percents. The study also carried out regression analysis to determine the level of influence corporate governance practices has on the performance of the small scale tea sector factories in Kenya. The model followed that performance is the dependent variable while corporate governance is the independent variable.

$$y_i = b_0 + b_1X_1 + b_2X_2 + \dots + b_6X_6 + e_i$$

Where: b_0 -Constant variable

b_1, b_2, \dots, b_6 are the coefficients of the independent variable

$y_i = P_1, P_2, \dots, P_8$ are represent the dependent variable of performance measurement

X_1, X_2, \dots, X_6 - the independent variable represented by (CG₁, CG₂...CG₆)

e_i the error term

CHAPTER FOUR: DATA ANALYSIS, FINDINGS AND DISCUSSIONS

4.1 Introduction

The study was designed to establish the corporate governance practices and their influence on the performance of small scale tea processing companies in Kenya. To achieve the objectives of the study, a cross-sectional survey research design. A survey of 54 companies was carried out where the factory unit managers were given questionnaires out of which 42 of them were returned and upon vetting was for completeness, validity and usefulness 33 were found to be useful and were used for the study. This formed 61.6% of the total questionnaires issued.

This chapter is concerned with data analysis, presentation of the findings and discussions. The study has used quantitative data analysis, involving measure of central tendency and dispersion as well as inferential statistics in form of regression analysis and presented the results frequency tables along the objectives of the study. The results interpreted and conclusions drawn.

4.2 Organizational Bio data

The study sought to obtain basic background information from the organizations with regard to age, size, and organizational structures of the board as well as basic operational features. The data on the organizational bio data is presented in this section

Table 4.1 Age of the company

	Frequency	Percent
0-10 years	7	21.2
11 to 20 years	6	18.2
21 to 30 years	9	27.3
31-40 years	9	27.3
above 41 years	1	3.0
Missing	1	3.0
Total	33	100.0

Source: Research (2010)

The respondents were asked to state the year of establishment of the company. The data obtained was later group into 10 year age brackets between 0-10 years, 11 to 20 years, 21 to 30 years, 31 to 40 years and those above 41 years. From the table about 21% of the respondents headed companies that were 10 years and below on business, 18.2% were between the age of 11 to 20 years while over 50% had been in existence for well over twenty years. From the finding it can be conclude all the organizations were expected to have had some form of corporate governance practices but were varied in the level of practice.

Further the study sought to establish the size and magnitude of operations of organizations in terms of employee numbers and turnover in production.

Table 4.2 Number of employees

	Frequency	Percent
76 – 150	20	60.6
151 – 300	13	39.4
Total	33	100.0

Source: Research Data (2011)

The respondents were asked to score on a range the level of employees in the company. From table 4.2.2 over 60% of the companies employed between 76 and 150 employees

while 39.4% employed between 151 and 300 employees. The majority of the companies would fall under medium and large scale manufactures therefore performance management is key in the operations.

Table 4.3 Turnover Production in kilograms made tea 2010/2011

	Frequency	Percent
1,500,001-3,000,000 kgs	12	36.4
3,000,001-4,500,000 kgs	14	42.4
4,500,001 kgs and above	7	21.2
Total	33	100.0

Source: Research Data (2011)

Also the respondents were asked to indicate on a provided scale the level of production in kilogrammes of raw materials, as shown in table the 36.4% of the respondents indicated their companies produced below 3 million kilograms of made tea annually while 42.4% produce between 3 and 4.5 million kilograms per year. 21.2% had an annual production of over 4.5 million kilograms of made tea making them large scale producers within the small scale tea subsector. The magnitude of operations would require elaborate corporate governance and performance management systems.

Table 4.4 Existence of Sub-committees within the board

	Frequency	Percent
Yes	28	84.8
No	4	12.1
Total	32	97.0
Missing System	1	3.0
Total	33	100

Source: Research Data (2011)

Crucial for the study was the issues of the structure of the board, where the respondents were asked to state whether or not their board had subcommittees within the with a



straight yes or no answer. From the table 4.2.4 84% of the respondents indicated their companies had subcommittees within the boards, 12.1% did not operate with subcommittees while one respondent did not indicate. The existence of board subcommittees is in conformance with a key corporate governance principle that advocated for inclusivity and division of responsibilities to take advantage of professional diversity and give an in-depth attention to issues of the organization an indication of robust governance structure.

Table 4.5 Number of subcommittees within the board

	Frequency	Percent
None	4	12.1
1-2	4	12.1
3-4	18	54.5
above 5	6	18.2
Missing	3	3
Total	33	100.0

Source: Research Data (2011)

The study further inquired to know of the companies that had sub committees, what was the total number of the sub committees. From the table 4.2.5, 12.1% had below two subcommittees, while a majority at 54.5% had between 3 to 4 subcommittees. 18.2% had above 5 subcommittees. None existence of sub committees in an indicator of rigid and highly centralized systems, decisions are cumbersome and the quality may come to question, while many may indicate a duplication of some sorts and a pointer to excess resource requirements to run the committees raising the issues of agency cost.

Table 4.6 Frequency of board meeting

	Frequency	Percent
Below 6	1	3.0
7-9	4	12.1
10-12	13	39.4
Above 13	14	42.4
Missing	1	3.0
Total	33	100

Source: Research Data (2011)

Boards of organizations transacts their mandate in meetings, a critical issue with the best code of practice of corporate governance to this end, the study sought to know the frequency of meeting held by the companies in the year 2009/2010. One percent of the respondents indicated that the boards held below six meetings in the year 2009/2010. 12.1% held up to 9 meetings, 39.4% had up to 1 meeting per month on average while 42.4% a majority had more than 13 meetings in the year or more than one meeting in a month. Two few meetings jeopardizes the interest of the principal who have no day to day control of their company. This exposes them to the self interest of the agent manager. Excessive meetings may add little in terms of value while increasing the agency costs.

Table 4.7 Convening of board meetings

	Frequency	Percent
Scheduled	4	12.1
Secretary	20	60.6
Chairman	5	15.2
Others	4	12.1
Total	33	100.0

Source: Research Data (2011)

Further on the management of board basic operations the study established to know who convenes board meetings in the company. Respondents were requires to indicate if meetings were scheduled for the year or were convene by the secretary or the chairman or

others, and on majority of the meetings from the table 4.2.7, 12.1% had planned scheduled. A majority at 60.6% had their meetings called by the secretary to the board, 15.2 percent were called by the chairmen of the boards while 12.1% were called by others. A key corporate governance practice requires that meetings are managed so that interactions are fruitful. Planning is key to decision making.

Table 4.8 Average length of meeting

	Frequency	Percent
Below 2 hours	1	3.0
3-5 hours	25	75.8
6-8 hours	7	21.2
Total	33	100.0

Source: Research Data (2011)

Further respondent were asked to indicate the average time meetings took in their companies, scoring between below 2 hours for the shortest time and over 9 hours for the longest. In table 4.2.8 one company indicated their meetings lasted less than two hours on average, a majority at 75.8% of the responses indicated the meetings lasted a between 3 and 5 hours while 21.2 percent held meetings between six and eight hours. None had meetings beyond 9 hours. Time management is key is operations, professional meeting take two to three hours for quality deliberations. Long hours indicate poor planning, lack of coherence on agenda and import of irrelevant issues. This impedes the value of the board and the management engagement.

Table 4.9 Board decisions making process

	Frequency	Percent
Consensus	32	97.0
Missing	1	3.0
Total	33	100.0

Source: Research Data (2011)

The study as a crucial indicator to the boards mandate and a key performance pillar of corporate governance practice sought to now from the respondents the method of making key decisions in the board. Respondent were required to indicate if the decisions were by consensus or by vote. From the table 4.2.9 most board arrived at crucial decisions by consensus. One respondent did not indicate. Harmony in deliberation and decisions means the companies get to benefit from unity of purpose. Critical issues get to be deliberated to the satisfaction of all interests. It is also a sign of understanding of issues before the board. Group-think should however not be encouraged.

4.3 Corporate Governance Practices

The first objective of the study was to establish the corporate governance practice by the small scale tea processing companies in Kenya. In achieving this objective the study was designed to obtain data on part two of the questionnaire on the corporate governance practices based on the best code of practice guidelines for corporate governance as issued by the centre for corporate governance in Kenya. Six key functions of corporate governance: Functions of the Board; Board Meetings; Management and Procedures; Appointment, Selection, Induction, Training Development, Succession and Removal of Directors; Board Structure; Information and Communication and Board Chairperson of

the company each operationalized with various sub variables were presented to the respondents who were required to indicate the extent to which the companies practiced the same and on a five point likert scale one representing not at all practiced through less extent, moderate extent, large extent and very large extent represented by a score of 5. The data obtained was processed using SPSS programme to obtain descriptive statistics of means and standard deviations for the individual sub variable and the mean of means for the six corporate governance practices variables the results are presented in the tables 4.10 to 4.16.

Table 4.10 Functions of the Board

Corporate G. Practices	Response	Frequency	Percent	Mean μ	S.D
The Board understands, agrees, defines and propagates its functions on an annual basis	Less Extent	3	9.1	3.3636	.74239
	Moderate Extent	17	51.5		
	Large Extent	11	33.3		
	Very Large Extent	2	6.1		
	Total	33	100.0		
The Board knows and understands the Company's beliefs, values, philosophy, mission and vision and reflects this understanding on key issues throughout the year.	Less Extent	7	21.2	3.2424	.93643
	Moderate Extent	15	45.5		
	Large Extent	7	21.2		
	Very Large Extent	4	12.1		
	Total	33	100.0		
Such beliefs, values, philosophy, mission and vision are set and are consistent with the company's status.	Not at all	1	3.0	3.4848	.75503
	Less Extent	1	3.0		
	Moderate Extent	13	39.4		
	Large Extent	17	51.5		
	Very Large Extent	1	3.0		
	Total	33	100.0		
The Board devotes significant time and serious thought to the organization's long-term objectives and to the strategic options available to achieve them.	Less Extent	3	9.1	3.5455	.75378
	Moderate Extent	11	33.3		
	Large Extent	17	51.5		
	Very Large Extent	2	6.1		
	Total	33	100.0		
The Board has defined and communicated to management the scope and powers, roles and responsibilities to be adhered to by	Less Extent	10	30.3	3.0606	.89928
	Moderate Extent	13	39.4		
	Large Extent	8	24.2		

