THE EFFECT OF BOARD CHARACTERISTICS ON THE PERFORMANCE OF FIRMS LISTED ON THE NAIROBI SECURITIES EXCHANGE

SAMUEL MUGUCHIA MUCHIRI

D63/76985/2014

A RESEARCH PROJECT SUBMITTED IN PARTIAL FULFILLMENT OF THE REQUIREMENTS FOR THE AWARD OF THE DEGREE OF MASTER OF SCIENCE IN FINANCE, SCHOOL OF BUSINESS, UNIVERSITY OF NAIROBI

NOVEMBER 2016

DECLARATION

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

Signature _____ Date: _____

SAMUEL MUGUCHIA MUCHIRI

D63/76985/2014

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

Supervisor

Signature _____ Date: _____

DR. MIRIE MWANGI

ACKNOWLEDGEMENTS

This research project would not have been completed without the indispensable supports from certain people who I would like to appreciate.

My sincere gratitude goes to my supervisor, Dr Mirie Mwangi, for his support, guidance and invaluable contribution towards the successful completion of this research project. His immense knowledge of corporate governance made this research successful.

I would also wish to thank the Mwai Kibaki Library staff for their guidance on the use of the University of Nairobi repository.

Finally, I extend my sincere appreciation to all those entities, including companies listed in the NSE, NSE and CMA library who immensely contributed to the successful completion of this research project.

DEDICATION

This research project is dedicated to my son, Ryan Muchiri.

TABLE OF CONTENTS

DECLARATION ..... **ii**

ACKNOWLEDGEMENTS ..... **iii**

DEDICATION ..... **iv**

TABLE OF CONTENTS ..... **v**

LIST OF TABLES ..... **viii**

LIST OF FIGURES ..... **ix**

ABBREVIATIONS ..... **x**

ABSTRACT ..... **xi**

CHAPTER ONE: INTRODUCTION **1**

1.1 Background of Study 1

1.1.1 Board Characteristics 3

1.1.2 Financial Performance 5

1.1.3 Board Characteristics and Financial Performance 6

1.1.4 Companies Listed on the Nairobi Securities Exchange 7

1.2 Research Problem 8

1.3 Research Objectives 11

1.4 Value of Study 11

CHAPTER TWO: LITERATURE REVIEW **13**

2.1 Introduction 13

2.2 Theoretical Framework 13

2.2.1 Agency Theory 13
2.2.2 Stewardship Theory 15
2.3 Determinants of Firm Performance 15
2.3.1 Size of the Firm 16
2.3.2 Board Characteristics 16
2.3.3 Leverage 17
2.4 Empirical Review 17
2.5 Conceptual Framework 19
2.6 Summary of Literature Review 20

CHAPTER THREE: METHODOLOGY 21

3.1 Introduction 21
3.2 Research Design 21
3.3 Target Population 21
3.4 Data Collection Method 22
3.5 Data Analysis 22

CHAPTER FOUR: DATA ANALYSIS, FINDINGS AND DISCUSSIONS 24

4.1 Introduction 24
4.2 Response Rate 24
4.3 Data Validity 24
4.4 Descriptive Statistics 25
4.5 Correlation Analysis 26
4.6 Regression Analysis and Hypothesis Testing 27
4.7 Discussion of Research Findings 28

CHAPTER FIVE: SUMMARY, FINDINGS AND RECOMMENDATIONS 30

5.1 Introduction 30
5.2 Summary of Findings 30

5.3 Conclusion 31
5.4 Recommendations 31
5.5 Limitations of the Study 32
5.6 Suggestions for Further Research 32

REFERENCES 34

APPENDICES 42

Appendix 1: Firms Listed in the Nairobi Securities Exchange 42

LIST OF TABLES

Table 1: Descriptive Statistics 25
Table 2: Correlation Matrix 26
Table 3: Model Summary 27
Table 4: Analysis of Variance (ANOVA) 27
Table 5: Regression Model 28

LIST OF FIGURES

Figure 1: Conceptual Framework 20

ABBREVIATIONS

AIMS – Alternative Investment Market Segment

BOD – Board of Directors

CMA – Capital Markets Authority

FIMS – Fixed Income Securities Market

GEMS – Growth Enterprise Market Segment

MIMS – Main Investment Market Segment

NSE – Nairobi Securities Exchange

ROA – Return on Assets

SME – Small and Medium Size Enterprises

SOX – Sarbanes-Oxley Act

US – United States

ABSTRACT

The study of BOD characteristics is a subset of the study of corporate governance. Poor corporate governance practices have been blamed for the devaluation of the shareholders' wealth. They have been blamed for the failure of multinationals. This study investigated the effect of BOD characteristics on the financial performance of the 64 companies that are listed in the Nairobi Securities Exchange. The study would have considered all the companies listed but due to the difficulty in calculating leverage for companies listed in the financial sector, only 42 firms were included in the study. Even though there are many BOD characteristics, only four were considered. These are financial literacy of the BOD members, the size of the board in terms of number of directors, the number of BOD meetings per year and the independence of the board which was assessed by calculating the ratio of independent directors against executive directors. The research design approach used was descriptive research design approach and focused on the firms listed between 2010 and 2014. Firms listed in the financial segment of the NSE were not included in the study due to the difficulty in calculating their leverage ratio. This study used secondary data that was sourced from the firms' financial statements filed at the NSE and CMA library. The characteristics of the BOD were logged in the model as the independent variables. Financial performance was captured in the model as the dependent variable. Control variables were leverage and firm size. Regression was used to estimate the relationship amongst the variable. This study found that number of board meetings, board size and financial literacy to be statistically significant in determining firm performance while BOD independence was found not to be of statistical significance. This was at 5% level of significance. This study recommends that, further research is carried out in this area of corporate governance. Further research may look at more characteristics of the BOD and may also use other scores to measure the performance of a firm other than ROA.

CHAPTER ONE: INTRODUCTION

1.1Background of Study

In the recent past, the importance of corporate governance has come to light especially on its effect on the overall performance of a firm and on the shareholder value. Corporate governance has lately been seen as the cure for the corporate failure of large organisations such as WorldCom and Enron. The Congress of the United States of America deliberated and eventually passed the now very famous Sarbanes-Oxley Act (SOX) which started operating on 30th July, 2002. This law came into being as a result of the earth-shattering scandals that included failure of multinationals like WorldCom and Enron (Melissa 2012).

Melissa found that although the SOX law was enacted in order to protect shareholders from the crooked and fraudulent ways of some corporate executives, it has gone beyond that and placed responsibility of running a firm on the BOD. It has emphasized on the view that management is there to serve the BOD and not vice versa. Previously, corporate executives appeared to wield power over the BOD. According to Melissa, SOX also brought forth the importance of having an independent BPD for it to effectively check on management excesses. SOX acknowledged that directors who run down a firm should be held accountable.

Locally, the importance of corporate governance started receiving appreciation in 1999 when a group of private sector businesses came together and formed the Private Sector Initiative for Corporate Governance (PSICG). One major reason for forming this outfit

was to kick-start the process of establishing corporate governance practices in Kenya. Having been adopted successfully elsewhere in the world, this concept needed to be embraced in Kenya. PSICG was also created to look into ways of creating a national body charged with promoting corporate governance in Kenya.

