

# **CORPORATE GOVERNANCE AND ORGANIZATIONAL PERFORMANCE: THE CASE OF COMPANIES QUOTED AT THE NAIROBI STOCK EXCHANGE**

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**A Management Research Project Submitted in Partial Fulfilment For  
The Requirements of The Degree of Master of Business  
Administration (MBA), Faculty of Commerce, University of Nairobi**

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## DECLARATION

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

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

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# **DEDICATION**

**To my family: Source of love and inspiration**

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## **LIST OF ABBREVIATIONS**

<b>BRT</b>	-	<b>Business Round Table</b>
<b>BCCI</b>	-	<b>Bank of Credit &amp; Commerce International</b>
<b>BOD</b>	-	<b>Board of Directors</b>
<b>CACG</b>	-	<b>Commonwealth Association of Corporate Governance</b>
<b>CCG</b>	-	<b>Centre for Corporate Governance (Kenya)</b>
<b>CEO</b>	-	<b>Chief Executive Officer</b>
<b>CG</b>	-	<b>Corporate Governance</b>
<b>CMA</b>	-	<b>Capital Markets Authority</b>
<b>CSR</b>	-	<b>Corporate Social Responsibility</b>
<b>DfID</b>	-	<b>Department for International Development</b>
<b>MSP</b>	-	<b>Market Share Price</b>
<b>FKE</b>	-	<b>Federation of Kenya Employers</b>
<b>HBR</b>	-	<b>Havard Business Review</b>
<b>ICGN</b>	-	<b>International Corporate Governance Network</b>
<b>KASNEB</b>	-	<b>Kenya Accountants and Secretaries National Examinations Board</b>
<b>NSE</b>	-	<b>Nairobi Stock Exchange</b>
<b>OECD</b>	-	<b>Organisation for Economic Cooperation and Development</b>
<b>PSICG</b>	-	<b>Private Sector Initiative for Corporate Governance</b>
<b>ROI</b>	-	<b>Return on Investment</b>
<b>USA</b>	-	<b>United States of America</b>

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## ABSTRACT

Corporate Governance, the system by which companies are directed and controlled, continues to gain prominence mostly triggered by the globalization of economies and the financial and investment markets. Increasingly, investors are demanding high standards of corporate governance in the companies in which they invest. In Kenya the need for corporate governance, as is the case in many parts of the world, is becoming more pronounced as a way of safeguarding various stakeholders interests. Corporate Governance is now generally taken as an important ingredient for the economic health of companies and society in general.

The research objectives of this study centred on establishing the extent of corporate governance practised by companies quoted at the Nairobi Stock Exchange (NSE) and to evaluate the correlation between performance and corporate governance. To facilitate and achieve objectives of the study, secondary data from all the 47 companies quoted at NSE was used. The various elements of corporate governance practices were scored out of 100%. Performance in terms of turnover, net profit and market share price for all the listed companies were recorded in a data collection form and the average for 5 years to end December 2004 calculated. The data was then analysed for all the companies as a group and then separately for the five different market segments as categorised at the Nairobi Stock Exchange namely Agricultural, Commercial and Services, Finance and Investment, Industrial and Allied and Alternative Investment Market segment.

Companies in different investment categories scored differently on corporate governance. The segments were ranked as follows in terms of corporate governance score: Agricultural, Finance and Investment, Industrial and Allied, Commercial and Services and lastly Alternative Market Segment.

Performance of the companies under review generally correlated with the extent of corporate governance. The correlation was stronger with certain aspects of performance measures than others. Agricultural sector gave the highest correlation followed by Industrial and Allied category. Alternative Investment Market Segment gave the weakest correlation.

The research findings show that most of the companies quoted at the NSE practise high level corporate governance. The results further reveal that generally there is a correlation between performance and corporate governance. The strength of correlation however varies depending on the market segment considered and the performance measure used. The Government and other stakeholders in companies should demand high levels of corporate governance as a way of enhancing performance in the long run and safeguarding the shareholders interests.

It is appreciated that factors other than corporate governance play an important role in the performance of the companies. These extraneous factors were not considered in this study as this was not the part of the research objective. This notwithstanding the research objectives were met.

# CHAPTER ONE

## INTRODUCTION

### 1.1 Background to the study

Corporate Governance is the system by which corporations are directed and controlled. (CACG, 1991). It refers to the standards, behaviour and codes of conduct, which govern the relationships among various participants in determining the direction and performance of corporations (Mucuvi, 2002). Corporate Governance involves leading and controlling companies and institutions to generate wealth and serve stakeholder interests. The Corporate Governance structure specifies the distribution of rights and responsibilities among different stakeholders in the company, such as the board, managers, shareholders and other participants and spells out the rules and procedures for making decisions on corporate affairs (OECD, 1999). By doing this, it also provides the structure through which the company objectives are set, and the means of achieving those objectives and monitoring performance.

The study of Corporate Governance has attracted a great deal of public interest because of its apparent importance for the economic health of corporations and society in general. Today companies have become independent partners in the development of global economy. The wealth of nations in free enterprise economies is created predominantly at the level of corporate enterprises. Such enterprises bring together different stakeholders whose interests are at most times not congruent. For example, while the shareholders may be mainly concerned with long term maximization of their wealth, management on the other hand may be more concerned with short term objectives and their own remunerations. Corporate governance thus provides the mechanism for controlling and balancing the various stakeholder interests and ensuring that the objectives of the firm are met.