management to meet routine and exceptional circumstances.	Very Large Extent	2	6.1		
	Total	33	100.0		
The majority of the Boards time is not spent on issues of day-to-day management.	Not at all	4	12.1	3.1875	1.30600
	Less Extent	6	18.2		
	Moderate Extent	8	24.2		
	Large Extent	8	24.2		
	Very Large Extent	6	18.2		
	Missing	1	3.0		
	Total	33	100.0		
The Board is involved in formulating long-range strategy from the beginning of the end of planning cycle.	Not at all	2	6.1	3.5455	1.06334
	Less Extent	4	12.1		
	Moderate Extent	5	15.2		
	Large Extent	18	54.5		
	Very Large Extent	4	12.1		
	Total	33	100.0		
The Board ensures that the organization has sufficient and appropriate resources to achieve its strategic goals.	Less Extent	2	6.1	3.9394	.82687
	Moderate Extent	6	18.2		
	Large Extent	17	51.5		
	Very Large Extent	8	24.2		
	Total	33	100.0		
Proposals from management are analyzed and debated vigorously before being approved by the Board. A proposal that is considered inappropriate is declined.	Less Extent	3	9.1	3.8182	.84611
	Moderate Extent	6	18.2		
	Large Extent	18	54.5		
	Very Large Extent	6	18.2		
	Total	33	100.0		
The Board has an operating plan that specifies its functions, activities and objectives.	Not at all	1	3.0	3.5152	.83371
	Less Extent	1	3.0		
	Moderate Extent	14	42.4		
	Large Extent	14	42.4		
	Very Large Extent	3	9.1		
	Total	33	100.0		
When appropriate, the Board seeks counsel from professional advisors.	Not at all	3	9.1	3.6667	1.19024
	Less Extent	4	12.1		
	Large Extent	20	60.6		
	Very Large Extent	6	18.2		
	Total	33	100.0		
The CEO's remuneration and performance is reviewed and determined by the Board.	Not at all	7	21.2	1.8485	1.27772
	Less Extent	13	39.4		
	Moderate Extent	7	21.2		
	Large Extent	5	15.2		
	Very Large Extent	1	3.0		
	Total	33	100.0		
The Board determines, annually, the objectives and measurement criteria for the CEO.	Less Extent	5	15.2	2.3939	1.08799
	Moderate Extent	8	24.2		
	Large Extent	17	51.5		

	Very Large Extent	3	9.1		
	Total	33	100.0		
A broad range of appropriate performance indicators are used to monitor the performance of management. Reliability is not placed solely on the financial statements provided by management.	Less Extent	6	18.2	3.3333	.88976
	Moderate Extent	13	39.4		
	Large Extent	11	33.3		
	Very Large Extent	3	9.1		
	Total	33	100.0		
The Board has identified the groups to which it is Accountable and Responsible	Less Extent	5	15.2	3.5455	.86930
	Moderate Extent	8	24.2		
	Large Extent	17	51.5		
	Very Large Extent	3	9.1		
	Total	33	100.0		
The Board understands and agrees that its first duty is to the Company, Members and shareholders and Others in that order	Not at all	1	3.0	3.6364	.92932
	Less Extent	2	6.1		
	Moderate Extent	10	30.3		
	Large Extent	15	45.5		
	Very Large Extent	5	15.2		
	Total	33	100.0		
Board activities are conducted in an atmosphere of creative tension.	Not at all	3	9.1	3.2424	1.14647
	Less Extent	6	18.2		
	Moderate Extent	7	21.2		
	Large Extent	14	42.4		
	Very Large Extent	3	9.1		
	Total	33	100.0		
The Board has procedures in place to ensure that the organization is meeting its legal responsibilities.	Not at all	1	3.0	3.6364	.99430
	Less Extent	3	9.1		
	Moderate Extent	9	27.3		
	Large Extent	14	42.4		
	Very Large Extent	6	18.2		
	Total	33	100.0		
Formal review of the Board's performance has become an integral part of the culture of the Board.	Not at all	5	15.2	2.5758	.93643
	Less Extent	9	27.3		
	Moderate Extent	14	42.4		
	Large Extent	5	15.2		
	Total	33	100.0		
	The Board ensures that key members of management are brought into the Board meetings so that they can participate and add value to their deliberations and work on behalf of the Board.	Less Extent	5		
Moderate Extent		6	18.2		
Large Extent		18	54.5		
Very Large Extent		3	9.1		
Missing		1	3.0		
Total		33	100.0		
The Board ensures all conflicts are Declared and Resolved	Less Extent	5	15.2	3.6061	.89928
	Moderate Extent	7	21.2		

	Large Extent	17	51.5		
	Very Large Extent	4	12.1		
	Total	33	100.0		
Every Board member has been supplied with a letter of appointment.	Not at all	7	21.2	3.4848	1.52318
	Less Extent	2	6.1		
	Moderate Extent	2	6.1		
	Large Extent	12	36.4		
	Very Large Extent	10	30.3		
	Total	33	100.0		
The letter of appointment defines the roles and functions of the Board and the specific role of each director.	Not at all	9	27.3	2.6667	1.40683
	Less Extent	8	24.2		
	Moderate Extent	5	15.2		
	Large Extent	7	21.2		
	Very Large Extent	4	12.1		
	Total	33	100.0		

Source: Research Data (2011)

The study sought to establish the extent to which the functions of the board were practiced by the companies. The respondents were presented with twenty three variables that constitute the practices of function of the board and were required to score each on a 5 point likert scale stretching from practice of "not at all" to practiced to "very large extent". The study further calculate the means and standard deviation of each of the postulate practice of function of the board to obtain the mean rating and the variation of the same from respondent to respondent

On the matter of the Board understands, agrees, defines and propagates its functions on an annual basis, 9.1% indicate practiced to a less extent, 51.5% to a moderate extend while 33% and 6.1% to a large and very large extend respectively.

As to the practice; the Board knows and understands the Company's beliefs, values, philosophy, mission and vision and reflects this understanding on key issues throughout the year 3% don't practice it at all another 3% to a less extent, 42.4% to a moderate and

large extent and 9.1% to a very large extent. Such beliefs, values, philosophy, mission and vision are set and are consistent with the company's status by the company where 4.1% don't practice at all, 12.1% to less extent, 60.6% to a very large extent and 18.2% to a very large extent. As to the matter; the Board devotes significant time and serious thought to the organization's long-term objectives and to the strategic options available to achieve them the respondents indicated that 9.1% was to a less extent, 33.2% to a moderate extent, 51.5% to a large extent and 6.1% to a very large extent. When the matter of; The Board has defined and communicated to management the scope and powers, roles and responsibilities to be adhered to by management to meet routine and exceptional circumstances was put to the respondents, 30.3% indicate it was practiced to a less extent, 39.4 to a moderate extent, 24.2% to large extent and 6.1% to a very large extent.

The respondents on the matters; Proposals from management are analyzed and debated vigorously before being approved by the Board 9.1% practiced it to a less extent, 18.2% to a moderate extent, 54.4 to a large extent and 18.2 to a very large extent.. A proposal that is considered inappropriate is declined. To the issue if Board understands and agrees that its first duty is to the Company, Members and shareholders and others in that order the respondents indicated that 3% of the company practiced it to no extent 6.1 to a less extent, 30.3% to a moderate extent and 45.5 and 25.2% to large and very large extents respectively

Two issues put to the respondents; the CEO's remuneration and performance is reviewed and determined by the Board and the Board determines, annually, the objectives and

measurement criteria for the CEO, the indications were that 21.25 did not practice it at all, 39.4% to a less extent, 21.2% to a moderate extent 15.2% to a large extent, 3.2% to a very large extent and 15.2% to a less extent 24.2 to a moderate extent, 51.5% to large extent, 9.1% to a very large extent respectively. The question of Formal review of the Board's performance has become an integral part of the culture of the Board was placed to the respondents and showed that 15.2% did it to no extent at all, 27.3% to a less extent, 42.4% to a moderate extend and 15,2% to large extent. On the matter of the letter of appointment defines the roles and functions of the Board and the specific role of each director 27.3% had indicates not practiced at all, 24.2% practiced to a less extent, 15.2% to a moderate extent.

From table 4.3.1, The Board ensures that the organization has sufficient and appropriate resources to achieve its strategic goals. This was indicated the most practices function of the board with a mean score of 3.9394 and a standard deviation of 0.82687. Boards are thoroughly alive to the responsibility they are bestowed with when they are appointed to the board of companies. Also noted to be highly practiced was the matter of Proposals from management are analyzed and debated vigorously before being approved by the Board. A proposal that is considered inappropriate is declined. This variable obtained a men score of 3.8182 with a standard deviation of 0.84611. The deference in practice of this feature among the respondents was among the lowest meaning practice is widely practice. Thought the board when appropriate, the board seeks counsel from professional advisors, the practice had noted variation among the respondents as indicated by the standard deviation of 1.19024 (mean=3.6667). The matter placed to respondents, of the Board understands, agrees, defines and propagates its functions on an annual basis scared

a mean score of 3.3636 with the lowest internal variation in practice (SD=0.74239) which can be attributed to the central management system in inducting board members

The CEO's remuneration and performance is reviewed and determined by the Board scored the lowest practice rating at a mean of 1.8484 and a standard deviation of 1.27772 a measure of internal deference in practice among the respondent as shown by the wide dispersion around the mean. Also low in score was the response to the matter, the Board determines, annually, the objectives and measurement criteria for the CEO with as mean score of 2.3939 and a standard deviation of 1.08799. The board performance also scored low across the companies at a mean of 2.5758 with a standard deviation of 0.93643. The CEO remuneration and performance is scored low as the exercise was carried out at the head quarters of the managing agent of the small scale tea factories.