In order to improve corporate governance practices in Kenya, the Capital Markets Authority issued guidelines to be observed by public listed companies. This was done through a Gazette Notice no. 3362 of 2002.

Corporate governance is therefore considered to be a major tool in safeguarding of shareholders' interests. The BOD is a major part of corporate governance which is tasked with this responsibility of safeguarding shareholders' interests. The primary purpose of carrying out this research is to add on to the corporate governance ken of knowledge by examining the effectiveness of some of its features on the performance of a limited company. This will be done by studying the effect of some corporate governance features such as number of BOD meetings, BOD size, financial literacy of directors and BOD independence.

The results of this study will add to the knowledge already contributed by previous studies carried out in this area. However, some studies have indicated that there is a strong link between the features of a BOD and the performance of a company while other researchers found none. This study will attempt to reduce this conflict by studying the said relationship in the 64 companies listed in the Nairobi Securities Exchange.

1.1.1 Board Characteristics

Companies are run by Boards of Directors on behalf of the shareholders. Management of these companies reports to these Boards. Boards adopt unique qualities that that they believe will help them achieve the best performance. These qualities are, for the purpose of this study, referred to as Board Characteristics. Board characteristics therefore are the various unique features that a certain board of directors identifies with. It refers to the mix of attributes that suit each board. There are several attributes of board characteristics; these include BOD diversity, Audit Committee, Chief Executive Officer (CEO) duality, BOD independence, BOD size, BOD compensation and many others (Finegold et al. 2007). This study will examine four board characteristics that are likely to influence the financial outcomes of limited companies that are listed in the Nairobi Securities Exchange. These characteristics are board size, board composition, board meetings and accounting expertise of the directors.

BOD size is one of the corporate governance variables that this study will investigate. The variable BOD size will be determined by logging in the number of sitting BOD members during any particular year for all the years that will be studied. This variable and its effect on firm performance have previously been investigated with some researchers finding it relevant while others found no relevance. Yermack (1996) is one of the researchers who found that a BOD size exceeding eight members was unlikely to be effective. Eisenberg, Sundgren and Wells (1998) also found an adverse relationship between the size of the BOD and market valuation of Finnish firms. Eisenberg, Sundgren and Wells (1998) also suggested that there was an ideal size of the BOD and that the size effect varies with the size of the firm.

For this study, board composition refers to the mix between independent directors and executive directors. The study will examine how this mix affects financial performance of a firm. The variable BOD composition can also be termed as BOD independence and will be computed by logging in the ratio of independent directors to executive directors. As in the case for the board size variable, a problem for this measure will occur if the mix between independent directors and executive directors kept on changing during a year. Again, the monthly average ratio will be considered if such a scenario arises.

Board meetings are defined as the number of ordinary meetings held by the BOD during each financial year. Wincent et al. (2010) found that regular BOD meetings interpret directors' expertise, knowledge and connections into enhancements in firm performance. Moreover, using regularity of BOD meetings as a gauge for its value is in tandem with earlier studies. This variable will be measured by counting the number of meetings held in each year for all the years in the period of study. No measurement problem is expected for this variable.

Accounting expertise of directors is defined as the presence of directors on the board with accounting background. This variable is important because it is of necessity to have board members who can interpret accounting statements and records in order to evaluate, on behalf of the board, the performance of the firm. Guner et al. (2008) emphasized on the need for board members to have a grasp of accounting doctrines and financial statements which would lead to improved board control which would in turn increase the value of shareholders. This variable will be measured by comparing the ratio of the number of directors with accounting expertise to the number of members of the BOD without

financial literacy over the period of study. This ratio might keep on fluctuating during the year and therefore the monthly average will be considered.

1.1.2 Financial Performance

Financial performance is a measure of how well or poorly an entity is putting its resources into use. It measures the level at which financial objectives are being met. It measures the efficiency applied by a firm in the use of its assets to create profits. It can be used to compare the performance of various firms or can be used to compare the performance of the same firm in different periods of time.

This study will use the sample of all companies listed in the NSE except those that are in the financial sector. The leverage for these firms might be misleading because these firms list customer's deposits as part of their liabilities. The data used will be time series data for the fiscal years 2010 to 2014.This is analogous to sample sizes used in numerous studies in this field. In his study of how the frequency of BOD meetings affects the performance of a firm, Vafeas (1999) applied 1990 – 1994 data from 307 United States companies. Return on Assets (ROA) will be the dependent variable that will show firm performance. ROA indicates how efficient a firm is in employing its assets to create profits. It is a variable that can easily be used to compare the performance of firms in the same industry or that of firms in different industries. It is expressed as a percentage of net income divided by total assets.

1.1.3 Board Characteristics and Financial Performance

Some researchers have argued that oversized BODs are bad for decision making. Jensen (1993) is one of the researchers who found that large BODs are likely to be ineffective. It was found that where there is a large of decision makers sitting on the BOD, efficiency and timeliness were compromised. This may be due to some members joy-riding.

The independence of the BOD is generally accepted to be good for the BOD to be effective and for it to give strategic direction to the executive. However, results of studies done in this area have been conflicting with some indicating that BOD independence is not a relevant variable in determining the performance of a firm while others have found its relevance. Rosenstein and Wyatt (1990) argue that a firm will add to its value every time an independent director is nominated to its board.

BOD meetings are used to measure BOD activity. The more the meetings, the more active the BOD is seen to be and vice versa. Studies on board meetings examine the impact of BOD's activity level on corporate performance. Vafeas (1999) used BOD meetings in measuring the intensity of the BODs activity. Using a model where the 1990 – 1994 data for 307 United States companies was sampled, Vafeas found that companies whose BODs did not meet often had a higher price to book value than companies whose BODs met more frequently.

Kenya has recently witnessed the failure of Dubai Bank, Imperial Bank and Chase Bank which has raised concerns as to whether it is mandatory to have financial and/or accounting experts sit on board to guarantee accountability on a broad range of subjects. Some non-financial companies have also posted poor results after years of doing well

which has led to the speculation that they have been practicing fraudulent accounting. Guner et al. (2008) stressed on the need for directors to have an grasp of accounting principles and financial statements which will improve BOD supervision and this will help grow the wealth of shareholders.

1.1.4 Companies Listed on the Nairobi Securities Exchange

The Nairobi Securities Exchange was established in 1953. Today, there are 64 companies listed on the exchange. The exchange has 4 listing segments: The Main Investment Market Segment (MIMS) is the segment which requires companies to have more disclosure and a higher issued capital, the Alternative Investment Market Segment (AIMS) requires less issued capital and less disclosure, the Fixed Income Securities Market (FIMS) is for bond securities while the Growth Enterprise Market Segment (GEMS) is for SMEs.

Various firms listed at the Nairobi Securities Exchange (NSE) have been performing differently. While firms like Safaricom, Equity Bank and Nation Media Group have posted good results, others like Mumias Sugar and Kenya Airways have performed dismally (NSE, 2015). While the reason for some firms performing poorly and other well may be due the nature of the environment they are working in and that is not under the control of the management or board, research has indicated that there is a high correlation between the manner in which these firms are run (corporate governance) and their outputs. The companies in the 20 share index are blue chip companies which have previously scored high Return on Assets. Their boards have been known to be quite

independent since most of them have wrestled themselves out of jaws of family ownership and government control.