### 1.1.1 Developments in Corporate Governance

At the end of the Second World War in 1945, many countries embarked on the reconstruction of their industries and infrastructure. The shared common spirit of goodwill and patriotism in the reconstruction endeavours was high among senior corporate executives who acted in the best interest of their countries and shareholders (Murimi, 2004).

The spirit of goodwill continued through the 1960's and 1970's where personal interests of the managers were subordinate to those of the institutions they served. Managers did their work, diligently with minimum external supervision and exploited opportunities for growth and prosperity of the companies. This however changed with time when senior corporate managers started to use their positions to ensure job security and maximise their benefits rather than increase shareholders wealth and pay requisite attention to other stakeholders. Ethical issues began to emerge as senior managers engaged boards of directors who were their acquaintances with the objective of safeguarding their interests in the organisations. The prevalence of company collapses and management scandals in business and government was believed to be a result of degenerating standards in behaviour of top management in leading companies. Longeneck and Pringle (1981) documented issues of corporate governance and highlighted that governance issues came to the forefront as a result of rising business scandals in the USA.

Society sought to contain such behaviour through various governance channels that took cognisance of all stakeholders involved in a given corporate entity. By late 1980's the public and corporate boards began to demand a more active role in corporate governance as they realised that their intervention could increase the level of transparency and accountability needed to safeguard stakeholder interests.

The globalisation of economies in the 1990's led to the convergence of international and regional trading blocks which put great emphasis on corporate governance. The initiatives included the establishment of the Global Corporate Governance Forum by the World Bank and Organisation for Economic Cooperation and Development (OECD); The International Corporate Governance Network (ICGN); and The Principles of Corporate Governance in the Commonwealth in 1999. These initiatives were formed and mandated to establish, develop and enhance corporate governance principles and practices both at global and regional levels. The Kings Committee Report and code for corporate governance in South Africa published in 1994, continues to stimulate debate on corporate governance practices in Africa.

In Kenya the Capital Markets Authority was set up in 1989 through an Act of Parliament (CAP 485A, Laws of Kenya) to promote and regulate capital markets in a manner that enhances investor confidence and safeguards the interests of all market participants. The Capital Markets Authority has since then formulated guidelines and recommendations to be adopted by all companies quoted at the Nairobi Stock Exchange in an effort to protect the investor and other stakeholder interests. All listed companies are now required to disclose the level of compliance with corporate governance rules and if not, to tell their shareholders the steps being taken to ensure full compliance. The recommended areas of corporate governance include the appointment and responsibilities of the CEO and other board members, the constitution and rights of shareholders and the accountability of the board in all corporate governance issues.

### **1.1.2 Challenges to Corporate Governance Practices in Kenya**

Cases of corruption in Kenya have attracted lively debate in many legal and business sectors. Such cases include the Goldenberg Scandal which has been the subject of a Presidential Commission of inquiry for a long time, the Euro Bank which collapsed in 2004 and which the directors sensing possible prosecution physically destroyed computers to conceal evidence. The government in recognition of the negative impact of corruption on social and national development established the office of Governance and Ethics in 2003 and also set up a series of task forces in 2004, all meant to combat this vice.

Development and promotion of corporate governance practices require investment in financial and human resources. It has been recognised that the cost of complying with the obligations imposed by codes of corporate governance is likely to be proportionately larger for smaller companies (CCG, 2004). For example the cost of setting up an audit committee is not dependent on the size of the company and will represent a larger proportion of the sales received by a small enterprise. The Cadbury Code recognised that boards of some small companies may not yet be in a position to comply with all the contents of the codes provisions (Cadbury,1992).

The information disclosed by Boards of Directors in Kenya depends on factors such as legal provisions incorporated in various statutes, stock exchange requirements for listing and continuous obligations, disclosure standards, stipulated by professional accounting bodies and more recently recommendation of best practice by Codes of Best Practice in Corporate Governance (CCG, 2004). Also significant is the attitude and willingness of management to supply adequate and relevant information and who in their reluctance to disclose information will often cite confidentiality and competition as a bar to their being more forthright in providing sufficient and appropriate information.

Given the limited legal backing in Kenya for access to information on the financial and non-financial performance of companies by shareholders and other interested parties it is sometimes difficult to establish the adequacy and completeness of the disclosed information for sound decision making. Hence limited disclosure would tend to inhibit exercising of Corporate Governance practices. The control and ownership structure of a company has also a bearing on the degree of disclosure. It has been observed that where the major shareholding is restricted to a few people, control is usually exercised by the major shareholders and the level of accountability and disclosure to other stakeholders diminishes (CCG, 2004) and thus inhibiting the promotion of corporate governance practices.

The two other bodies credited with developing and promoting good corporate governance namely the CMA and NSE do not have explicit enforceable provisions that state minimum academic qualifications and experience to hold board positions, framework and mechanisms for setting out director emoluments, disciplinary action for directors who habitually do not attend meetings or are simply incompetent. Lack of such provisions, among other factors, affect implementation of corporate governance practices in Kenya. Other challenges to corporate governance practices include lack of separation of ownership and control to even out level of responsibilities and ineffective board structure coupled with incompetent board members and managers.

## **1.2 Statement of the Problem**

It is acknowledged that corporate governance is an important and necessary ingredient in the financial sustainability and economic development of a company (CCG, 1999). Due to constraints of time, appropriate managerial skills and wide shareholder dispersion, shareholders engage agents (directors and managers) to direct and control their enterprises. According to Adolf et al. (1932), the resulting separation of ownership and control generates conflict of interest between the owners and agents hired to run the firms.