Table 4.11 Board Meetings Management and Procedures

Corporate G. Practices	Response	Frequency	Percent	Mean μ	S.D
Every Board member has been supplied with a Board manual and a copy of standing orders and regulations governing conduct of Board meetings.	Not at all	10	30.3	2.3636	1.19421
	Less Extent	9	27.3		
	Moderate Extent	7	21.2		
	Large Extent	6	18.2		
	Very Large Extent	1	3.0		
	Total	33	100.0		
Every Board member was supplied with a calendar of meetings showing dates of Board meetings, committee meetings etc. and key or critical events of the company.	Not at all	1	3.0	3.7273	.87581
	Less Extent	2	6.1		
	Moderate Extent	6	18.2		
	Large Extent	20	60.6		
	Very Large Extent	4	12.1		
	Total	33	100.0		
Board meetings are conducted in a manner that encourages open communication, meaningful participation, and timely resolution of issues.	Not at all	1	3.0	3.8485	.83371
	Less Extent	1	3.0		
	Moderate Extent	5	15.2		
	Large Extent	21	63.6		
	Very Large Extent	5	15.2		
	Total	33	100.0		
Sufficient time is provided during	Not at all	1	3.0	3.7576	.79177

Board meetings for thoughtful discussion in addition to management dialogue.	Moderate Extent	9	27.3		
	Large Extent	19	57.6		
	Very Large Extent	4	12.1		
	Total	33	100.0		
Board time is used effectively so that the Board adds value to management.	Less Extent	2	6.1	3.6364	.78335
	Moderate Extent	12	36.4		
	Large Extent	15	45.5		
	Very Large Extent	4	12.1		
	Total	33	100.0		
The Board has adopted formal meeting and reporting procedures.	Not at all	1	3.0	3.6061	.93339
	Less Extent	3	9.1		
	Moderate Extent	8	24.2		
	Large Extent	17	51.5		
	Very Large Extent	4	12.1		
	Total	33	100.0		
Board members receive timely and accurate minutes, advance written agendas and meeting notices; and clear and concise background material to prepare in advance of meetings.	Less Extent	2	6.1	3.9394	.82687
	Moderate Extent	6	18.2		
	Large Extent	17	51.5		
	Very Large Extent	8	24.2		
	Total	33	100.0		
All Board members are fully informed of relevant matters before hand and there are never any surprises.	Not at all	1	3.0	3.5758	.79177
	Less Extent	1	3.0		
	Moderate Extent	11	33.3		
	Large Extent	18	54.5		
	Very Large Extent	2	6.1		
	Total	33	100.0		
Absenteeism from Board meetings is the exception, rather than the rule.	Not at all	2	6.1	4.0909	1.1555 2
	Less Extent	2	6.1		
	Moderate Extent	2	6.1		
	Large Extent	12	36.4		
	Very Large Extent	15	45.5		
	Total	33	100.0		
Board meetings are facilitated, but not overtly influenced by the Chairperson.	Less Extent	3	9.1	3.7879	.85723
	Moderate Extent	7	21.2		
	Large Extent	17	51.5		
	Very Large Extent	6	18.2		
	Total	33	100.0		
All Board members receive detailed Board papers, copies of draft minutes and agenda papers in advance.	Not at all	1	3.0	3.8788	.96039
	Less Extent	2	6.1		
	Moderate Extent	5	15.2		
	Large Extent	17	51.5		
	Very Large Extent	8	24.2		
	Total	33	100.0		

All proceedings and Resolutions of the Board are recorded accurately, adequately and on a timely basis	Not at all	2	6.1	4.2121	.99240
	Moderate Extent	1	3.0		
	Large Extent	16	48.5		
	Very Large Extent	14	42.4		
	Total	33	100.0		

Source: Research Data (2011)

The study sought to establish the extent to which the board meetings management and procedures were practice by the companies. The respondents were presented with twenty three variables that constitute the practices of function of the board and were required to score each on a 5 point likert scale stretching from practice of "not at all" to practiced to "very large extent". The study further calculates the means and standard deviation of each of the postulate practice of function of the board to obtain the mean rating and the variation of the same from respondent to respondent. The respondents indicate varied levels of practice in the twelve variants of this corporate practice pillar. On the matter of; All proceedings and resolutions of the board are recorded accurately, adequately and on a timely basis 6.1% indicate they did not practice at all, 3.0% to a moderate extent, 48.5% to a large extent 42.4% to a very large extent. This feature of corporate governance had a mean score of 4.2121 the highest of the twelve and standard deviation of 0.99240. The board's output is all organizations the world over is minutes and resolution as the basis and prove of decision making which have a legal connotation. It is in the interest of both the board and management to have a clear and accurate system of recoding the proceedings.

The respondents on the matter of absenteeism from board meetings is the exception, rather than the rule indicted that 6.1% of the companies on each scale did not practice this at all, practiced to a less extent and to a moderate extent. 36.4% and 45.5% indicated they

practiced to a large and very large extent respectively. The high practice level at a mean score of 4.0909 and a standard deviation of 1.5552 is informed by the fact that board members are engaged without direct remuneration and their deliberations are in periodic meetings. The high presence in all meeting is good for participation and contribution.

Table 4.12 Appointment, selection, induction, training development, succession and removal of directors

Corporate G. Practices	Response	Frequency	Percent	Mean μ	S.D
The Board is involved in the selection of appointed directors.	Not at all	15	45.5	2.0303	1.26206
	Less Extent	10	30.3		
	Moderate Extent	2	6.1		
	Large Extent	4	12.1		
	Very Large Extent	2	6.1		
	Total	33	100.0		
The selection process considers and addresses any deficiencies in the skills of current Board members.	Not at all	11	33.3	2.2121	1.13901
	Less Extent	9	27.3		
	Moderate Extent	10	30.3		
	Large Extent	1	3.0		
	Very Large Extent	2	6.1		
	Total	33	100.0		
The composition of the Board fairly represents the diversity of stakeholders.	Not at all	1	3.0	3.3636	1.05529
	Less Extent	6	18.2		
	Moderate Extent	11	33.3		
	Large Extent	10	30.3		
	Very Large Extent	5	15.2		
	Total	33	100.0		
The Board members are introduced to their duties with an appropriate induction process.	Less Extent	2	6.1	4.0606	.74747
	Moderate Extent	2	6.1		
	Large Extent	21	63.6		
	Very Large Extent	8	24.2		
	Total	33	100.0		
The Board actively encourages good candidates to stand for Board appointments.	Not at all	7	21.2	2.5758	1.19975
	Less Extent	10	30.3		
	Moderate Extent	8	24.2		
	Large Extent	6	18.2		
	Very Large Extent	2	6.1		
	Total	33	100.0		
New Board members understand the extent of their relationship with management and the separation of stewardship and management.	Less Extent	10	30.3	3.0909	.91391
	Moderate Extent	12	36.4		
	Large Extent	9	27.3		
	Very Large Extent	2	6.1		

	Total	33	100.0		
Board members evaluate their individual and overall Board performance, formally on an annual basis.	Not at all	4	12.1	2.1515	1.03444
	Less Extent	7	21.2		
	Moderate Extent	9	27.3		
	Large Extent	10	30.3		
	Very Large Extent	3	9.1		
	Total	33	100.0		
The performance of the Chief Executive Officer is reviewed formally on an annual basis.	Not at all	4	12.1	3.0303	1.18545
	Less Extent	7	21.2		
	Moderate Extent	9	27.3		
	Large Extent	10	30.3		
	Very Large Extent	3	9.1		
	Total	33	100.0		
Encouragement is given for Board members to continue their study of corporate governance and improve the skills they need.	Not at all	2	6.1	3.1818	.98281
	Less Extent	4	12.1		
	Moderate Extent	16	48.5		
	Large Extent	8	24.2		
	Very Large Extent	3	9.1		
	Total	33	100.0		
Directors understand the extent of their personal liability for the affairs of the company.	Less Extent	5	15.2	3.3030	.76994
	Moderate Extent	14	42.4		
	Large Extent	13	39.4		
	Very Large Extent	1	3.0		
	Total	33	100.0		
A succession plan is in place for the Chairperson, Chief Executive Officer, Board members and senior management and is reviewed regularly.	Not at all	8	24.2	2.6061	1.27327
	Less Extent	9	27.3		
	Moderate Extent	6	18.2		
	Large Extent	8	24.2		
	Very Large Extent	2	6.1		
	Total	33	100.0		
Directors who have not been contributing to the good governance of the organization, and are uninterested in improving their performance, are asked to terminate.	Not at all	18	54.5	1.9394	1.27327
	Less Extent	5	15.2		
	Moderate Extent	7	21.2		
	Very Large Extent	3	9.1		
	Total	33	100.0		
Where the ethical or professional conduct of any director is called into question, such director is suspended pending investigations.	Not at all	12	36.4	2.3636	1.34206
	Less Extent	7	21.2		
	Moderate Extent	7	21.2		
	Large Extent	4	12.1		
	Very Large Extent	3	9.1		
	Total	33	100.0		
Board members bind themselves to uphold, honor, and respect the Code of Ethics of the organization on first appointment and to resign where	Not at all	6	18.2	2.8125	1.25563
	Less Extent	7	21.2		
	Moderate Extent	9	27.3		
	Large Extent	7	21.2		

their actions are called into question.	Very Large Extent	3	9.1		
	System	1	3.0		
	Total	33	100.0		

Source: Research Data (2011)

The respondents were presented with 14 features on appointment, selection, induction, training development, succession and removal of directors as a practice of corporate governance and were required to rate the level of performance on a 5 point likert scale with not at all represented by 1 and to very large extent by 5. The distribution of scores was spread between the lowest scored average mean ($\mu=1.9838, \sigma=$ of 1.27327) for the matter of the board members are introduced to their duties with an appropriate induction process to the highest scored average mean ($\mu=4.06, \sigma= 0.74747$) for the practice; directors who have not been contributing to the good governance of the organization, and are uninterested in improving their performance, are asked to terminate. The standard deviations obtained from the table 4.3.3 indicates indicate high variability in the variables for the practice with ten out of the 14 showing higher variation ($\sigma>1.0$) while the other four have low variations ($\sigma<1.0$) among respondents.

With the mean for most practices under appointment, selection, induction, training development, succession and removal of directors averaging ($\mu<3.000$) the practice is not wide spread. This can be explained by the fact that directors are elected democratically, the minimal qualification for nomination are academic rather than professional based and the removal is only through scheduled elections rather than on issue of performance and integrity.