Corporate governance of these companies is adopted in accordance with the Code of Corporate Governance Practices for Issuers of Securities to the Public 2015 issued by the Capital Markets Authority via Gazette Notice 1420. The code provides the charter of the governance structure. More often than not, there are four major BOD committees found in Kenyan firms. These are audit committee (where the internal audit manager is a member), nominating and governance committee, compensation committee and the finance committee.

1.2Research Problem

Corporate governance is one of the areas that have in the recent years dominated the never ending debate on how to improve the performance of a firm. Its effect on the financial performance of a corporation has attracted a lot of research globally. Research on this area therefore remains inconclusive despite the fact that corporate governance is seen as significant for the success of firms. Some studies have found a positive relationship while others have found none. For instance, Wang (2014) and Weir, Laing and McKnight (2002), could not ascertain that BOD characteristics had any influence on the financial output of a company. However, Malgharni & Lotfi (2013), Scholar (2013), Nakano & Nguyen (2011), obtained evidence to indicate a direct relationship between some characteristics of BOD and corporate performance. Nonetheless, the part performed by the BOD is vital to firm performance as the BODs fulfill their roles of supervising the firm (Abdullah, 2004).

According to Yermack (1996), small boards increase a firm's performance and have a direct impact on the investor's actions and the firm value. He also ascertained that investors support a decrease in BOD size and they respond adversely in case of BOD increase in size. Moreover, the modifications in BODs are motivated by the firm's performance. However, the study fails to back the proof that companies adjust the BOD's size as a reaction to a firm's previous performance. Curiously, Adam and Mehran (2003) were not able to obtain an adverse effect of the size of BOD on the performance of United States banks.

The average board size appears may vary from one country to another. In some countries, the corporate governance guidelines do not stipulate the ideal size of the board. Instead every board is expected to examine its role, with a view to determining the impact on its numbers. There is no optimum size for a firm's board but the ideal size should be motivated by how effective the board is as a team. There have been contradictory arguments on the link, if any, between the size of a BOD and the output of the company being run by this BOD. Firms with undersized boards were discovered to show favorable values of financial ratios. Conversely, Dalton & Daily (1999) made use the Meta analysis procedure, which indicated dissimilar findings in that bigger BODs were allied with better firm performance. Comparable results were arrived at by Andres & Vallelado (2008) who found that bigger BODs were more efficient in supervision and created more value for a firm. These findings were also supported by a research carried out by Shukeri et al. (2012) who discovered that the size of the BOD had direct effect on firm's performance.

This study investigated whether board characteristics have influenced this performance. The study will help researchers as well as company executives and directors to relook at the characteristics of their boards and the effect these characteristics have on the performance of their firms. This research project is meant to study the link, if any, connecting BOD features and the financial outcomes of the NSE companies run by these BODs. Determining whether there is evidence of dependence of firm financial performance on BOD characteristics will help companies make appropriate choices when nominating individuals as directors. This will in turn generate and maintain investor value.

The incentive for coming up with this research topic is due to several factors: Countries around the world have released guidelines for best management practices and especially on those ones that have to do with corporate governance and BOD structure. In order to determine whether firms that adhere to these best practice recommendations regarding board characteristics will reap any benefits, an empirical examination for the Kenyan context needs to be carries out. Secondly, in 2015, the CMA issued a code of good governance practices with the intention of helping countries that adhere to these rules increase firm performance. Despite the fact that the guidelines are not binding on Kenyan firms, adherence is assumed by companies listed in the NSE.

This research seeks to answer the following question: Do board characteristics have any effect on the financial outcomes of the companies listed in the Nairobi Securities Exchange?

1.3Research Objectives

To establish whether there exists any link between the features of a BOD and the financial outputs of the NSE companies that are run by these BODs.

1.4Value of Study

This paper will try to establish the link, if any, between BOD characteristics and the financial performance of firms. This study is therefore expected to assist firms acquire the advantages of a BOD formed strategically. Since corporate governance is expensive, this study is likely to aid professional bodies, policy makers, businesses and practitioners.

All boards are not the same. Their effectiveness is likely to differ depending on the BOD characteristics adopted. Most firms will develop these characteristics and make ideal choices form internal mechanisms (Agrawal and Knoeber, 1996). Conversely, with demands for complying with rigid characteristics that are centered On stringent laid down regulations, it will harbour organisations from being creative and therefore make it impossible to separate the sources of major internal weaknesses. Lack of suitable BOD and corporate governance procedures, causes low firm value and low economic development as pointed out by Healy (2003).

Therefore, blind implementation of corporate governance practices used in other countries may not fit the Kenyan situation. These rules may have to be modified to meet the very specific needs in the Kenyan context. The results of this research will help many other organisations in other countries that wish to improve on the nomination of members

serving on their BODs These findings will be useful to practitioners especially when they are designing corporate boards.

CHAPTER TWO: LITERATURE REVIEW

2.1Introduction

This chapter discusses the theoretical framework of this study as well the independent variables and their relationship with the dependent variable before reviewing related empirical studies. A summary will then be given at the end of the chapter.

2.2Theoretical Framework

The two theories that form the framework of this study are: the Agency Theory which describes the conflict between agents and principals, when the former manage the firm but the latter bear entrepreneurial risk and the Stewardship Theory which describes the interactions between shareholders and management of the company.

2.2.1 Agency Theory

The Agency theory is premised on the assumption that there is separation between the management of an organisation and its ownership. The theory labels the owners of a firm as its principals and the management as its agent. Since owners are after maximizing their wealth, it is obvious that they will keep looking at what management are up to. On the other hand, the theory assumes that management has selfish interests and therefore are determined to get as much as possible form the company by giving so little against the owners' wishes. Berle & Means, 1932; Jensen and Meckling, 1976; Eisenhardt, 1989 contend that this goal incongruence causes constant monitoring by the principal on the agent and this comes with costs. For instance, their interests may lie in the perks offered

by the company including company cars, lavish offices and other allowances, whose cost is borne by the shareholders. Fama & Jensen (1983) observed that the executives who are well knowledgeable on the firm's operations are at a place where they can chase after egocentricities to the detriment of shareholders' interests. This quest for selfish goals amplifies the company costs, comprising of the expenses incurred in preparing the managerial contracts, the costs of controlling and monitoring the conduct of the managers and losses incurred as a result of less than optimal decisions made by the agents.

Owners' interests are likely to be compromised if agents make the most of their egoistic goals at the disadvantage of firm performance. The agents cannot be dependable and therefore there is a need for supervision of the executive managers by the board of directors so as to protect owners' interest. Moreover, in a big corporation with a broadly scattered ownership structure, minority shareholders are not rewarded well enough to warrant then to use their resources trying to monitor the behaviour of the management.. The agency problem arrives when "(a) there is goal incongruence between the objectives of the principal and his agent and (b) it becomes virtually impossible for the principal to keep track of what the agent is up to" (Eisenhardt (1989, p. 58). Therefore, the supervision of management undertakings is recognised as a vital responsibility of a board of directors. This is meant to minimize the agency problems so that higher organizational performance can be accomplished. The Agency Theory goes ahead to suggest that the problems associated with separation of management and ownership can be resolved by coming up with contracts that clearly stipulate the rights and responsibilities of each party (Jensen and Meckling, 1976). Nevertheless, unanticipated occurrences or situations

necessitate the distribution of remaining privileges to management who are left with the prerogative of allocating funds as they please (Shleifer & Vishny, 1997).