The increasing number of corporate failures and financial scandals have been caused by incompetence, fraud and abuse of power and responsibilities by the agents running the firms (Ogoye, 2002). The report by Kerry et al. (1992) describes how BCCI defrauded depositors of USD \$ 10 billion in the 1980's. More recently, Enron was another major fraud scandal in USA. In Kenya major frauds on public funds have continued to feature in the reports of the Controller and Auditor General. Recent corporate frauds in the private sector in Kenya include the Golden Export Compensation Scheme and the collapse of several financial institutions including Euro Bank, Trust Bank, Trade Bank and Rural-Urban Credit. It is therefore through improved system of corporate governance practices that organisations can address and harmonize the incongruent interests of different stakeholders and protect the interests of shareholders.

From the findings of Grady (1999), it was established that institutional investors have the highest regard for good corporate governance and that they place it at par with financial indicators when evaluating investment decisions.

Increased globalization of markets and the need to attract strong capital flows has created a need for all countries to address the mechanisms and ways of promoting good corporate governance practices.

The importance of corporate governance practices cannot therefore be understated as they are strong determinants in the survival or collapse of corporate bodies. In Kenya, it has also been recognised that there is a need to examine and redefine the manner in which companies are managed in order to be viable instruments of business dealing, productivity, employment and income by Jebet (2001). Capital Markets Authority has spelt out recommendations on corporate governance practices that all companies quoted at the Nairobi Stock Exchange ought to comply with ( PSICG,1999).

Previous research done on corporate governance in Kenya include a Study of Corporate Governance by Jebet (2001) in which she set to determine the existing corporate governance structure in publicly quoted companies in Kenya. Other research studies conducted in the area of corporate governance targeted specific single sectors with the main objective of establishing and documenting the governance practices in each of those sectors in Kenya. These studies included MFI's by Wainaina (2002), motor vehicle industries by Mucuvi (2002), insurance by Mwangi (2002), banks by CCG (2004) and NGO's by Wairimu (2002).

Given that these studies targeted single sector industries the findings were limited to those specific industries. Secondly, the studies did not address how corporate governance practices in these industries relate with organisational performance.



A study of corporate governance practices and performance by companies quoted at the NSE will provide some insights in the actual application of these practices and how they relate with corporate performance. This study will focus on companies quoted at the NSE since they have a wide range of shareholders who are not involved in the running of the companies and must therefore address issues of corporate governance. Also due to the fact that these companies vary in size, ownership and cut across different industries, some of the findings are likely to be more representative of other companies in Kenya and hence appeal to wider interest groups than the single sector industries. While taking cognizance of the above, this study therefore aims to address the following questions: What is the extent of corporate governance practice in companies quoted at NSE? How do these practices relate with performance of those organisations?

### **1.3 The research objectives**

- (a) To establish the extent of corporate governance practices in companies quoted at NSE.
- (b) Find out whether performance of an organisation is related to the extent of corporate governance practices.

### **1.4 Importance of the study**

- (a) Provide a better understanding of how performance of an organisation relates to the extent of corporate governance practices.
- (b) Provide a body of knowledge to the academic community for further research into the area of corporate governance.
- (c) Shareholders: To understand and demand for good and timely corporate governance practices.
- (d) Policy-makers: CMA and NSE, formulating policies on effective implementation of corporate governance practices.

# CHAPTER TWO

## LITERATURE REVIEW

### 2.1 The concept of Corporate Governance

According to the PSICG (1999), corporate governance 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 while satisfying other stakeholders in the context of its corporate mission.

Directors have the responsibility to ensure that the enterprises they direct are viable, sustainable, competitive, credible and accepted by consumers and society (PSICG, 1999). Society as stakeholder is concerned with ensuring that the licence to operate, granted to the business enterprise is used responsively and responsibly in the best interests of society to add value; and that entrusted wealth producing resources are efficiently and effectively utilised (FKE/DfID, 2002). Virtually all the stakeholders are therefore interested in the sustainability, profitability and competitive ability of the business enterprise.

According to BRT White Paper (2002), good corporate governance in the enterprise hinges on a selection of sound governance principles. Corporate governance principles are intended to provide a framework for the management and accountability of key decision-making bodies. Governance is in essence the organisational arrangements that have been put in place to provide an appropriate set of checks and balances on the stewards of an organisation.

The principle of balanced governance structure is critical and must exist to harmonise and control corporate power to regulate the activities of the Board of Directors and Senior Management. CEO's performance determines the fates of companies, which collectively influence whole economies and the standard of living of many people (Charan, 2005). The selection, compensation and evaluation of a well qualified and ethical CEO is therefore the single most important function of the Board (Montgomery et al, 2003).

The Board also appoints or approves other members of the senior management team. Key Committees comprising solely of independent directors should exist in the governance structure (Felton et al, 1995). The board and its audit committee should take reasonable steps to ensure that the corporation's financial statements and other disclosures accurately present the corporation's financial condition and results of operations to stakeholders, and that they do so in an understandable manner. Key committee meetings should be held frequently enough to allow the committees to monitor regularly the important corporate governance issues. A substantial majority of directors of the board of a publicly owned corporation should be independent of management. (Hendrikse et al, 2004).

The PSICG (1999) lists many corporate governance principles expected of a publicly quoted company including the existence of the mission, strategy and values for the organisation, criteria for appointment and assessment of Board of Directors, effective communication to shareholders, corporate compliance and operating within established tenets of good corporate social responsibility.