Table 4.13 Board Structure

Corporate G. Practices	Response	Frequency	Percent	Mean μ	S.D σ
The Board has a balanced mix of Executive, Non-Executive and Independent Non-Executive Directors.	Not at all	16	48.5	1.8182	.98281
	Less Extent	9	27.3		
	Moderate Extent	7	21.2		
	Very Large Extent	1	3.0		
	Total	33	100.0		
The roles of Chairperson of the Board and Chief Executive Officer are separated and held by different persons.	Not at all	1	3.0	4.4242	.90244
	Moderate Extent	3	9.1		
	Large Extent	9	27.3		
	Very Large Extent	20	60.6		
	Total	33	100.0		
The Board has established and appointed committees with defined terms of reference, composition and reporting requirements. These aspects are formally recorded.	Not at all	5	15.2	2.9394	1.17099
	Less Extent	6	18.2		
	Moderate Extent	10	30.3		
	Large Extent	10	30.3		
	Very Large Extent	2	6.1		
	Total	33	100.0		
The committees have been established and appointed in light of, The need to increase the effectiveness of the Board by utilizing the specialized skills of Board members, The need to provide support and guidance to management and The need to ensure effective and independent professional consideration of issues e.g. audit reports, finance issues, etc.	Not at all	4	12.1	3.1212	1.13901
	Less Extent	5	15.2		
	Moderate Extent	9	27.3		
	Large Extent	13	39.4		
	Very Large Extent	2	6.1		
	Total	33	100.0		
The Board has established and appointed, An Executive Committee, An Audit Committee and A Board Appointment and Remuneration Committee	Not at all	10	30.3	2.3939	1.24848
	Less Extent	9	27.3		
	Moderate Extent	7	21.2		
	Large Extent	5	15.2		
	Very Large Extent	2	6.1		
	Total	33	100.0		
The terms of reference of each of committee are restricted and defined.	Not at all	8	24.2	2.6667	1.29099
	Less Extent	8	24.2		
	Moderate Extent	6	18.2		
	Large Extent	9	27.3		
	Very Large Extent	2	6.1		
	Total	33	100.0		

Source: Research Data (2011)

As pertains to this practice the respondents were presented with six variables of board structure practice and required on a five point likert scare to score the level of practice

from one representing not at all to 5 for to a very large extent. The score on the practice variable; the board has a balanced mix of executive, non-executive and independent non-executive directors ($\mu=1.8182, \sigma=$ of 0.98281) and the roles of chairperson of the board and chief executive officer are separated and held by different persons ($\mu=4.4242, \sigma=0.90244$), the respondents indicate they did not practice at all for 48.5%, 27,3% to a less extent, 21.2% to a moderate extent and 3% to a very lage extent while 3% practiced to no extent at all, 9.1% tom a moderate extent, 27.3% to a large extent and 60.3% to a very large extent respectively

The other indicators scored means between the two with varied standard deviation ($0.90244 \geq \sigma \leq 1.29099$). The boards have skewed representations in independents with the shareholders accounting for 90% of the members, explain the lowest score. The role of the board and management is highly defined with the factory companies thus the highly practiced parameter.

Table 4.14 Information and Communication

Corporate G. Practices	Response	Frequency	Percent	Mean μ	S.D(σ)
Every Board member is supplied with all establishment instruments, all legal documents, the mission statement, and vision and strategy documents of the company on first appointment.	Less Extent	8	24.2	2.9697	.72822
	Moderate Extent	19	57.6		
	Large Extent	5	15.2		
	Very Large Extent	1	3.0		
	Total	33	100.0		
Every Board member receives a copy of the Board manual together with a letter of appointment on first appointment.	Not at all	8	24.2	2.3636	1.14067
	Less Extent	13	39.4		
	Moderate Extent	5	15.2		
	Large Extent	6	18.2		
	Very Large Extent	1	3.0		
	Total	33	100.0		
Every Board member receives copies of all policy documents including organization policy documents, personnel and financial manuals on	Not at all	4	12.1	2.6364	.85944
	Less Extent	8	24.2		
	Moderate Extent	17	51.5		

first appointment and every time these are reviewed.	Large Extent	4	12.1		
	Total	33	100.0		
Board members are encouraged to discuss matters with members of management after gaining the approval of the Chairperson or the Chief Executive.	Not at all	3	9.1	3.0303	1.07485
	Less Extent	7	21.2		
	Moderate Extent	11	33.3		
	Large Extent	10	30.3		
	Very Large Extent	2	6.1		
	Total	33	100.0		
The Board receives sufficient information from management in an appropriate format as determined by the Board.	Not at all	2	6.1	3.7576	.93643
	Less Extent	1	3.0		
	Moderate Extent	4	12.1		
	Large Extent	22	66.7		
	Very Large Extent	4	12.1		
	Total	33	100.0		
The Board's information requirements are communicated to management on a regular basis.	Not at all	1	3.0	3.6061	.93339
	Less Extent	3	9.1		
	Moderate Extent	8	24.2		
	Large Extent	17	51.5		
	Very Large Extent	4	12.1		
	Total	33	100.0		
Requested information is received in a timely fashion.	Less Extent	3	9.1	3.6061	.74747
	Moderate Extent	9	27.3		
	Large Extent	19	57.6		
	Very Large Extent	2	6.1		
	Total	33	100.0		
The Board is proactive in developing an effective communication strategy for the company.	Less Extent	2	6.1	3.1818	.84611
	Moderate Extent	6	18.2		
	Large Extent	17	51.5		
	Very Large Extent	8	24.2		
	Total	33	100.0		
The Company Secretary advises Board members regularly on matters of governance and the applicable law.	Not at all	1	3.0	3.5758	.93643
	Less Extent	4	12.1		
	Moderate Extent	18	54.5		
	Large Extent	8	24.2		
	Very Large Extent	2	6.1		
	Total	33	100.0		

Source: Research Data (2011)

From table 4.3.5 as pertains to this practice the respondents were presented with six variables of Information and Communication practice and required on a five point likert scale to score the level of practice from one representing not at all to 5 for to a very large extent. On the practice, The Board receives sufficient information from management in

an appropriate format as determined by the Board 6.1% said they did not at all, 3.0 to less extent, 12.1% to a moderate extent 66.7% to a large extent and 12.1% to a very large extent the practice is high among the respondents as indicated by the high mean ($\mu = 3.7576$, $\sigma = 0.93643$). On the lower side every board member receives a copy of the Board manual together with a letter of appointment on first appointment scored 24.2% for not at all, 39.4 to a less extent, 15.2 to a moderate extent, 18.2% to a large extent and 3% to a very large extent with a low mean ($\mu = 2.3636$, $\sigma = 1.149670$)

The other variable for the practice scored average means with the two ranges but the standard deviations indicated low to high variability of the practice across the companies ($0.72822 \geq \sigma \leq 1.14067$). The Board receives sufficient information from management in an appropriate format as determined by the Board practice was highly scored as board transaction are periodic and based mostly on both management accounts reports, published reports and special reports for example audit reports which are mostly structured based international standards and best practices.

Table 4.15 Board Chairperson of the company

Corporate G. Practices	Response	Frequency	Percent	Mean μ	S.D σ
Manages shareholder relationships and meets with shareholders	Less Extent	1	3.0	3.8788	.64988
	Moderate Extent	6	18.2		
	Large Extent	22	66.7		
	Very Large Extent	4	12.1		
	Total	33	100.0		
Actively meets with potential sources of equity and debt capital	Not at all	1	3.0	2.9091	.84275
	Less Extent	9	27.3		
	Moderate Extent	16	48.5		
	Large Extent	6	18.2		
	Very Large Extent	1	3.0		
	Total	33	100.0		
Manages shareholder meetings effectively and promotes a sense of	Less Extent	1	3.0	4.0000	.70711
	Moderate Extent	5	15.2		

participation in all shareholders and promotes shareholder confidence	Large Extent	20	60.6		
	Very Large Extent	7	21.2		
	Total	33	100.0		
Is an effective Board leader	Less Extent	1	3.0	3.8788	.73983
	Moderate Extent	8	24.2		
	Large Extent	18	54.5		
	Very Large Extent	6	18.2		
	Total	33	100.0		
Promotes effective participation of all Board members in the decision-making process	Not at all	1	3.0	4.0000	.70711
	Moderate Extent	8	24.2		
	Large Extent	17	51.5		
	Very Large Extent	7	21.2		
	Total	33	100.0		
Promotes the image of the company, portraying the requisite leadership in the community	Not at all	1	3.0	3.8788	.85723
	Moderate Extent	8	24.2		
	Large Extent	17	51.5		
	Very Large Extent	7	21.2		
	Total	33	100.0		
Effectively monitors and evaluates performance of the CEO and senior officers	Less Extent	9	27.3	3.0909	.87905
	Moderate Extent	14	42.4		
	Large Extent	8	24.2		
	Very Large Extent	2	6.1		
	Total	33	100.0		
Effectively represents shareholders and the Board to the management	Not at all	1	3.0	3.7273	.80128
	Moderate Extent	10	30.3		
	Large Extent	18	54.5		
	Very Large Extent	4	12.1		
	Total	33	100.0		
Effectively represents management to the Board and shareholders	Not at all	2	6.1	3.2727	.97701
	Less Extent	3	9.1		
	Moderate Extent	15	45.5		
	Large Extent	10	30.3		
	Very Large Extent	3	9.1		
	Total	33	100.0		
Is effective in maintaining accountability	Not at all	2	6.1	3.5152	1.03444
	Less Extent	2	6.1		
	Moderate Extent	11	33.3		
	Large Extent	13	39.4		
	Very Large Extent	5	15.2		
	Total	33	100.0		
Is effective in ensuring succession plans are in place at senior management level	Not at all	7	21.2	2.7188	1.11397
	Less Extent	4	12.1		
	Moderate Extent	12	36.4		
	Large Extent	9	27.3		
	Missing	1	3.0		

	Total	33	100.0		
In conjunction with the CEO effectively represents the company to public, suppliers, customers and staff	Not at all	1	3.0	3.5758	.79177
	Less Extent	2	6.1		
	Moderate Extent	8	24.2		
	Large Extent	21	63.6		
	Very Large Extent	1	3.0		
	Total	33	100.0		
In conjunction with the CEO effectively develops relationships and represents the company with regulators and government agencies	Not at all	1	3.0	3.4848	.75503
	Less Extent	1	3.0		
	Moderate Extent	13	39.4		
	Large Extent	17	51.5		
	Very Large Extent	1	3.0		
	Total	33	100.0		
In liaison with CEO and management, effectively leads the company in charitable, educational, and cultural activities	Less Extent	4	12.1	3.4545	.83258
	Moderate Extent	13	39.4		
	Large Extent	13	39.4		
	Very Large Extent	3	9.1		
	Total	33	100.0		

Source: Research Data (2011)

From table 4.15 as pertains to this practice the respondents were presented with six variables of board chairperson of the company and required on a five point likert scale to score the level of practice from one representing not at all to 5 for to a very large extent. The respondents indicated varied level of practice to the individual variables of this practice with the highest feature of: manages shareholder meetings effectively and promotes a sense of participation in all shareholders and promotes shareholder confidence and Promotes effective participation of all Board members in the decision-making process; 3.0% responded to a less extent, 15.2 to a moderate extent, 60.6% to a large extent , 21.2% to a very large extent and 3.0% not at all, 24.2% moderate extend, 51.2% to a large extent, 21.2% very large extent respectively $\{\mu(s) = 4.000; \sigma(s) = (.070711)\}$. On the lower side the practice variable; Is effective in ensuring succession plans are in place at senior management level the responses showed that, 21.2% not at all, 12.1% less extent, 36.4% moderate extent, while 27.3% and 3% were to a large and very

large extents respectively. The mean score was low with a high variability spread on the individual company responses ($\mu=2.7188$, $\sigma=1.11394$)

From the companies bio data question on decision making process and decisions were exclusively by consensus hence explaining the level for full participation by all board members. Further the practice of the structure of the board; Board meetings are facilitated, but not overtly influenced by the chairperson was scored at an average mean of 3.7879. Shareholder form a major constituency in the election of the board members thus the high practice of managing shareholder meetings effectively and promoting a sense of participation.