2.2.2 Stewardship Theory

The Agency Theory assumes that the executive management is egoistical and pursues self-serving goals. The Stewardship Theory takes an opposing view and advances the theory that the agents are reliable and act in good faith. They are seen as custodian of the resources placed in their hands. This therefore renders supervision unnecessary (Donaldson, 1990). Donaldson and Davis (1991) believe that holders of various roles in the organisation are seen as being influenced by their need to be successful, overcoming challenging work and to wield responsibility and authority and therefore earning respect and recognition from their colleagues. This theory considers management as custodians of the resources of an entity. Davis et al. (1997) agree that, unlike agents in the agency theory, stewards feel rewarded if they attain organizational objectives and not by egoistic tendencies hence this achievement also fulfills individual desires of the custodians.

Stewardship theory proposes that the executive should be allowed some prerogative built on trust, which reduces the expense of supervising the conduct of the executive. (Donaldson & Davis, 1991) claim that an executive who has worked for a firm for a long period of time, ends up having his individual ego and the firm's goals merging.

2.3Determinants of Firm Performance

In this section, I consider other determinants of firm performance together with board characteristics. The ones discussed here will form my control variables.

2.3.1 Size of the Firm

According to Humphery-Jenner and Powell (2011), the magnitude of a company's operations is the volume and range of production capability and capacity the company has or the volume and range of services it can deliver simultaneously to its clientele. The size of a company is a major factor in ascertaining the profitability of a company owing to the theory known as economies of scale observed in the conventional neo classical perspective of the corporation. It discloses that unlike smaller firms, items can be manufactured at a much lower costs by larger firms.

According to this theory, a positive association between firm size and profitability is predicted (Hall & Weiss, 1967). Conflicting to this theory, other concepts of the firms have it that bigger corporates are managed by people pursuing egoistic objectives and as a result managerial utility maximization function may replace profit maximization of the firm's objective function (Humphery-Jenner & Powell, 2011).

2.3.2 Board Characteristics

BOD characteristics vary from one firm to another. Studies around this subject are not conclusive in nature. For instance, Weir, Laing and McKnight (2002) and Wang (2014) found no proof that BOD features influence the performance of a firm. Other scholars however, took an opposing view and connected certain BOD characteristics with firm performance (Malgharni & Lotfi, 2013; Scholer, 2013; Nakano & Nguyen, 2011). However, the BOD's responsibility is vital to the performance of a firm since BODs have the crucial role of strategically leading the entity (Abdullah, 2004).

2.3.3 Leverage

There are contradicting findings from studies done on the effect of financial leverage on firm performance. Ebaid (2009) found little evidence that leveragehas impact on the financial performance of Indian cement companies. This is countered by, Zeitun and Tian (2007) who found that a firm's financial performance may to a great deal be influenced by how heavily indebted it is.

On the local front, Mwangi, Muathe and Kosimbei (2014) looked at the effect of debt on performance of companies listed in the NSE. This study excluded companies listed in the financial sector. The findings indicated that a company's financial outcome is not influenced by the debt existing in its books.

2.4Empirical Review

A study carried out by Van Ness, Miesing and Kang (2010) on the effect of BOD characteristics including BOD composition, CEO duality, size of the BOD and BOD tenure revealed that these features had fundamental effect on the performance of a firm. In a study carried out by Dionne, Chun and Triki (2015), on the significance of directors' financial literacy, directors' independence and their effect on corporate governance, it was found that these features increased a firm's value as in a way they mitigated risks associated with bad decisions. These findings were also buttressed by findings in the same study where it was found that in periods of erratic gold prices, educated speculators were more effective than average speculators in the industry. These results suggested that the SOX and the capital markets should require that directors have some financial literacy.

The results of a study carried out by Scholer (2013) on the link, if any, between the independence of the BOD and the financial outcome of the firm run by that BOD in a two-tier framework suggested that Danish companies should view independence of their BODs with optimism since there appeared to be a high correlation between this independence and the performance of their companies. Wang (2014) also carried out such a study in China but ended up achieving conflicting results. He found that BOD independence had little to do with the financial outcome of the firm run by that BOD.

The findings of yet another study carried out by Malgharni and Lotfi (2013) on the link between BOD composition and risk management of the firms listed in the Tehran Stock Exchange showed significant positive correlation between the size of board of directors, board meeting frequency, financial literacy of the board, the CEO dual functions, controlling variables and risk management.

Nordin (2008) investigated the compensation of directors and the effect it has on financial outcomes of Malaysia's both public and private companies. The results indicated that there was mixed link between directors' remuneration and the firms performance.

Locally, Wetukha (2013) investigated the relationship Link, if any, of BOD independence/ composition and the profitability of the NSE firms run by these BODs. The research found that indeed there was a positive link between some variables like BOD independence, the size of the BOD, duality of the chief executive officer and the variable financial outcome of companies listed at the NSE.

In his study on the link, if any, between BOD attributes and the financial outcomes of NSE firms listed in the manufacturing and allied sector, Ogeno (2013) found out that the independence of the BOD had nothing to do with the financial results of the NSE firms. However, the study determined that the diversity of the BOD in terms of education, age, gender, and so on, was a major contributor to financial outcomes of the NSE firms listed in the manufacturing and allied sector.

Maina (2005) found no linkage between the variables BOD independence and the financial outcomes of all firms listed in Kenya. In addition the findings showed that Kenyan boards were adopting the good corporate governance outlined by CMA. Shavulimo (2014) investigated the bond, if any, between corporate governance and the financial outcomes of sugar manufacturing firms in Kenya. Results revealed that corporate governance practices were positively related to the performance of sugar manufacturing firms in western Kenya, although not very strongly.

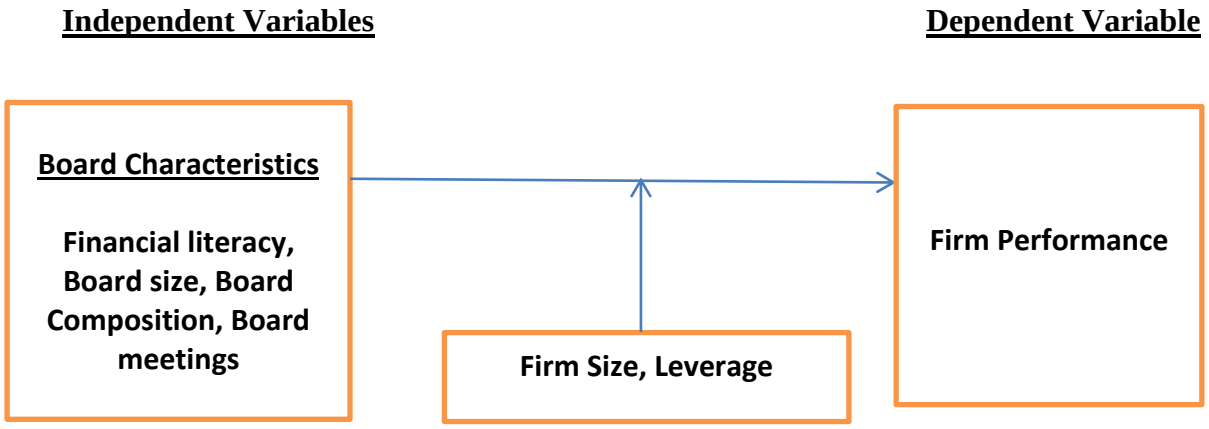
Agenda (2015) studied the link, if any, between the diversity of the BODs and the financial results announced by NSE's trading and manufacturing firms ran by these BODs. The findings indicated a strong link between these two variables. Additionally, board average age, gender, education, board independence and size of the firm had a weak positive relationship to the financial performance of these firms.