Corporate Governance has increasingly become a worldwide topic of discussion and research because of its apparent importance for the economic health of business enterprises and society in general. Today companies have a vital role to play in promoting economic development and social progress agenda in any country. Countries therefore need well governed and managed business enterprises that can attract investments, create jobs and wealth and remain viable, sustainable and competitive in the global market place. Good corporate governance, therefore, becomes a pre-requisite for national economic development which in turn improves the standard of living and welfare of the general public.

Drucker (1970) stresses the need to have the behaviour of business enterprises monitored to ensure that they are properly regulated and managed to harness their enormous collective resources and energy towards promoting the social and economic well being of societies, states and the world at large.

The benefits accruing from good corporate governance are many and include increased standards of professionalism, shareholders and creditors protection, increased accountability and integrity, improved workers participation in management and established mechanisms for conflict resolution (Keith,1998). Typical interests of a corporation include achievement of objectives for which the organisation exists, enhancement of efficiency and effectiveness, preservation of physical and social environment and eradication of corruption and other unethical practices (Hendrikse et al, 2004). Without meaningful protection for external capital providers, those controlling the company can use their position to misappropriate the economic benefits, often at the expense of the long-term performance and value of the enterprise.

Good corporate governance attracts investors and assures them that their investment will be secure, provide good returns, efficiently managed and in a transparent and accountable manner (Stiles, 1993). Creation of competitive and efficient business enterprises as well as promotion in efficient and effective use of limited resources operate well in an environment of good corporate governance. In order to enhance the accountability and performance of those entrusted to manage companies it is necessary that good corporate governance climate prevails.

## **2.2 Corporate Governance Practices**

### **2.2.1 Elements of Corporate Governance Practices**

Factors affecting corporate governance practices vary from country to country and for the same country from company to company depending on the leadership and ownership structures in place. For example Klapper and Love (2002) found that corporate governance provisions at the firm level matter more in countries with weak legal environment. Thus investors in these countries appreciate good corporate governance practices more than investors in countries with strong legal environment. Companies covered by the same legal setting in a given country may lay different emphasis on corporate governance practices depending on the ownership and control structure of the company.

For instance, if the market suspects that controlling owners can find ways to maximize their interests at the expense of other shareholders however good their firms corporate governance practices may appear, then the market is likely to discount the value of measure in corporate governance. Each study has therefore its own way of emphasizing the various corporate governance practices depending on the country's legal framework, the company's corporate governance structure and the researcher's views on particular governance practices and the degree of deviation among the firms surveyed.

The emphasis placed on various aspects of corporate governance practices depend on how corporate governance is defined to bring out the key salient features. According to Hendrikse et al. (2004), corporate governance is the system that maintains the balance of rights, relationships, roles and responsibilities of shareholders, directors and management in the direction, conduct conformance and control of the sustainable performance of the company business with honesty and integrity in the best long-term interests of the company, shareholders, and business and community stakeholders. The details encompassed in this definition are consistent with the provisions in the Capital Markets Authority in Kenya regarding corporate governance. Capital Markets Authority provides a comprehensive list of recommended corporate governance practices which all companies quoted at the Nairobi Stock Exchange are supposed to comply with (CMA, 1998).

The recommended practices are congruent with the three-fold objective expected of all listed companies namely: **economic** and **financial** well-being (shareholders, directors, management and employees); **social** well being, including health and safety needs (employees, the community and society); and **environmental** well-being (for everyone). This three-fold objective, referred to as triple bottom line reporting and involving corporate social responsibility and sustainable development, form the basis for categorising the corporate governance practices in this study. All the recommendations by the Capital Markets Authority on corporate governance are therefore categorised into three main areas; **Board structure and leadership**, **Transparency and shareholder protection**, and **Business conduct and compliance**.

### 2.2.2 Board structure and leadership

Board structure and leadership refer to the balance of power, authority and systems reflected in the size, composition and performance of the board members, (Hendrikse et al, 2004). Board of Directors of large publicly owned companies vary in size from industry to industry and from company to company. In determining board size, directors should consider the nature, size and complexity of the company as well as its stage of development (BRT, 2002).

Experience suggests that smaller boards are more often cohesive and work more effectively than larger boards. In the model for good corporate governance established by Felton et al (1995), the board should at any one time consist of directors with a mix of experiences and skills that provide useful perspective on significant risks and competitive advantage and an understanding of the challenges facing the business. The board of a publicly owned company should have a substantial degree of independence from management. A substantial majority of directors of the board should be independent of management. In terms of board operations, the directors need to realise that serving on a board requires significant time and attention on their part. They must participate in board meetings, review relevant materials, serve on board committees, and prepare for meetings and for discussions with management. They must spend the time needed and meet as frequently as necessary to properly discharge their responsibilities.

The board should have an effective mechanism for evaluating performance on a continuing basis. The shareholders and the board of directors are responsible for corporate governance of the company. They are supposed to set corporate objectives and show commitment to corporate governance by establishing and sustaining mechanisms that foster adherence to systems in place.

Gregg et al. (1992) studied the structure and role of the board of directors in organisations. They reviewed the various studies addressing the relationship between board compensation, board leadership structure and financial performance.

In general they found that the relationship between board compensation or leadership structure and corporate performance was not conclusive. It was observed that companies with similar board structure and leadership performed differently. The explanation to this could be that the competencies, ability, qualifications and skills of the individual board members was important. It is therefore important that these factors are considered to gain some insight into their effect on performance.