4.4 Corporate Governance Practice and Performance

The second objective of the study was to determine the effects of corporate governance practices on the organizational performance of small scale tea processing companies in Kenya. The study adopted the balanced scorecard model to gauge key performance variables of the respondents' organization. Five key performance indicators financial perspective measures, customers and people perspective measures, internal business processes perspective measures, innovation, learning and growth perspective measures and quality perspective measures were place to the respondents each with various sub variable and were require on a five point likert scale to indicate the level of practice 1 representing not at all and 5 to a very large extent. The data was collated, summarized

into mean scores that were then used to regress each of the performance indicator against the independent variables of corporate governance practices.

Table 4.16 Summary Balanced scorecard based performance indicators

Perspective	n	Response	Frequency	Percent	Mean μ	SD σ
Financial Perspective Measures	33	Less Extent	1	3.0	4.3939	.65857
		Large Extent	17	51.5		
		Very Large Extent	15	45.5		
		Total	33	100.0		
Customers and people perspective measures	33	Moderate Extent	4	12.1	4.0000	.50000
		Large Extent	25	75.8		
		Very Large Extent	4	12.1		
		Total	33	100.0		
Internal business processes perspective measures	33	Less Extent	1	3.0	4.3030	.63663
		Large Extent	20	60.6		
		Very Large Extent	12	36.4		
		Total	33	100.0		
Innovation, learning and Growth perspective measures	33	Moderate Extent	6	18.2	4.0606	.65857
		Large Extent	19	57.6		
		Very Large Extent	8	24.2		
		Total	33	100.0		
Quality Perspective measures	33	Moderate Extent	2	6.1	4.3030	.58549
		Large Extent	19	57.6		
		Very Large Extent	12	36.4		
		Total	33	100.0		

Source: Research Data (2011)

From the table on financial measurement perspective as indicated by the respondents showed that 3% performed to a less extent the measurement targets, 51.5% to a large extent and 45.5% to a very large extent. No of the respondents indicate none measurement or measurement to a moderate extent of this composite variable. The mean value was 4.3939 within a SD of 0.65857.

Customer and people; on this perspective the responses indicated that 12.1% measures the parameters to a moderate extent, 75.8 percent to a large extent and 21.1% to a very large extent where a mean rating of 4.000 and with a standard deviation of 0.5000

Internal business process performance measure perspective involved monitoring of standard operating procedures, product realization processes infrastructural efficiencies and systemic efficiencies among others and the responses indicate 36.4% measured the variable to a very large extent, 60.6% to a large extent and 3.0% to a less extent. The composite mean was 4.0303 and a standard deviation of .0.63663.

Innovation learning and growth, 18.2 percent of the respondent indicated they measure the perspective up to moderate extent, while 57.6% and 24.2% measure the variable to large extent and very large extent respectively. The mean stood at 4.0606 with a SD of 0.65857.

The quality perspective was measured by 6.1% of the companies to a moderate extent, while 57.6% of the respondents indicated a large extent and 36.4 was to a very large extent where the mean score was 4.3080 and the standard deviation was 0.58549.

The respondent factories ranked from the highest to the lowest obtained market prices ranging from ksh 270.40 per kilogram of made tea to ksh 225.00 per kilogram respectively. The mean price was ksh 252 per kilogram with a standard deviation of ksh 11.780078. The final payments varied between factories of the respondent with the maximum being ksh 37.28 per kilogram of green leaf and the lowest at ksh 24.67 per kilogram the mean rate being 30.0409 with a SD of ksh 3.44165. Payout to growers as a

Percent of total income stood at 66.40% for the lowest paid to 78.14% for the best paid the mean standing at 72.3788% of total income being paid out to growers while the standard deviation was 2.92061%, table 4.4.2 has been presented in the general format

$$y_i = b_0 + b_1X_1 + b_2X_2 + \dots + b_6X_6 + e_i$$

Hence the table has the function **Performance = f**
(corporate governance practice)

4.5 Independent Effects of Corporate Governance Practices

Performance Indicators

The study analyzed the data on individual corporate governance practices by regressing each against the composite mean of means scores of the eight performance perspective scores. The results of the regression analysis have been presented tables 4.17 to 4.24, results discussed, interpreted and conclusions draw.

Table 4.17 Financial performance perspective and corporate governance practices

Performance=f(Corporate Governance Practices)	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
Corporate Governance Practices					
(Constant)	2.480	.909		2.729	.011
Functions of the Board	-.269	.243	-.215	-1.106	.279
Board Meetings Management and Procedures	.303	.188	.285	1.613	.119
Appointment, Selection, Induction, Training Development, Succession and Removal of Directors	-.187	.146	-.201	-1.276	.213
Board Structure	-.069	.142	-.081	-.489	.629
Information and Communication	.139	.207	.130	.670	.509
Board Chairperson of the company	.508	.193	.491	2.633	.014
Performance: Financial Perspective Measures					

Source: Research Data (2011)

From table 4.17 the financial performance of the respondent companies is most influence by the corporate governance practice of the board chairperson of the company ($t=2.633$, $p<0.05$) is statistically significant. The character and leadership qualities of the chairman are most likely to influence the financial performance of the company as it impacts on the decision making process. The board structure is the most statistically not significant ($t=0.0489$, $p> 0.629$) factor of corporate governance practices with list influence on financial performance.

Table 4.18 Customers and people performance perspective and Corporate Governance Practices

Performance=f(Corporate Governance Practices)	Unstandardized Coefficients		Standardized Coefficients		
	B	Std. Error	Beta	t	Sig.
Corporate Governance Practices (Constant)	2.189	.814		2.689	.012
Functions of the Board	-.272	.218	-.287	-1.250	.223
Board Meetings Management and Procedures	.177	.168	.219	1.050	.303
Appointment, Selection, Induction, Training Development, Succession and Removal of Directors	-.012	.131	-.017	-.093	.927
Board Structure	.118	.127	.182	.933	.360
Information and Communication	.146	.186	.179	.787	.439
Board Chairperson of the company	.313	.173	.398	1.809	.082
Performance: Customers and people perspective measures					

Source: Research Data (2011)

Customers and people shows little correlation with corporate governance practices in table 4.18 with autonomous performance high at $b=2.189$. All practices indicate they are statistically not significant. The matters that are covered under the performance measure are external and handled at the managing agent level functions process hence board direct influence is limited to general and broad policy adoption as advised by the agent.

Table 4.19 Internal business processes performance perspective and Corporate Governance Practices

Performance=f(Corporate Governance Practices)	Unstandardized Coefficients		Standardized Coefficients		
	B	Std. Error	Beta	t	Sig.
Corporate Governance Practices					
(Constant)	2.725	.839		3.250	.003
Functions of the Board	-.517	.224	-.428	-2.304	.029
Board Meetings Management and Procedures	.412	.174	.400	2.372	.025
Appointment, Selection, Induction, Training Development, Succession and Removal of Directors	.007	.135	.007	.050	.961
Board Structure	-.227	.131	-.275	-1.740	.094
Information and Communication	.343	.191	.331	1.793	.085
Board Chairperson of the company	.338	.178	.338	1.899	.069
Performance: Internal business processes perspective measures					

Source: Research Data (2011)

From the table 4.19 corporate governance practices of the function of the board (b=0.17, -2.304, p< 0.05) and board meetings management and procedures (b=0.412, t=2.372, p< 0.05) shows a high level of correlation with the internal business process performance perspective for the companies. The overall mission, vision and objective setting in the companies, strategic planning and boards understanding, involvements and participation in the same process influence the success of the implementation of company activities. Board control resources while management provides the technical knowhow. Monitoring and evaluation of performance is crucial. Clear agendas for the board, structure approach to transactions and overall performance of the board is very important.

Table 4.20 Innovation, learning and growth performance perspective and corporate governance practices

Performance=f(Corporate Governance Practices)	Unstandardized Coefficients		Standardized Coefficients		
	B	Std. Error	Beta	t	Sig.
Corporate Governance Practices					
(Constant)	1.692	1.088		1.556	.132
Functions of the Board	.073	.291	.059	.252	.803

Board Meetings Management and Procedures	.132	.225	.124	.587	.562
Appointment, Selection, Induction, Training Development, Succession and Removal of Directors	-.201	.175	-.216	-1.147	.262
Board Structure	.120	.169	.140	.705	.487
Information and Communication	.236	.248	.220	.952	.350
Board Chairperson of the company	.240	.231	.232	1.037	.309
Performance: Innovation, learning and Growth perspective measures					

Source: Research Data (2011)

Innovation, learning and Growth perspective measures are least influenced by any of the corporate governance practices as presented in Table 4.20. The Appointment, Selection, Induction, Training Development, Succession and Removal of Directors ($b=-0.201$, $t=-1.147$, $p> 0.05$) and Board Chairperson of the company ($b=0.240$, $t=1.037$, $p> 0.05$) indicate high correlation variations but statistically not significant. The matters that are covered under the performance measure fall in management and staff functions process hence board direct influence is limited to general and broad policy orientation

Table 4.21 Quality perspective measures performance and corporate governance practices

Performance=f (Corporate Governance Practices)	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
Corporate Governance Practices (Constant)	3.306	.921		3.588	.001
Functions of the Board	.023	.246	.021	.095	.925
Board Meetings Management and Procedures	.157	.191	.166	.822	.418
Appointment, Selection, Induction, Training Development, Succession and Removal of Directors	-.069	.148	-.084	-.467	.644
Board Structure	-.314	.144	-.413	-2.187	.038
Information and Communication	.242	.210	.254	1.151	.260
Board Chairperson of the company	.165	.196	.179	.841	.408
Performance: Quality Perspective measures					

Source: Research Data (2011)

From the table 4.21 the board structure practice of corporate governance has influence on the quality performance perspective ($b = -.314$, $t = -2.187$, $p < 0.05$) which is statistically significant. Information and Communication has a high correlation at $t = 1.151$ but is statistically not significant ($p > 0.05$)

Table 4.22 Market price per kilogram of made tea performance and corporate governance practices

Performance=f(Corporate Governance Practices)	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
Corporate Governance Practices					
(Constant)	259.327	20.489		12.657	.000
Functions of the Board	2.762	5.478	.124	.504	.618
Board Meetings Management and Procedures	2.513	4.240	.132	.593	.558
Appointment, Selection, Induction, Training Development, Succession and Removal of Directors	4.852	3.296	.292	1.472	.153
Board Structure	-5.942	3.192	-.388	-1.861	.074
Information and Communication	-.204	4.676	-.011	-.044	.966
Board Chairperson of the company	-5.960	4.353	-.322	-1.369	.183
Performance: Market price per kilogram of made tea					

Source: Research Data (2011)

Market price per kilogram of made tea shows little correlation with corporate governance practices in table 4.22 with autonomous performance high at $b = 259.327$. All practices indicate they are statistically not significant though Appointment, Selection, Induction, Training Development, Succession and Removal of Directors ($t = 1.472$, $p > 0.05$) and Board structure (-1.861 , $p > 0.05$) shows high t values. The prices are dictated by other forces other than good corporate governance practices. Buyers, quality and market dynamics are peripherally controlled from the factory companies.