2.5Conceptual Framework

This section is expected to home in on the various BOD features that are likely to impact on the financial outcomes of companies ran by these BODs as discussed in the literature review. Figure 1 below, presents the conceptual framework of this study. The

independent variables are board characteristics while the dependent variable is firm performance as computed using the variable return on assets. This relationship is controlled by firm size and leverage.

Figure 1: Conceptual Framework



2.6Summary of Literature Review

This chapter has dwelt on the theories that have formed the bedrock of this study. These are Agency Theory and Stewardship Theory. Agency theory describes the age old conflict between egoistic managers and owners where the former has the control of assets owned by the latter. Stewardship Theory has an opposing view in that it looks at the managers as custodians of the assets or resources owned by the latter. They are expected to make decisions for the common good of the agent and the principal. The chapter then explained determinants of firm performance which include ownership structure, size of the firm, leverage and board characteristics.

CHAPTER THREE: METHODOLOGY

3.1Introduction

This section of the paper describes the methodology that will be adopted for the research. It will describe the research design of this study, the chosen population of this study, how the researcher will go about collecting data for the study and how this data will eventually be analysed.

3.2Research Design

Research design refers to the manner in which data will be collected and analysed. This process should achieve the intended purpose of this research in an economical manner. (Yin, 2003). This will be a descriptive study. According to Creswell (2008), a descriptive study should be able to answer the what, where and how questions of an event.

3.3Target Population

Mugenda & Mugenda, 2008 describe a target population to be a group of objects from which a sample is plucked from and measurements applied upon. The parameters of the sample are assumed to be the same parameters for the population. The target population of this research will be all the 64 firms listed on the Nairobi Securities Exchange. These are listed in Appendix 1. However, as explained earlier, I will not collect data on the companies listed in the financial sector due to their misleading leverage ratios. My sample will therefore be the remaining 42 companies not listed in the financial sector.

3.4Data Collection Method

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

3.5Data Analysis

To study the link, if any, between BOD characteristics and the financial output of firms managed by these BODs, I will a sample of 42 companies listed in the non-financial sectors of the NSE. The data used will be time series data for the fiscal years 2010 to 2014.This is a comparable sample size to various studies in this field.

Descriptive analysis will be employed. The data collected from these 42 companies will be analysed using MS Excel as well as SPSS. Data will be summarised using descriptive statistics. This includes percentages and frequencies. To analyse, understand and interpret the collected data, tables will be used to display it. Regression will be used to determine the correlation of the independent and dependent variables.

The regression model for this study is expressed as:

$Y = \beta 0 + \beta 1X1 + \beta 2X2 + \beta 3X3 + \beta 4X4 + \beta 5X5 + \beta 6X6 + \varepsilon$

Where Y = Firm performance (measured using a firm's ROA)

X1= Board Size (measured by taking into account the number of members of the BOD who served each year over the period under study).

X2 = Number of BOD meetings (measured by logging in the number of meetings held in each year).

X3 = Accounting background (measured by comparing the ratio of the number of directors with accounting expertise to the number of directors without financial or accounting literacy on the BOD over the period of study).

X4= Board Composition (measured by measuring the ratio of independent directors to executive directors).

X5= Firm Size (measured by logging in the Total Assets)

X6= Leverage (measured by measuring the ratio of debt to equity).

ε = Error term/Erroneous variables

$\beta 0$ = constant/the minimum change in Y when the rest of the variables are held at a constant zero.

$\beta 1, \beta 2, \ldots\ldots \beta 6$ = Beta coefficients that measure of the rate of change i.e. measures the rate of change in Y as a result of a unit change in X1,X2,……X6.

CHAPTER FOUR: DATA ANALYSIS, FINDINGS AND DISCUSSIONS

4.1 Introduction

This section of the research will now focus on the analysis and interpretation of the collected data to determine whether BOD features have any effect on the financial outcome of the firms that were listed in the NSE for the period between the years 2010 and 2014. The data collected excluded data from financial firms due to the difficulties in calculating their leverage. The data was analysed using descriptive statistics and tabulated in the sections that follow.

4.2 Response Rate

The study relied on secondary data from the NSE. This data includes financial reports from all firms listed at the NSE excluding those listed on the financial sector. This data is readily available at the NSE website, the institutions website and from CMA handbooks. The researcher was able to get the required data from the targeted sample of 42 companies.

4.3 Data Validity

The study looked for data that would be able to meet the objectives of the study. The data collected from the various sources, that is, CMA hand books, NSE and from the firms was cross checked for errors to test the validity of the data sources. The study found that the data sources provided similar data, therefore giving the study no reason to doubt the

data collected and proving the data as valid. The data was fully able to meet the study needs and therefore was considered reliable for the study.

4.4 Descriptive Statistics

Descriptive statistics gives a presentation of the mean, maximum and minimum values of variables applied in this study together with their standard deviations.

Table 1: Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
ROA	210	-.54288	.38886	.0490107	.08794144
Board Size	210	5.97762	11.45752	9.91938	.03672633
Board Meetings	210	3.94529	11.24666	7.2124648	1.21172669
Accounting background	210	.14311	.58932	.44325	1.45925262
Composition	210	.00075	4.27983	.6054814	.37950458
Firm size	210	3.94529	11.24666	7.2124648	1.21172669
Leverage	210	.00075	4.27983	.6054814	.37950458
Valid N (listwise)	210				

Source: Research Data (2016)

Table 1 above shows that the ROA had a mean of 0.0490107 with a standard deviation of 0.08794. Board size had a mean of 9.91938 with a standard deviation of 0.036726. Board meetings had a mean of 7.21246 and a standard deviation of 1.21173. Accounting background had a mean of 0.44325 and a standard deviation of

1.45925. Board composition had a mean of 0.60548 and a standard deviation of 0.37950. Firm size had a mean of 7.21247 with a standard deviation of 1.21173. Further, leverage had a mean of 0.60548 and standard deviation of 0.37951.

4.5 Correlation Analysis

Table 2: Correlation Matrix

	ROA	Board Size	Board Meetings	Accounting background	Board composition	Firm size	Leverage
ROA	1						
Board Size	.300**	1					
Board meetings	-.139	-.126	1				
Accounting background	.317**	.014	-.245**	1			
Board composition	-.124	.006	.213	.332	1		
Firm Size	-.119	-.109	-.067	.128	-.072	1	
Leverage	-.284**	-.060	.175*	-.344**	-.211	.122	1

Table 2 shows the correlation matrix for the variables used in the study. The results show that none of the correlations were beyond 0.5 suggesting that the independent variables were not serially correlated. Thus, all of them could be used in a multiple regression analysis.