The Capital Markets Authority in Kenya recommends that all boards of directors of listed companies should operate with the help of relevant board committees. A committee structure permits the board to address key areas in more depth than may be possible in a full board meeting. A wide diversity of approaches in committee structure and function responds to the specific needs of companies having different business challenges and having different corporate culture. Such committees include: the audit committee, corporate governance committee and compensation committee.

Following the 2002 Capital Markets Authority recommendations on corporate governance, many quoted companies in their annual reports state the existence or otherwise of the board committees, size, composition, responsibilities, separation of powers (between board chairman and CEO), director competencies among other disclosures.

This study will therefore also try to establish the extent of disclosure of corporate governance practices from which attempts can be made to deduce the extent of good corporate governance.

### **2.2.3 Transparency and shareholder protection**

Transparency refers to both the degree of openness of the organisation and the extent of disclosure of the factors that could influence decisions (Hellman et al, 2001). Transparency goes hand in hand with accountability which implies that one has to give an account of what has been done, how it has been done and the results thereof.

Firm-level corporate governance practices may be viewed as endogenous. According to the agency theory, those in control of a firm may take deliberate choices in such a way as to maximize their objectives. If their primary goal is to maximize their personal or family wealth and this goal is relatively easily achievable given the regulatory and legal environment in which they find themselves, they have no reason to introduce good corporate governance practices that will tie their hands and will try to take advantage of the weak laws and regulations and of their poor enforcement. Transparency about a company's governance policies is critical. As long as investors and shareholders are given clear and accessible information about these policies, the market can be allowed to regulate the performance of the company.

Outside shareholder protection includes mechanisms that prevent controlling shareholders from extracting excess benefits through self-dealing or disregard of minority shareholders economic rights. Additional governance mechanisms may include voting rights and allowing outsiders representation on the board.

#### **2.2.4 Business conduct and compliance**

The system of corporate governance is the framework involving principles, processes and people. Sometimes companies perform well due to unexpected favourable conditions e.g. legislature, reduced competition, trading currency fluctuations, favourable interest rates etc. However in many cases performance is based on both internal/external factors that the company must all the time take into account in its decisions and implementations of such decisions e.g. competencies , best practices etc. All these depend, to a large extent, on the degree of corporate governance which address the vision and general corporate operations.



Good corporate governance philosophy, requires that company performance is accompanied by compliance and effective results by ethical conduct and discipline (Hendrikse et al, 2004 ). Compliance starts with leadership at director level in relation to the defined business strategy, the direction and stewardship of the business, and the putting into place of the appropriate structures and systems. At the heart of compliance is the code of conduct that is driven by the highest level of corporate and personal ethics and individual honesty, integrity and good conduct. The board of directors is expected to develop and put in place a code of ethics outlining the values, ethics and beliefs that guide the policy and behaviour of the company and define the ethical standards applicable to it and to all who deal with it. Good corporate governance includes good corporate citizenry that identifies non-economic objectives such as positive social, health and environmental objectives and contributes to the upliftment and development of the community and country in which the business operates. (Hendrikse et al, 2004). The board of directors is therefore supposed to publish a social responsibility report every year indicating how it has dealt with its social and environmental responsibilities.

To facilitate compliance, the necessary checks and balances have to be put in place in relation to the board of directors and management and these include: written policies and procedures, performance reporting (including trend of financial results) and effective internal controls.

## **2.3 Corporate Performance**

### **2.3.1 Introduction**

Corporate performance can take many forms depending on who and what the measurement is intended for. Different stakeholders require different performance indicators to enable them make informed decisions. The content, format and frequency of reports depend on who needs the information and for what purpose. For example operating managers will be more interested in management accounting information that enables them perform their day to day operations and make routine decisions.

Environmental and social groups are keen in following the actions that the company undertakes with regard to corporate social responsibility. Shareholders on the other hand will want to be certain about the viability, growth, profitability, return on investment and continued financial sustainability of the firm (Brown et al, 2003). It is recognised that the information availed to the shareholders is normally a condensed summary of varied operational and management reporting that reflect many and important goings-on in the corporation. Provided full disclosure of the information is therefore made, the reporting to shareholders will contain sufficient information to give an accurate report of the financial health of the firm.

The NSE regulations are very specific about the level of information and disclosure required by potential investors and shareholders to make informed decisions. For the purpose of this research project three indicators namely turnover, net profit and EPS are proposed as measures of corporate performance. These are considered to be important indicators as they measure business volume and growth, profitability and investors ROI. These are factors that have a wide appeal to varied stakeholders both internal and external and provide quantifiable corporate performance parameters. They are generally the metrics many companies use in the planning, implementation and monitoring of both short and long term strategic goals.

### **2.3.2 Turnover**

Turnover is the sales or gross revenue of the company during the financial period under review. It is the product of the quantities of goods sold or services rendered and the corresponding unit cost. A high or increasing turnover implies increased volume of sales due to quantities sold or increase in price. In the current competitive environment where many consumers are price-sensitive, an increase in the company's turnover will be more likely influenced by high volume sales. High volume sales will result from increased demand and production and hence reflecting growth or expansion of the company.

Reduction in turnover will on the other hand suggest declining units sold hence poor performance, other factors such as price remaining constant. The size and performance of a company can therefore be assessed from the growth or decline of the turnover.