Table 4.23 Final payment rate in shillings per kilogram of green leave performance perspective and corporate governance practices

Performance=f(Corporate Governance Practices)	Unstandardized Coefficients		Standardized Coefficients		
	B	Std. Error	Beta	t	Sig.
Corporate Governance Practices (Constant)	32.949	6.041		5.454	.000
Functions of the Board	-.231	1.615	-.035	-.143	.888
Board Meetings Management and Procedures	-.796	1.250	-.143	-.637	.530
Appointment, Selection, Induction, Training Development, Succession and Removal of Directors	.097	.972	.020	.100	.921
Board Structure	-1.972	.941	-.441	-2.095	.046
Information and Communication	1.033	1.379	.184	.749	.460
Board Chairperson of the company	.953	1.284	.176	.742	.465
Performance: Final payment rate in Ksh per Kilogram of green leave					

Source: Research Data (2011)

From table 4.23 Board Structure has a high correlation with Final payment rate in Kenya shillings per Kilogram of green leave ($t=-2.095$, $p<0.05$) hence statistically significant. The board make decisions on how is paid as “bonus”. This is probably the most single important presentation to the shareholders at the annual general meetings. The board is also continuously focused on the expected bonus issue.

Table 4.24 Percent of total income payout to grower performance perspective and corporate governance practices

Performance=f(Corporate Governance Practices)	Unstandardized Coefficients		Standardized Coefficients		
	B	Std. Error	Beta	t	Sig.
Corporate Governance Practices (Constant)	75.197	4.910		15.314	.000
Functions of the Board	2.806	1.313	.507	2.137	.042
Board Meetings Management and Procedures	-1.642	1.016	-.348	-1.616	.118
Appointment, Selection, Induction, Training Development, Succession and Removal of Directors	-.844	.790	-.205	-1.069	.295
Board Structure	-.073	.765	-.019	-.096	.925
Information and Communication	-.004	1.121	-.001	-.004	.997
Board Chairperson of the company	-.937	1.043	-.204	-.899	.377
Performance: Percent of total income payout to grower					

Source: Research Data (2011)

From table 4.24 Functions of the Board has a high correlation with Percent of total income payout to grower ($t= 2.137, p<0.05$) hence statistically significant. The board makes decisions on how much of the initial payment and final payments are done. This is probably the most single important presentation to the shareholders at the annual general meetings. The board is also continuously focused on the amounts paid to growers. The decision to reelect them by shareholders is hinged on this performance. The decisions are in line to mission vision and objectives of the companies.

The six corporate governance practices have been individually have been regressed against the performance perspective measures. The composite effect of each of the corporate practices elements on performance. The findings are presented on table 4.25, discussed and interpreted.

Table 4.25 The effect of corporate governance practices of performance

Function	N	R	R ²	F	SIG
Financial Perspective = $f(\text{Corporate Governance Practices})$	33	0.703	0.494	4.224	.004
Customers and people perspective = $f(\text{Corporate Governance Practices})$	33	0.543	0.295	1.185	0.135
Internal business processes perspective = $f(\text{Corporate Governance Practices})$	33	0.734	0.538	5.045	0.001
Innovation, learning and Growth perspective = $f(\text{Corporate Governance Practices})$	33	0.524	0.275	1.640	0.176
Quality Perspective = $f(\text{Corporate Governance Practices})$	33	0.584	0.341	2.245	0.070
Market price per kilogram of made tea = $f(\text{Corporate Governance Practices})$	33	0.442	0.195	1.052	0.415
Final payment rate in Ksh per Kilogram of green leave = $f(\text{Corporate Governance Practices})$	33	0.425	0.180	0.954	0.475
Percent of total income payout to grower = $f(\text{Corporate Governance Practices})$	33	0.418	0.175	0.882	0.523
Corporate Governance Practices: Functions of the Board; Board Meetings; Management and Procedures; Appointment, Selection, Induction, Training Development, Succession and Removal of Directors; Board Structure; Information and Communication and Board Chairperson of the company					

Source: Research Data (2011)

Corporate governance have a strong relationship to financial performance ($R= 0.703$) with 49.4% ($R^2 = .494$) of financial performance explain by corporate governance practice. This is significant ($F=4.224, p < 0.05$)

Further it can be observed that the Corporate governance variable influence the Customer and people performance ($R=0.543$). However it only 29.5% of customers and people performance that can be explained by corporate governance practices. This is influence overly is moderate as observed by the value of the F statistic ($F=1.815, p > 0.05$) statistically not significant.

Internal business processes as a function of Corporate governance practice has a strong relationship ($R=0.734$) where 53.8% of internal process performance is attributed to corporate governance practices ($R^2=0.538$). this is statistically significant ($F=5.054, p < 0.05$). Innovation learning and growth performance as function of Corporate governance practice has a relatively relationship ($R=0.524$) where 27.5% of customers and people performance is attributed to corporate governance practices ($R^2=0.275$), this influence or explanation is statistically not significant ($F=1.640, p < 0.05$).

Also from table 4.4.2 it can be observed that the Corporate governance variables influence the Quality performance ($R=0.584$). However it only .0341 of quality performance that can be explained by corporate governance practices. This is influence is moderate strong as observed by the value of the high F statistic ($F=2.245, p > 0.05$) hence statistically significant influence.

Corporate governance practices were further observed to have a low influence on market price fetched by the products ($R=0.442$) where of around 20% ($R^2=.195$) of market price

performance is explained by corporate governance practices at not statistically significant level ($F=1.052$, $p > 0.005$)

On the correlation between Final payment rate per kilogram of green leaf and corporate governance practices the results of the study show that, corporate governance has a some influence on final payment rates performance ($R=0.425$), moreover the level of influence is low as it only explains up to 18% variability. This is statistically not significant (F value= 0.954, $p > 0.05$). Corporate governance practices have varied level of influence on performance indicators. However only the indicators showed a statistically significant; financial performance ($R= 0.703$) with 49.4% (R squared =.494) of financial performance explain by corporate governance practice ($F=4.224$, $p < 0.05$) and Internal business processes ($R=0.734$) where 53.8% of performance is attributed to corporate governance practices ($R^2=0.538$, $F=5.054$, $p < 0.05$).

Quality performance as a function of corporate governance ($R=0.584$ has only 0.341 or about 35% performance that can be explained by corporate governance practices. The influence is moderately strong as observed by the value of the high F statistic ($F=2.245$) however, it statistically not significant ($p > 0.05$).

4.6 Discussions of the Findings

The correlation analysis presented in the summarized regression statistics table 4.25 shows. The independent effect of corporate governance practices on performance indicators shows that two of them indicate financial perspective and internal business

processes and quality are highly correlated to the practices. Corporate governance is concerned with key areas of Organization responsibility to the shareholders, management leadership within organization and issues of transparency, accountability and efficient utilization of resources. The board of directors' role, composition and internal auditors are key factors in corporate governance. Other issue of concern with size and composition, competences with the board, frequency of meetings, role of management, ownership, management of the agency problem and the interest matrix (Johnson & Scholes 2003).

Financial performance forms the nerve centre of corporate performance management. Organizational performance looks at three areas of organizational outcomes: financial performance (profits, return on assets, return on investment); product market performance (sales, market share); and shareholder return (total shareholder return, economic value added). In recent years, many organizations have attempted to manage organizational performance using the balanced scorecard methodology where performance is tracked and measured in multiple dimensions such as; financial performance (shareholder return), customer service, social responsibility (corporate citizenship, community outreach), employee stewardship. Mintzberg (1988) postulate that in face of realization by organization of the umbilical connection of governance and performance they have increasingly been forced to design performance measurement system that encourage the effective and efficient implementation of strategic plans for attainment of objectives and goals.

It can be deduced from the high correlation that corporate governance is focused on the internal business process through the board superintending management in order to achieve superior and sustainable financial performance of profitability, returns on investment (ROI) and earnings per share (Goves et al 2006). For the small scale tea sub sector quality is the driving factor for market share control and profitability in the highly competitive export trade (TBK, 2010). This explains the strong corporate governance practice to financial performance, internal business processes and quality. Further this confirms the growing body of cross-sectional evidence linking good corporate governance to good performance (Black, Jang, and Kim, 2006; Black, Love, and Rachinsky, 2006; Cheung et al., 2007, 2008; Connelly, Limpaphayom, and Nagarajan, 2008).

The perspectives of Innovation, learning and Growth, Customers and people perspective, Market price per kilogram of made tea, Percent of total income payout to grower, Final payment rate in Ksh per Kilogram of green leave, as a function of corporate governance practices was observed but the correlation was statistically not significant this agrees with the observation that it remains an open question as to whether firms with good performance adopt good corporate governance practices or if the adoption of good corporate governance practices leads to improved performance. Some studies attempt to address this issue by using time-series data in emerging market settings (Black et al., 2006; Black et al., 2008; Cheung et al., 2010). Even though prior empirical literature is extensive, many studies have thus far failed to establish firm evidence that corporate-governance ratings, devised either by rating agencies or by researchers positively affect company performance or value. The dilemma has led to considerable debate and research

in recent times concerning the need for good corporate governance, with country institutions around the world drawing up guidelines and codes of practice to strengthen governance (Cadbury, 1997, PSCGT, 1999).