4.6 Regression Analysis and Hypothesis Testing

Table 3: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.743	.551	.031	.1245

Source: Research Findings

Table 3 above indicates that there is an R^2 value of 55.1%. This value indicates that the chosen independent variables for this study describe 55.1% of the variance in the return on asset dependent variable. It is very clear that these independent variables contribute to a large extent to a company's performance. It is therefore sufficient to conclude that these variables significantly influence return on asset given the unexplained variance is only 44.9%.

Table 4: Analysis of Variance (ANOVA)

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	.010	6	.006	11.071	.000[b]
	Residual	.197	203	.023		
	Total	.207	209			

Source: Research Findings

The Table 4 above demonstrates the analysis of variance. The findings demonstrate that the chosen model for this study was significant since the p-value was 0.000 which is less than 0.05. The model therefore was found to be was statistically significant in predicting how BOD characteristics influence Return on Asset. The F statistic of 11.071 was significant at 5% level, p-value = 0.000. This confirms that overall the multiple regression model is statistically significant, in that it is a suitable prediction model for

explaining how the selected independent variables affect the financial outcomes of NSE listed firms.

Table 5: Regression Model

Model	Un-standardized Coefficients		Standardized Coefficients	t	Sig.	95.0% Confidence Interval for B	
	B	Std. Error	Beta			Lower Bound	Upper Bound
Constant	.451	.001		9.569	.000	.010	.010
Board size	.580	.048	.379	7.920	.000	-.000	.061
Number of board meetings	.423	.214	-.125	5.732	.012	-.010	.245
Accounting background	.181	.122	-.426	3.458	.020	-.411	.040
Board composition	-.013	.023	-.443	-1.146	.066	-.022	.093
Firm size	.612	.054	-.098	2.567	.026	-.136	.075
Leverage	.342	.012	.004	.970	.481	.014	.021

Source: Research Findings

Using a significance level of 5%, any independent variable having a significant value greater than 5% is considered not statistically significant. This study found that board size, number of board meetings, accounting background and firm size to be statistically significant while board composition and leverage with significance of more than 5% was found not to be statistically significant. The general regression model was given as follows

$$\mathbf{Y= 0.451+ 0.580X_1 + 0.423X_2 + 0.181X_3 + -0.013X_4 + 0.612X_5 + 0.342X_6 + \varepsilon}$$

4.7Discussion of Research Findings

In a nutshell, this study sought to determine the effect of BOD features on financial outcomes of NSE listed firms. Board size, number of board meetings, accounting

background, leverage, board composition and firm size were the independent variables representing board characteristics while return on assets was the dependent variable representing firm performance.

A regression analysis was used in this study. The results indicate that a unit change (1%) in the board size causes an increase of 0.58 (58%) on financial performance. A unit change (1%) in number of board meetings, leads to a 0.423 (42.3%) change in ROA. Accounting background leads to an increase of 0.181 (18.1%) change in performance (ROA). A unit change in BOD independence results into a negative change of -0.013 (-1.3%) change in the financial performance (return on assets) of the listed firms. A unit change in firm size and leverage leads to 61.2% and 34.2% change in financial performance respectively. This study found that board size, number of board meetings, accounting background and firm size to be statistically significant with board composition and leverage with significance of more than 5% not statistically significant.

The model summary revealed that the independent variables: board size, number of board meetings, accounting background and board composition have a dependency of about 55.1% with the selected dependent variable ROA which implies that they can be used to predict significantly, the financial outcomes of NSE listed firms. The model is fit at 95% level of confidence since the F-value is 11.071. This confirms that, overall, the multiple-regression model is statistically significant in that it is a suitable prediction model for explaining how the selected independent variables affect the listed firms' return on assets.

CHAPTER FIVE: SUMMARY, FINDINGS AND RECOMMENDATIONS

5.1 Introduction

In this section of the research, I will give a summary of the findings as described in chapter four as well as conclude and give a recommendation for further research. This study attempted to find the link, if any, between the characteristics of a BOD and the financial output of the NSE listed firms ran by these BODs.

5.2 Summary of Findings

The main objective of this study was to attempt to find a connection between some features of corporate governance and the financial output of NSE listed firms for the period between 2010 and 2014.

The model summary revealed that the independent variables: board size, number of board meetings, accounting background, leverage, board composition and firm size have a dependency of about 55.1% with the selected dependent variable ROA which implies that they can be used to predict significantly, the financial outcomes of NSE listed firms. The model is fit at 95% level of confidence since the F-value is 11.071. This confirms that overall the multiple regression model is statistically significant, in that it is a suitable prediction model for explaining how the selected independent variables affects the listed firms return on assets.

5.3 Conclusion

The analysis of the correlations results seemed to support the hypothesis that each independent variable in corporate board characteristics has its own particular informative value in the ability to explain financial performance. The significance of the coefficients was calculated at the level of 95%. This study concludes that the independent variables selected for this study contribute to a large extent to the company's performance. It is therefore sufficient to conclude that these variables significantly influence return on asset. This confirms that overall the multiple regression model is statistically significant, in that it is a suitable prediction model for explaining how the selected independent variables affects the performance of companies and thus board size, number of board meetings, accounting background and firm size are statistically significant with board composition and leverage not been statistically significant.

5.4 Recommendations

The study recommends that stakeholders in listed companies should take into account board characteristics when forming boards to improve financial performance. The board characteristics that stakeholders should take care of are, board size, number of board meetings, accounting background and firm size. According to this study, board composition and leverage should not be prioritized as they are insignificant when it comes to determining listed firms' financial performance.

The variables considered in the study explained 55.1% of the variation in firm financial performance implying that there are other important factors not included in the model and therefore the study recommends that the management should put in to consideration such

factors in order to enhance the effectiveness of corporate governance index. The study also recommends that policy makers should set an index on corporate governance to act as a reference for all companies listed at the NSE so that the efficiency of corporate governance can be enhanced.

5.5 Limitations of the Study

In doing this research, I was limited because only 42 firms listed at the NSE were used as the case study for the entire population. Thus other firms with different characteristics which otherwise could provide different results were not considered. Thus there is room for little variations in the findings with respect to firms.

This study applied secondary data in meeting its mandate. The researcher decided to use secondary data because information was readily available. Time and finance were also other limiting factors. It was time consuming to get the financial statements of the listed firms and the time allocated for the research project was limited.

5.6 Suggestions for Further Research

This study is not conclusive. I would therefore wish to recommend that further research is carried out in this area. This study did not consider all the corporate governance variables, did not take into account all the macro-economic variables that might have prevailed during the period of the study and con considered one performance measurement variable.

There are other corporate variables other than the four board characteristics that the researcher considered. These are company structure, flow of authority, type of the BOD,

communication mechanism and many others that may contribute either positively or negatively to the performance of a firm. Further research should therefore take into account these other variables to see their effect on firm performance.

The researcher also recommends that the prevailing macro-economic environment during the period of study be taken into account in the design of the model. These macro-economic variables can be factored in as control variables. This is because they considerably affect the performance of a firm. Favourable macro-economic environment favours firm performance and vice versa.