Data on turnover has been used by many companies in assessing corporate performance in terms of growth or decline (Drobotz et al, 2004). As turnover does not encompass the elements of product costing it cannot on its own reveal the level of efficiency in production and other cost related areas. Secondly the concept of turnover is not appropriate to banks and insurance companies and therefore not presented. For this reason data on turnover is normally studied and interpreted with other performance parameters.

### **2.3.3 Net profit**

This is the realisable income net of all costs, interest on debt and tax. It is a measure of how the company has controlled its costs in the effort to maximize on the shareholders wealth. Net profit therefore demonstrates the efficiency with which a company uses and converts the available input resources into finished and sold products and services while satisfying the statutory tax payments. Generally higher net profits indicate better corporate performance while reduced profits point to poor performance unless there exists specific reasons such as natural calamities, changes in political or economic systems. Net profit is a figure arrived at after considering all the income and expenditure variables and transactions and hence reflects the various levels of financial performance of a company. When accompanied by full disclosure of other material facts as required in corporate governance practices, net profit is a reliable measure of corporate performance.

#### **2.3.4 Market Share Price**

Stock market-based indicators are considered the most appropriate or sensitive measure of company performance as they reflect the wealth generation for shareholders, (Jensen et al, 1990). One such widely used indicator is the MSP which in this case is basically the market value of equity share. MSP is the cost price for which an investor pays to own a stake in a company. MSP is an important performance measure as it requires complete information regarding the financial performance of the company which in turn is subject to the general market forces. It reflects the net worthiness, risk and return about a given company from the investors perspective and draws a great deal of interest from shareholders. Generally increase in market share price indicates good corporate performance.

#### **2.4 Corporate governance and organisational performance**

Arguably the specific components of corporate governance practices to which investors pay the most attention may differ for each country because of differences in ownership and control structures, regulatory frameworks or relevant corporate practices. Both company performance and corporate governance are not just combinations of many variables but are also the results of the enterprise of many people in an organisation working in a rapidly changing environment. Accordingly, attempts at measurement are problematic. There is lack of consensus over what constitutes good corporate governance and how it can be assessed. Similarly, although there are also many measures of financial performance, there is no single appropriate measure either of financial performance or effectiveness of governance (Narjess et al, 2001).

According to La Porta et al (1998), corporate governance is a set of mechanisms through which outside investors protect themselves against expropriation by the insiders. It therefore follows that good corporate governance is supposed to lead to better corporate performance by preventing the expropriation of controlling shareholders and ensuring better decision making.

Stakeholders including investors, employees and suppliers will also want to be associated with and enter into business relationships with such firms, as the relationships are likely to be more prosperous, fairer and longer lasting than those with less effective governance. With better protection of investors at the firm level, the capital market will also be boosted and become more developed, which is essential for sustainable economic growth. At the same time, good corporate governance is critical for building a just and corruption-free society.

According to the agency theory, good corporate governance should lead to higher stock prices or better long-term performance, because managers are better supervised and agency costs are decreased. Poor corporate governance on the other hand is fertile soil for corruption and corruptive symbiosis between business and political circles (Nam et al, 2005).

Brown et al (2003) who conducted research on many major American companies found that firms with weaker corporate governance perform poorly compared to those with stronger corporate governance in terms of stock returns, profitability, riskness and dividend payment. Although the corporate factors and performance indicators examined in their research are slightly different from the ones to adopted in this study, the findings nevertheless give a pointer to some form of relationship between corporate governance and organisational performance.

## **CHAPTER THREE**

### **RESEARCH METHODOLOGY**

#### **3.1 The Population**

Companies quoted at the Nairobi Stock Exchange exhibit high levels of diversity in many aspects including divergence in ownership, leadership structure and varied experiences. Some of the companies are large, being part of the large multinational groups, others are parastatals, while others are small and indigenous. To address all these differences in diversity and obtain results which form a representative facet of the practices of the listed companies, it was found appropriate to carry out a census survey. The study was based on all the 48 companies quoted at the NSE as of end December 2004 as indicated in appendix 2. Although listed at the NSE, Hutchings Biemer Limited was excluded in the study as it had not participated in the NSE trade activities for some time including the period of this study. The remaining 47 companies were classified into five groups based on their various investment categories namely; Agricultural, Commercial and Services, Finance and Investments, Industrial and Allied and Alternative Market Segment.

#### **3.2 Data Collection**

Matters relating to corporate governance tend to be treated with caution and confidentiality especially if they relate to structures, ownership and board remuneration. In such cases, most senior managers and directors tend to hide information citing confidentiality or avail it in a biased manner to meet public expectations. On the other hand this study required that this seemingly sensitive information be obtained. In the process of trying to address this dichotomy, it was established that the Nairobi stock Exchange and Capital Markets Authority require that all the governance practices existing in these companies are disclosed and explained as part of the Annual Report and accounts. The directors are expected to comply by giving factual and accurate information as contrary to this could solicit serious questions from shareholders or even lead to legal reprisals. Where compliance has not been met in this respect, reasons are supposed to be given by the Board of Directors.

The same Annual Reports also contain all the relevant information about financial performance of the listed companies for the year under review and the preceding year for comparison purposes. Secondary data was therefore collected and used in this study. The main sources of data were the Annual Reports and Accounts documents published by each of the companies listed at the Nairobi Stock Exchange covering the period 2000 - 2004. These documents were available at the Nairobi Stock Exchange and Capital Markets Authority.

The five-year period was considered adequate to derive conclusive results. 2004 was chosen as the end year to bring into focus the most recent developments in corporate governance practices and how they relate to organizational performance.