CHAPTER FIVE: SUMMARY OF FINDINGS, CONCLUSIONS

RECOMMENDATION

5.1 Introduction

This chapter summarizes the findings have been presented, explained and discussed in line with the objectives. In this chapter the findings are summarized and conclusions drawn. Further recommendations as well as limitations of the study observed.

5.2 Summary of the Findings

Most companies had been in existence for more than 10 years thus the organizations had practices some form of corporate governance and had measured performance in one way or another. A majority of the companies employed between 76 and 300 employees, producing between 3 and 4.5 million kilograms per year. A sizable number had an annual production of over 4.5 million kilograms of made tea making them large scale producers hence the need to have formal performance management system to take care of large operational and employee management complexities. The magnitude of operations would require elaborate corporate governance and performance management systems.

A few companies indicated the boards had no sub committees within their structure, an indication of high centralized management structure within the board the rest have subcommittees in excess of five which may indicate a duplication of some sorts and a

pointer to excess resource requirements to run the committees raising the issues of agency cost.

Most board managed the meetings well, two of the respondents indicated that the boards held below six meeting in the year 2009/2010. On the higher side 42.4% a majority had more than 13 meetings in the year or more than one meeting in a month. 12.1% had planned scheduled meetings through the year conforming to a key requirement of corporate governance principle(PSCGT,1999) A majority at 60.6% had their meetings called by the secretary to the board, 15.2 percent were called by the chairmen of the boards while 12.1% were called by others. One company indicate there meetings lasted less than two hours on average, a majority at 75.8% of the responses indicated the meetings lasted a between 3 and 5 hours. Most board arrived at crucial decisions by consensus hence harmony and continuity of operations.

The small scale tea subsector handles over 60% production of tea for exports in Kenya. The companies surveyed from the finding shows they practiced along the guidelines of the principles of good corporate governance (CCG, 2003). The results from the descriptive analysis statistics indicate that the small scale tea sector companies practiced corporate governance best code of practice to some degree. The key performance indicators encompassing financial and operational measurement were regressed against six corporate govern ace composite variables the results showed a mixture of positive and negative correlation with each performance measurement perspective. Each corporate governance practice had some level of influence on the performance parameter but the level of influence could not be established.

Further from the research it was noted that some functions of corporate governance practices had not been fully operationalised while others were in full practice. The organizational performance indicators varied among respondents hence explaining the different levels of performance on the last three indicators.

5.3 Conclusion

From data obtained and analyzed the small scale tea sector has establish the corporate governance practices adopted at various levels of applications, that influences the operations and decision making of the companies hence influencing the organizational performance of the tea processing Companies in Kenya. All dependent variables had some explanation to some degree on the eight dependent variables but posting varied degrees of influence. It can be concluded that the specific degree of influence for could not however be ascertained from the study. This tends to agree with past studies that have pointed out to a correlation between corporate governance and financial or other form of performance; (Gitari, 2005; Marnet, 2004; Kerich, 2005; Ngugi 2007; Kiamba, 2008; Matengo, 2008). The findings are therefore not conclusive as to the level of positive or negative correlation between corporate governance and organizational performance. The study has however been able to answer the two broad objectives of the study; small scale tea processing company does practice good corporate governance and the same has some effect on the level of performance.

5.4 Recommendations

Corporate governance best code of practice provides a structured approach to the principle agent arrangement. The practices as adopted in the small scale tea industry from the findings are extensively applied. However certain aspects have not been fully appreciate by some players thus discrepancies in application and also benefit derivation as show by the wide performance indicator bases established. Some factories exhibited high level of corporate governance practice while others presented weak practices this in correlation to the performance against exhibited variances. The practices like provision of statutory and institutional policy manuals, training manuals, board having diversified representation for independent directors, setting the key performance parameters for the Chief executive officers including hiring on performance contract basis have not been actualized for both the board and management to allow assessment. The balance scorecard system of performance management can be enhancing as a tool for monitoring and evaluation by management and the board. Overly the practice of Appointment, Selection, Induction, Training Development, Succession and Removal of Directors needs synchronization into the existing management structure to take advantage of benefits associated with its operationalization. The functions of the board and the leadership style of the chairperson of the board had the most significant influence on performance, thus the need for structured and intense need for the process of Appointment, Selection, Induction, Training Development, Succession and Removal of Directors to be fully operationalised. These suggestions can be presented to the various board as a basis for policy improvement.

5.5 Suggestions Further research

The study looked into the practices of good corporate governance in the small scale tea sector and the influence the practices had on performance of the companies. In the study descriptive studies only established existence of practices of corporate governance while the regression model only established the existence of a correlation. What the study did not look into in the intensity of the practices and the specific level of influence it has on performance. Its hope that this study will form a basis for further research into intensities of best corporate governance practices and the intensity each exerts on performance parameter. The outcome would inform the level of adoption and application for target results.

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UNIVERSITY OF NAIROBI

SCHOOL OF BUSINESS

MBA PROGRAM – LOWER KABETE CAMPUS

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P.O. Box 30197
Nairobi, Kenya

Date: 3rd October 2011

TO WHOM IT MAY CONCERN

The bearer of this letter Kemer Raymond Kipkoech

REGISTRATION NO: D61/73736/2009

The above named student is in the Master of Business Administration degree program. As part of requirements for the course, he is expected to carry out a study on Corporate Governance Practices and the Influence on Performance of Small Scale Tea Processing Companies in Kenya

He has identified your organization for that purpose. This is to kindly request your assistance to enable him complete the study.

The exercise is strictly for academic purposes and a copy of the final paper will be availed to your organization on request.

Your assistance will be greatly appreciated.

Thanking you in advance.

Sincerely,

MR. ALEX JALEHA
COORDINATOR, SOB, KISUMU CAMPUS

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APPENDIX I: RESEARCH QUESTIONNAIRE

SECTION A:

NB: INFORMATION COVERS THE UNIT (SUBSIDIARY INCLUDED)

i) Company profile

2. Name of the company (Optional).....
3. Year of establishment.....
4. Current number of employees (**Tick or mark in the with any sign in brackets**)
- Below 75 [] 76 – 150 [] 151 – 300 [] 301 and above []
5. Turnover Production in kilograms made tea in the financial years 2010/2011
- Below 1,500,000 kgs [] 1,500,001-3,000,000 kgs []
- 3,000,001-4,500,000 kgs [] 4,500,001 kgs and above []

ii). General Leadership

6. Do you have sub-committees within the board. Yes [] No []
7. List the subcommittees in the within the board;
- none [] 1-2 [] 3-4 [] above 5 []
- 7 How many were active in the year 2009/2010
- none [] 1-2 [] 3-4 [] Above 5 []
- 8 Who calls for the board meeting? [
- Scheduled [] Secretary [] Chairman []
- Others []
- 9 How long do board meetings take on average?
- Below 2 hours [] 3-5 hours [] 6-8 hours [] Over 9 hours []
10. Most board decisions are made through?: Consensus [] or Voting []

Section B: Corporate Governance

1. The following are some of or all **Functions of the Board**. Using the likert scale of one to five given below, please rate the extent to which the following applies to your

The Board has procedures in place to ensure that the organization is meeting its legal responsibilities.					
Formal review of the Board's performance has become an integral part of the culture of the Board.					
The Board ensures that key members of management are brought into the Board meetings so that they can participate and add value to their deliberations and work on behalf of the Board.					
The Board ensures all conflicts are Declared and Resolved					
Every Board member has been supplied with a letter of appointment.					
The letter of appointment defines the roles and functions of the Board and the specific role of each director.					

2. The following statements relates to **Board Meetings Management and Procedures** in the Company. Using the likert scale of one to five given below, please rate the extent to which the following applies to your company.

Rating Scale

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

	1	2	3	4	5
Every Board member has been supplied with a Board manual and a copy of standing orders and regulations governing conduct of Board meetings.					
Every Board member was supplied with a calendar of meetings showing dates of Board meetings, committee meetings etc. and key or critical events of the company.					
Board meetings are conducted in a manner that encourages open communication, meaningful participation, and timely resolution of issues.					
Sufficient time is provided during Board meetings for thoughtful discussion in addition to management dialogue.					
Board time is used effectively so that the Board adds value to management.					
The Board has adopted formal meeting and reporting procedures.					
Board members receive timely and accurate minutes, advance written agendas and meeting notices; and clear and concise background material to prepare in advance of meetings.					
All Board members are fully informed of relevant matters before hand and there are never any surprises.					
Absenteeism from Board meetings is the exception, rather than the					

rule.					
Board meetings are facilitated, but not overtly influenced by the Chairperson.					
All Board members receive detailed Board papers, copies of draft minutes and agenda papers in advance.					
All proceedings and Resolutions of the Board are recorded accurately, adequately and on a timely basis					

3. The following regard to **Appointment, Selection, Induction, Training Development, Succession and Removal of Directors** in the company. Using the likert scale of one to five given below, please rate the extent to which the following are practiced your company.

Rating Scale

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

	1	2	3	4	5
The Board is involved in the selection of appointed directors.					
The selection process considers and address any deficiencies in the skills of current Board members.					
The composition of the Board fairly represents the diversity of stakeholders.					
The Board members are introduced to their duties with an appropriate induction process.					
The Board actively encourages good candidates to stand for Board appointments.					
New Board members understand the extent of their relationship with management and the separation of stewardship and management.					
Board members evaluate their individual and overall Board performance, formally on an annual basis.					
The performance of the Chief Executive Officer is reviewed formally on an annual basis.					
Encouragement is given for Board members to continue their study of corporate governance and improve the skills they need.					
Directors understand the extent of their personal liability for the affairs of the company.					
A succession plan is in place for the Chairperson, Chief Executive Officer, Board members and senior management and is reviewed regularly.					
Directors who have not been contributing to the good governance of the					

organization, and are uninterested in improving their performance, are asked to terminate.					
Where the ethical or professional conduct of any director is called into question, such director is suspended pending investigations.					
Board members bind themselves to uphold, honor, and respect the Code of Ethics of the organization on first appointment and to resign where their actions are called into question.					

4. Indicate the applicability of the following statements regarding the **Board Structure** in the company. Using the likert scale of one to five given below, please rate the extent to which the following applies to/or is practiced by company.