Further research should also consider other variables to measure firm performance. These can include either non-financial or financial variables. This researcher only took into account ROA as a measure of firm performance. Measurement of firm performance cannot rely on only one variable as is the case here. This might be misleading. Return on Equity for example is one of the other profitability variables that might be considered. Achievement of outputs or outcomes can be examples of non-financial variables that might be taken into account.

REFERENCES

Abdullah, S. (2004). Board Composition, CEO Duality and Performance among Malaysian Listed Companies. *Corporate Governance, 4* (4), 47-61.

Adam, R. B., & Mehran, H. (2003). Is Corporate Governance Different for Bank Holding Companies? *Economic Policy Review – Federal Reserve Bank of New York, 9*(1), 123–142.

Ageda, E. O. (2015). *The Effect of Board Diversity on the Financial Performance of Trading and Manufacturing Companies Listed in the Nairobi Securities Exchange.* Unpublished MBA Project, University of Nairobi.

Agrawal, A. & Knoeber, C. R. (1996). Firm Performance and Mechanisms to Control Agency Problems between Managers and Shareholders. *Journal of Financial and Quantitative Analysis, 31*(3), 377–397.

Andres, P. D. & Vallelado, E. (2008). Corporate Governance in Banking: The Role of the Board Directors. *Journal of Banking and Finance, 32*(12), 2570-2580.

Argyris, C. (1964). *Integrating the Individual and the Corporation*. New York: Wiley and Sons. Auckland University of Technology (2007). Databases. Available [on line] http://www.aut.ac.nz/library/library_resources/databases/

Baysinger, B. D., & Hoskisson, R. E. (1990). The Composition of Boards of Directors and Strategic Control: Effects on Corporate Strategy. *Academy of Management Review, 15*(1), 72–87.

Baysinger, B. D., Kosnick, R. D., & Turk, T. A. (1991). Effects of Board and Ownership Structure on Corporate R & D Strategy. *Academy of Management Journal, 34*(1), 205–214.

Berle, A. A. Jr. & Means, G. C. (1932). *The Modern Corporation and Private Property*. New York: MacMillan.

Chaganti, R., & Damanpour, F. (1991). Institutional Ownership, Capital Structure, and Firm Performance. *Strategic Management Journal, 12*(7), 479-491.

Creswell, J. W. (2008). *Research Design: Qualitative, Quantitative, and Mixed Methods Approaches*. Lincoln:Sage Publications.

Daily, C. M., Certo, S. T., & Dalton, D. R. (1999). A Decade of Corporate Women: Some Progress in the Boardroom, None in the Executive Suite. *Strategic Management Journal, 20*(1), 93–99.

Daily, C. M., Dalton, D. R., & Canella, A. A. (2003). Corporate Governance: Decades of Dialogue and Data. *Academy of Management Review, 28*(3), 371–382.

Davis, J. H., Schoorman, F. D., & Donaldson, L. (1997). Toward a Stewardship Theory of Management. *Academy of Management Review, 22*(1), 20–47.

Dionne, G., Chun, O. M., & Triki, T. (2015). The Governance of Risk Management: The Importance of Directors' Independence and Financial Knowledge.

Donaldson, L. (1990). The Ethereal Hand: Organisational Economics and Management Theory. *Academy of Management Review, 15*(3), 369–382.

Donaldson, L., & Davis, J. H. (1991). Stewardship Theory or Agency Theory: CEO Governance and Shareholder Returns. *Australian Journal of Management, 16*(1), 49-64.

Donaldson, T., & Preston, L. E. (1995). The Stakeholder Theory of the Corporation: Concepts, Evidence and Implications. *Academy of Management Review, 20*(1), 65–91.

Ebaid, E. I. (2009). The Impact of Capital Structure Choice on Firm Performance: Empirical Evidence from Egypt. *The Journal of Risk Finance, 10*(5), 477-487.

Eisenberg, T., Sundgren, S., & Wells, M. T. (1998). Larger Board Size and Decreasing Firm Value in Small Firms. *Journal of Financial Economics, 48*(1), 35-54.

Eisenhardt, K. M. (1989). Agency Theory: An Assessment and Review. *Academy of Management Review, 14*(1), 57–74.

Fama, E. F., & Jensen, M. C. (1983). Separation of Ownership and Control. *Journal of Law and Economics, 26*(2), 301–325.

Finegold, D., Benson, G. S., & Hecht, David (2007). Corporate boards and company performance: Review of research in light of recent reforms. *Corporate governance: An International Review, 15*(5), 871-872.

Freeman, R. E. (1984). *Strategic Management: A Stakeholder Approach.* Boston: Pitman.

Freeman, R. E., Wicks, A. C., & Parmar, B. (2004). Stakeholder Theory and "The Corporate Objective Revisited". *Organization Science, 15*(3), 364–369.

Guner, A. B., Malmendier, U. & Tate, G (2008). Financial Expertise of Directors. *Journal of Financial Economics, 88,* 323-354.

Hall, M., & Weiss, L. (1967). Firm Size and Profitability. *The Review of Economics and Statistics,* 319-331.

Healy, J. (2003). *Corporate Governance & Shareholder Value: Challenges Facing New Zealand*. Palmerton North: Dunmore

Herzberg, F. (1966). *Work and the Nature of Man.* Cleveland: World Publishing.

Humphery-Jenner, M. L., & Powell, R. G. (2011). Firm Size, Takeover Profitability and the Effectiveness of the Market for Corporate Control: Does the Absence of Antitakeover Provisions Make A Difference? *Journal of Corporate Finance, 17*(3), 418-437.

Jensen, M. (1993). The Modern Industrial Revolution, Exit, and the Failure of Internal Control Systems. *The Journal of Finance, 48*(3), 831–880.

Jensen, M. C., & Meckling, W. H. (1976). Theory of the Firm: Managerial behavior, agency costs and ownership structure. *Journal of Financial Economics, 3*(4), 305-360.

Kiel, G., & Nicholson. G. (2003). Board Composition and Corporate Performance: How the Australian Experience Informs Contrasting Theories of Corporate Governance. *Corporate Governance: An International Review, 11*(3), 189–205.

Maina, A.W. (2005). *The Effect of Board Composition on Firm's Performance*. (Unpublished) MBA Project) University of Nairobi, Nairobi, Kenya.

Malgharni, A. M., &Lotfi, S. (2013). The Analysis of the Relationship between Board of Director Composition and Risk Management in the Firms Listed in Tehran Stock Exchange. *Interdisciplinary Journal of Contemporary Research in Business, 5*(8), 336.

McClelland, D. (1961). *The Achieving Society*. New York: The Free Press.

Melissa, M. (2012). *8 Ways SOX Changed Corporate Governance.* Retrieved from Inside Counsel website: http://www.insidecounsel.com/2012/01/01/8-ways-sox-changed-corporate-governance?&slreturn=1468853156

Mugenda, O. M., & Mugenda, A. G. AG (2008) *Research Methods: Quantitative and Qualitative Approaches*. Nairobi: African Centre for Technology Studies.

Muth, M. M., & Donaldson, L. (1998). Stewardship Theory and Board Structure: A Contingency Approach. *Corporate Governance: An International Review, 6*(1), 5-28.

Mwangangi, J. M. (2015). *The Effect of Board Profile on Financial Performance of the Firms Listed at the Nairobi Securities Exchange.* Unpublished MBA Project, University of Nairobi.