Information collected specifically related to Board Structure and Leadership; Transparency and Shareholder Protection and Business Conduct and Performance. Financial information, for each company regarding turn over, profit after tax and Market Share Price for the last five years ending December 2004 were collected and documented on a suitably structured form as shown in appendix 1.

### **3.3 Data Analysis**

The data collected was analysed through the use of descriptive statistics. Frequency distribution and percentages were used to determine the extent of corporate governance practices in the companies quoted at the Nairobi Stock Exchange. Five year average scores for turnover, net profit and market share price were used to establish the performance of the companies under review.

Pearson Product Moment correlation coefficients were established to help investigate the correlation between organisational performance and corporate governance. Excel computer package was used to analyse data and present it in the form of tables and graphs.

# CHAPTER FOUR

## DATA ANALYSIS AND FINDINGS

### 4.1 Introduction

The data obtained from sections A to D of the collection form (appendix 1) was scored under the three broad elements of corporate governance namely Board Structure and Leadership; Transparency and Shareholder Protection and Business Conduct and Compliance. The weighted score for each of these elements was based on the relative importance of the element categories expounded in the Literature Review. Scoring the quality of corporate governance is subjective and can be controversial. Analysts are unlikely to agree on whether or not a certain aspect of corporate governance should be included, how much weight should be given to each aspect, and what scores should be given to responses to individual questions. However, because this survey covered a large number of questions cutting across the various aspects of corporate governance, the problem of subjectivity in scoring was mitigated. The extent of corporate governance practice for each company was measured in terms of percentage score ranked as indicated in Table 1. The companies were then listed under their respective investment categories namely Agricultural, Commercial and Services, Finance and Investment, Industrial and Allied and Alternative Market Segment. Each of these categories was also analysed to establish the extent of its corporate governance practice and comparative deductions made thereof.

The performance of each company was analysed on the basis of its average turnover, net profit and market share price for five years ending 2004 (appendices 4, 5 and 6). Investigation into whether performance of an organisation is related to the extent of corporate governance was done through Pearson Product Moment correlation which indicates the level of correlation between the extent of corporate governance practice (% score) and the performance of corresponding organisations. Similarly correlations of corporate governance of each of the five market segments were analysed against their respective performance. Statistical significance at 95% and 99% confidence limits were tested for various correlation coefficients based on the size of available data in each market category.



In all cases the correlation coefficients were analysed and found to be statistically below 95% confidence limit. The only exception was the correlation between corporate governance and average turnover for all companies analysed together. There was strong positive correlation in this case at 95% confidence limit.

Descriptive statistics, tables, graphs and qualitative analysis were used to present and interpret the results.

## 4.2 Extent of Corporate Governance Practices in Quoted Companies

### 4.2.1 General Analysis of All Companies

As explained in section 4.1 above, corporate governance practices based on Business Structure and Leadership; Transparency and Shareholder Protection; and Business Conduct and Compliance were scored out of a total of 100% as shown in Table 1. The extent of corporate governance practice for each company was interpreted in terms of its percentage score.

**Table 1: Extent of Corporate Governance across all Companies**

	Company	Business Structure & Leadership (Score out of 45)	Transparency & Shareholder Protection (Score out of 20)	Business Conduct & Compliance (Score out of 35)	Total (Score out of 100)
1	Kenya Power & Lighting Co.Ltd	38	17	33	88
2	I.C.D.C Investments Co Ltd	38	18	31	87
3	Mumias Sugar Co. Ltd	34	16	35	85
4	Kenya Airways Ltd	34	18	32	84
5	Barclays Bank Ltd	35	17	30	82
6	Standard Chatered Bank Ltd	33	19	29	81
7	East African Breweries Ltd	34	17	30	81
8	TPS Ltd	34	20	26	80
9	NIC Bank Ltd	32	15	33	80
10	Housing Finance Co Ltd	35	17	26	78
11	British American Tobacco (K) Ltd	34	11	33	78
12	Standard Group Ltd	35	16	26	77
13	Diamond Trust Bank Kenya Ltd	34	17	25	76
14	Kenya Commercial Bank Ltd	32	14	30	76
15	B.O.C Kenya Ltd	30	16	30	76
16	Car & General (K) Ltd	29	17	27	73
17	Bamburi Cement Ltd	30	12	30	72
18	Unilever Tea Kenya Ltd	30	16	25	71
19	Sasini Tea & Coffee Ltd	23	17	30	70
20	Pan Africa Insurance Holdings Ltd	40	17	13	70

**Table 1: Continued**

21	E.A. Portland Cement Ltd	27	16	27	70
22	National Bank of Kenya Ltd	31	23	15	69
23	E.A. Cables Ltd	29	15	25	69
24	Carbacid Investments Ltd	26	17	25	68
25	Samcer Africa Ltd	25	17	26	68
26	Nation Media Group	25	16	26	67
27	Uchumi Supermarket Ltd	29	14	24	67
28	Kakuzi Limited	28	19	19	66
29	Rea Vipingo Plantations Ltd	27	17	21	65
30	Total Kenya Ltd	22	13	30	65
31	Williamson Tea Kenya Ltd	19	19	27	65
32	Athi River Mining	28	17	19	64
33	Unga Group Ltd	25	17	21	63
34	Kapchorua Tea Co.Ltd	14	18	29	61
35	CMC Holdings Ltd	26	15	17	58
36	Marshalls (E.A.) Ltd	23	11	22	56
37	Jubilee Insurance Co.Ltd	24	14	18	56
38	C.F.C Bank Ltd	31	12	12	55
39	Express Ltd	19	13	19	51
40	Olympia Capital Holdings Ltd	18	13	8	39
41	A. Baumann & Co. Ltd	10	10	14	34
42	Eaagads Ltd	13	1	17	31
43	Kenya Oil Co. Ltd	6	10	9	25
44	Crown Berger Ltd	7	10	5	22
45	Kenya Orchards Ltd	8	4	3	15
46	City Trust Ltd	2	4	3	9
47	Limuru Tea Co. Ltd	1	4	2	7

The scores were then categorised as very low, low, average, high and very high as shown in Table 2. The results indicate that the extent of corporate governance in 13 companies (28%) is between very low and average while in 34 companies (72%) is between high and very high.