Rating Scale

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

	1	2	3	4	5
The Board has a balanced mix of Executive, Non-Executive and Independent Non-Executive Directors.					
The roles of Chairperson of the Board and Chief Executive Officer are separated and held by different persons.					
The Board has established and appointed committees with defined terms of reference, composition and reporting requirements. These aspects are formally recorded.					
The committees have been established and appointed in light of, The need to increase the effectiveness of the Board by utilizing the specialized skills of Board members, The need to provide support and guidance to management and The need to ensure effective and independent professional consideration of issues e.g. audit reports, finance issues, etc.					
The Board has established and appointed, An Executive Committee, An Audit Committee and A Board Appointment and Remuneration Committee					
The terms of reference of each of committee are restricted and defined.					

5. With regard to **Information and Communication** in the company. Using the likert scale of one to five given below, please rate the extent to which the following applies to the company.

Rating Scale

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

(Tick or mark by any other symbol)

	1	2	3	4	5
The Board understands, agrees, defines and propagates its functions on an annual basis					
The Board knows and understands the Company's beliefs, values, philosophy, mission and vision and reflects this understanding on key issues throughout the year.					
Such beliefs, values, philosophy, mission and vision are set and are consistent with the company's status.					
The Board devotes significant time and serious thought to the organization's long-term objectives and to the strategic options available to achieve them.					
The Board has defined and communicated to management the scope and powers, roles and responsibilities to be adhered to by management to meet routine and exceptional circumstances.					
The majority of the Boards time is not spent on issues of day-to-day management.					
The Board is involved in formulating long-range strategy from the beginning of the end of planning cycle.					
The Board ensures that the organization has sufficient and appropriate resources to achieve its strategic goals.					
Proposals from management are analyzed and debated vigorously before being approved by the Board. A proposal that is considered inappropriate is declined.					
The Board has an operating plan that specifies its functions, activities and objectives.					
When appropriate, the Board seeks counsel from professional advisors.					
The CEO's remuneration and performance is reviewed and determined by the Board.					
The Board determines, annually, the objectives and measurement criteria for the CEO.					
A broad range of appropriate performance indicators are used to monitor the performance of management. Reliability is not placed solely on the financial statements provided by management.					
The Board has identified the groups to which it is Accountable and Responsible					
The Board understands and agrees that its first duty is to the Company, Members and shareholders and Others in that order					
Board activities are conducted in an atmosphere of creative tension.					

Rating Scale

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

	1	2	3	4	5
Every Board member is supplied with all establishment instruments, all legal documents, the mission statement, and vision and strategy documents of the company on first appointment.					
Every Board member receives a copy of the Board manual together with a letter of appointment on first appointment.					
Every Board member receives copies of all policy documents including organization policy documents, personnel and financial manuals on first appointment and every time these are reviewed.					
Board members are encouraged to discuss matters with members of management after gaining the approval of the Chairperson or the Chief Executive.					
The Board receives sufficient information from management in an appropriate format as determined by the Board.					
The Board's information requirements are communicated to management on a regular basis.					
Requested information is received in a timely fashion.					
The Board is proactive in developing an effective communication strategy for the company.					
The Company Secretary advises Board members regularly on matters of governance and the applicable law.					

6. With regard to **Board Chairperson of the company**, using the likert scale of one to five given below, please rate the extent to which the following applies to the company.

Rating Scale

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

	1	2	3	4	5
Manages shareholder relationships and meets with shareholders					
Actively meets with potential sources of equity and debt capital					
Manages shareholder meetings effectively and promotes a sense of participation in all shareholders and promotes shareholder confidence					
Is an effective Board leader					

Promotes effective participation of all Board members in the decision-making process					
Promotes the image of the company, portraying the requisite leadership in the community					
Effectively monitors and evaluates performance of the CEO and senior officers					
Effectively represents shareholders and the Board to the management					
Effectively represents management to the Board and shareholders					
Is effective in maintaining accountability					
Is effective in ensuring succession plans are in place at senior management level					
In conjunction with the CEO effectively represents the company to public, suppliers, customers and staff					
In conjunction with the CEO effectively develops relationships and represents the company with regulators and government agencies					
In liaison with CEO and management, effectively leads the company in charitable, educational, and cultural activities					

SECTION C: ORGANIZATIONAL PERFORMANCE MEASUREMENT

1. Indicate the applicability of the following **Performance measurement perspectives; Financial, Customers and people, Internal processes, Innovation, learning and Growth & Quality** (BSC based) in the company. Using the likert scale of one to five given below, please rate the extent to which the following applies to/or is practiced by company.

Rating Scale

1= Not at all 2 = Less Extent 3= Moderate Extent 4= Large Extent

5 = Very Large Extent

(Tick or mark by any other symbol)

Financial Perspective Measures	1	2	3	4	5
The company's return on investment has been improving					
The company regularly measures turnover of the business					

There is regular measurement and monitoring of Labour cost					
There is regular measurement and monitoring of revenue growth					
Other operational costs are closely monitored, measured and have been improving annually					
Improvement of buying centres and road networks					
Continuous financial and technical audits carried out and results are factored into planning cycles for improvements.					
The company adopt new technological trends (ICT, Automation etc)					
Investment in revenue saving and generating projects and other opportunities.(e.g hydro)					
There is cost effective and efficient machinery and vehicle maintenance.					
Improved vehicle turnaround time (2 hours)					
Maintain the recommended fleet complement. (8, +extra 4 for subsidiary)					

2. Customers and people perspective measures	1	2	3	4	5
All customers complaints are captured and fully documented					
The company monitors and responses to all customer complaints in a timely manner					
Goods returned by customers (withdrawals, reprints for lack of demand)					
The company tracts and monitors new customers for their products (none regular buyers of your teas)					
There is specific policy to retain customers who over repeated purchases					
Inclusion of customer requirements in subsequent product development cycle (brokers/buyers reports)					
The company recruits multi skilled staff					
There is training of staff to improve staff skills and competence					

The company has developed motivation strategies for staff to improve on service delivery					
--	--	--	--	--	--

3. Internal business processes perspective measures	1	2	3	4	5
The productivity of employees is monitored at all times					
Time spend on each stage of production is monitored, documented and as per plan					
The number of errors in process system are documented and attended to at all times					
The number of accidents are injuries are documented					
Downtime and idle time are recorded, monitored and strategies for improvements effected					
Good manufacturing practices in the tea processing parameters are in place.					
Documented practices to ensure none or minimal systemic losses are in place					
The company undertakes and maintain accurate measurements of materials and products (stocks, outturn, top grade, supplies etc)					
Innovative planning and monitoring of leaf collection and fleet management and ensure efficient delivery of green leaf					
The company undertakes improvement of other infrastructure e.g. buying centres and systems for leaf delivery.					
The company has ensured installation and utilization of sufficient green leaf reception and processing capacity.					

4. Innovation, learning and Growth perspective measures.	1	2	3	4	5
There is policy on regular trainings are planned and conducted for employees on product quality					
The company measures the skill levels of employees					
Survey on employee satisfaction carried out regularly					

Technological improvements are planned and carried out as per schedule					
Employees are accord training to improve their skills as per appraisals					
Implement staff complement and rationalization					
Performance appraisal system in place and used annually					

5. Quality Perspective measures	1	2	3	4	5
Improve crop husbandry through use of Farmer Field Schools.					
Application of fertilizer of appropriate quality and quantity					
Sustain the plucking of two leaves and a bud through improving inspection at all levels.					
Educate the staff and farmers towards quality green leaf.					
Improve the farmers' motivation and culture.					
Improve to the recommended plucking rounds of 3 to 4 per month					
Maintain high quality of made tea					

Thank You

Technological improvements are planned and carried out as per schedule					
Employees are accord training to improve their skills as per appraisals					
Implement staff complement and rationalization					
Performance appraisal system in place and used annually					

5. Quality Perspective measures	1	2	3	4	5
Improve crop husbandry through use of Farmer Field Schools.					
Application of fertilizer of appropriate quality and quantity					
Sustain the plucking of two leaves and a bud through improving inspection at all levels.					
Educate the staff and farmers towards quality green leaf.					
Improve the farmers' motivation and culture.					
Improve to the recommended plucking rounds of 3 to 4 per month					
Maintain high quality of made tea					

Thank You ...

APPENDIX III

SMALL SCALE TEA PROCESSING COMPANIES

	FACTORY	REMARKS		FACTORY	REMARKS
1	KAMBAA T.F Co. LTD		28	THUMAITA T.F Co. LTD	
2	KAGWE T		29	MUNGANIA T.F Co. LTD	
3	THETA T.F Co. LTD		30	KIONYO T.F Co. LTD	
4	MATAARA T.F Co. LTD		31	IMENTI T.F Co. LTD	
5	GACHEGE T.F Co. LTD		32	GITHONGO T.F Co. LTD	
6	NJUNU T.F Co. LTD		33	MICHIMIKURU T.F Co. LTD	
7	NGERE T.F Co. LTD		34	KIEGOI T.F Co. LTD	
8	MAKOMBOKI T.F Co. LTD		35	WERU T.F Co. LTD	
9	IKUMBI T.F Co. LTD		36	KAPSET T.F Co. LTD	
10	NDUTI T.F Co. LTD		37	LITEIN T.F Co. LTD	
11	GACHARAGE T.F Co. LTD		38	TEGAT T.F Co. LTD	
12	GITHAMBO T.F Co. LTD		39	KAPKATET T.F Co. LTD	
13	KANYENYA T.F Co. LTD		40	MOMUL T.F Co. LTD	
14	GATUNGURU T.F Co. LTD		41	KAPKOROS T.F Co. LTD	
15	KIRU T.F Co. LTD		42	MOGOGO T.F Co. LTD	
16	CHINGA T.F Co. LTD		43	NYASIONGO T.F Co. LTD	
17	IRIAINI T.F Co. LTD		44	TOMBE T.F Co. LTD	
18	GITUGI T.F Co. LTD		45	KEBIRIGO T.F Co. LTD	
19	GATHUTHI T.F Co. LTD		46	SANGANYI T.F Co. LTD	
20	RAGATI T.F Co. LTD		47	NYANKOBA T.F Co. LTD	
21	NDIMA T.F Co. LTD		48	GIANCHORE T.F Co. LTD	
22	MUNUNGA T.F Co. LTD		49	KIAMOKAMA T.F Co. LTD	
23	KANGAITA T.F Co. LTD		50	NYAMACHE T.F Co. LTD	
24	KIMUNYE T.F Co. LTD		51	OGEMBO T.F Co. LTD	
25	RUKURIRI T.F Co. LTD		52	CHEBUT T.F Co. LTD	
26	KATHANGARIRI T.F Co. LTD		53	MUDETE T.F Co. LTD	
27	KINORO T.F Co. LTD		54	KAPSARA T.F Co. LTD	

Source: Tea Board of Kenya (2010).