Mwangi, L. W., Muathe, S. M. A., & Kosimbei, G. K. (2014). *Relationship between Capital Structure and Performance of Non-Financial Companies Listed in the Nairobi Securities Exchange, Kenya.* Unpublished MBA Project, University of Nairobi.

Nakano, M., & Nguyen, P. (2011). Board Size and Corporate Risk Taking: Further Evidence from Japan. *Corporate Governance: An International Review, 20*(4), 369-387

Nordin, H. B. (2008). *Directors' Remuneration and Firms' Performance among Malaysia's Government-Linked Company (GLCs) and Non-GLC.* (Doctoral dissertation, UniversitiTeknologi MARA).

Ofek, E. (1993). Capital Structure and Firm Response to Poor Performance: An Empirical Analysis. *Journal of Financial Economics, 34*(1), 3-30.

Ogeno, P. K. (2013). *The Effect of Board Characteristics on the Financial Performance of Firms Listed in the Manufacturing and Allied Sector of the Nairobi Securities Exchange* Doctoral dissertation, University of Nairobi.

Rosenstein, S. & Wyatt, J. G. (1990). Outside Directors, Board Independence and Shareholder Wealth. *Journal of Financial Economics, 26*(2), 175–191.

Scholer, F. (2013). *Better Firm Performance through Board Independence in a Two-Tier Setting*. Doctoral dissertation, Department of Economics and Business, School of Business and Social Sciences, University of Aarhus.

Shavulimo, P. M. (2014). Effect of Corporate Governance on Performance of Sugar Manufacturing Firms in Kenya: A Case of Sugar Manufacturing Firms in Western Kenya. *Journal of Business and Management, 16* (11), 214-239.

Shleifer, A., & Vishny, R. W. (1997, June). A Survey of Corporate Governance. *Journal of Finance, 52*(2), 737–783.

Shukeri, S. N., Shin, O. & Shaari M. S. (2012). Does Board Directors Characteristics Affect Firm Performance? Evidence from Malaysian Public Listed Companies. *International Business Research, 5*(9), 120-127.

Telegdy, A., Brown, J. D., & Earle, J. S. (2006). The Productivity Effects of Privatization: Longitudinal Estimates from Hungary, Romania, Russia and Ukraine. *Journal of Political Economy, 114*(1), 61-99.

Vafeas, N. (1999). Board Meeting Frequency and Firm Performance. *Journal of Financial Economics, 53*(1), 113–142.

Van Ness, R. K., Miesing, P., & Kang, J. (2010). Board of Director Composition and Financial Performance in a Sarbanes-Oxley World. *Academy of Business and Economics Journal, 10*(5), 56-74.

Wang, W. (2014). Independent Directors and Corporate Performance in China: a Meta-Empirical Study. *International Journal of Business and Management, 2*(3), 145-171.

Weir, C., Laing, D., & McKnight, P. J. (2002). Internal and External Governance Mechanisms: Their Impact on the Performance of Large UK Public Companies. *Journal of Business Finance & Accounting, 29*(5&6), 579–611.

Wetukha, P.A. (2013). *The Relationship between Board Composition and Financial Performance of Listed Firms at the Nairobi Securities Exchange*, Unpublished MBA Project, University of Nairobi.

Wincent, J., Anokhin, S. & Ortqvist, D. (2010). Does Network Board Capital Matter? A Study of Innovative Performance in Strategic SME Networks, *Journal of Business Research, 63*(3), 265-275.

Yermack, D. (1996). Higher Market Valuation of Companies with a Small Board of Directors. *Journal of Financial Economics, 40*(2), 185–211.

Yin, R. K. (2003).*Case Study Research: Design and Methods.* Sage Publications.

Zeitun, R., & Tian, G. G. (2007). Capital Structure and Firm Performance: Evidence from Jordan. *Australia Accounting Business and Finance Journal, 1*(4), 148-168.

APPENDICES

Appendix 1: Firms Listed in the Nairobi Securities Exchange

Company's Name	Sector	Symbol
A Baumann & Co	Financials	BAUM
ARM Cement	Industrials	ARM
Atlas African Industries (GEMS)	Industrials	AAI
B O C Kenya	Basic Materials	BOC
Bamburi Cement	Industrials	BAMB
Barclays Bank of Kenya	Financials	BBK
BAT Kenya	Consumer Goods	BATK
British-American Investments Co(Kenya)	Financials	BRIT
Car & General (K)	Consumer Services	CG
Carbacid Investments	Basic Materials	CARB
Centum Investment Co	Financials	ICDC
CFC Stanbic Kenya	Financials	CFC
CIC Insurance Group	Financials	CIC
Co-operative Bank of Kenya	Financials	COOP
Crown Paints Kenya	Basic Materials	BERG
Deacons East Africa	Consumer Services	DCON
Diamond Trust Bank Kenya	Financials	DTK
Eaagads	Consumer Goods	EGAD

East African Breweries	Consumer Goods	EABL
East African Cables	Industrials	CABL
East African Portland Cement	Industrials	EAPC
Equity Group	Financials	EQTY
Eveready East Africa	Consumer Goods	EVRD
Flame Tree Group Holdings (GEMS)	Basic Materials	FTGH
Home Afrika (GEMS)	Financials	HAFR
Housing Finance Co Kenya	Financials	HFCK
I&M Holdings	Financials	IM
Jubilee Holdings	Financials	JUB
Kakuzi	Consumer Goods	KUKZ
Kapchorua Tea Company	Consumer Goods	KAPC
KCB Group	Financials	KCB
KenGen Company	Utilities	KEGN
KenolKobil	Oil & Gas	KENO
Kenya Airways	Consumer Services	KQ
Kenya Orchards	Consumer Goods	ORCH
Kenya Power & Lighting Co	Utilities	KPLC
Kenya Re	Financials	KNRE
Kurwitu Ventures (GEMS)	Financials	KURV
Liberty Kenya Holdings	Financials	CFCI
Limuru Tea Co	Consumer Goods	LIMT
Longhorn Publishers	Consumer Services	LKL

Marshalls East Africa	Consumer Services	MASH
Mumias Sugar Co	Consumer Goods	MSC
Nairobi Business Ventures	Consumer Services	NBV
Nairobi Securities Exchange	Financials	NSE
Nation Media Group	Consumer Services	NMG
National Bank of Kenya	Financials	NBK
NIC Bank	Financials	NICB
Olympia Capital Holdings	Industrials	OCH
Safaricom	Telecommunications	SCOM
Sameer Africa	Consumer Goods	FIRE
Sanlam Kenya	Financials	PAFR
Sasini	Consumer Goods	SASN
Scangroup	Consumer Services	SCAN
Standard Chartered Bank Kenya	Financials	SCBK
Standard Group	Consumer Services	SGL
Stanlib Fahari I-REIT	Financials	FAHR
Total Kenya	Oil & Gas	TOTL
TPS Eastern Africa	Consumer Services	TPSE
Trans-Century	Industrials	TCL
Uchumi Supermarkets	Consumer Services	UCHM
Umeme	Utilities	UMME
Unga Group	Consumer Goods	UNGA
Williamson Tea Kenya	Consumer Goods	WTK