**Table 2: Extent of Corporate Governance and number of companies in each Market Category**

Score range	Category	Agricultural	Commercial	Financial	Industrial	Alt.Mkt. Segment	No. of Companies	% No. of Companies
0 - 20	Very Low	-	-	-	-	3	3	6%
21 - 40	Low	-	-	-	3	2	5	11%
41 - 60	Average	-	2	2	-	1	5	11%
61 - 80	High	4	4	6	10	3	27	57%
81 - 100	Very High	-	1	3	3	-	7	15%
<b>TOTAL</b>		<b>4</b>	<b>7</b>	<b>11</b>	<b>16</b>	<b>9</b>	<b>47</b>	<b>100%</b>

Further analysis into the extent of corporate governance for companies in specific market segments was also carried out as explained in the sections that follow.

#### 4.2.2 Agricultural Sector

All the four companies falling under this sector scored high on corporate governance (Table 3). It was also observed that the majority of shareholding in these companies were foreign owned. It is likely that foreign owned companies, by virtue of their international spread and varied experience, have established corporate governance practices in other parts of the world that they can easily borrow from and implement in affiliated companies in Kenya.

**Table 3: Extent of Corporate Governance in Agricultural Sector**

	<b>Company</b>	<b>Business Structure &amp; Leadership</b> (Score out of 45)	<b>Transparency &amp; Shareholder Protection</b> (Score out of 20)	<b>Business Conduct &amp; Compliance</b> (Score out of 35)	<b>Total</b> (Score out of 100)
1	Unilever Tea Kenya Ltd	30	16	25	71
2	Sasini Tea & Coffee Ltd	23	17	30	70
3	Kakuzi Limited	28	19	19	66
4	Rea Vipingo Plantations Ltd	27	17	21	65

#### 4.2.3 Commercial and Services Sector

None of the companies in this category scored low on corporate governance. Kenya Airways scored highest at 84% and Marshall (E.A) at 56% was placed under average score having the lowest percentage points (Table 4). The high score by Kenya Airways could be attributed to the nature and complexity of its business operations. Generally, the technical requirements for an airline company tend to be very high in order to comply with safety regulations. Kenya Airways also conducts its business internationally in strategic alliance with other airlines such as KLM. It has to keep abreast with emerging trends in globalisation and international business. The need for high corporate governance practices cannot be under scored. The operations of Marshalls (E.A) and CMC Holdings on the other hand do not call for the same level of technical and business standards. Moreover, their core business of importing and selling motor vehicles is not subject to as much statutory and international regulations as other companies in this category. It is therefore not surprising that their corporate governance practices are correspondingly low.

**Table 4: Extent of Corporate Governance in Commercial and Services Category**

	<b>Company</b>	<b>Business Structure &amp; Leadership</b> (Score out of 45)	<b>Transparency &amp; Shareholder Protection</b> (Score out of 20)	<b>Business Conduct &amp; Compliance</b> (Score out of 35)	<b>Total</b> (Score out of 100)
1	Kenya Airways Ltd	34	18	32	84
2	TPS Ltd	34	20	26	80
3	Car & General (K) Ltd	29	17	27	73
4	Nation Media Group	25	16	26	67
5	Uchumi Supermarket Ltd	29	14	24	67
6	CMC Holdings Ltd	26	15	17	58
7	Marshalls (E.A.) Ltd	23	11	22	56

#### 4.2.4 Finance and Investment Sector

Except for CFC Bank and Jubilee Insurance, all the other nine finance and investment companies scored high or very high on corporate governance (Table 5). The extent of corporate governance practices in this sector is therefore generally high. These results are congruent with what would be expected in practice. Finance and Investment Sectors are subject to more regulatory bodies than other sectors. Such bodies including Capital Markets Authority, Central Bank of Kenya, and Commission for Insurance compel this sector to adopt very high reporting, disclosure and compliance standards, effectively leading to high corporate governance practices.

The basic average score in corporate governance by Jubilee Insurance and CFC Bank could be attributed to the ownership structure and management control of the operations. These are medium sized companies with low ownership dispersion. Most of the share holding is owned by very few people who have tight control on the management and running of the business. Small individual investors are therefore not able to question and change the basic business structure and leadership.

**Table 5: Extent of Corporate Governance in Finance and Investment Sector**

	<b>Company</b>	<b>Business Structure &amp; Leadership</b> (Score out of 45)	<b>Transparency &amp; Shareholder Protection</b> (Score out of 20)	<b>Business Conduct &amp; Compliance</b> (Score out of 35)	<b>Total</b> (Score out of 100)
1	I.C.D.C Investments Co Ltd	38	18	31	87
2	Barclays Bank Ltd	35	17	30	82
3	Standard Chatered Bank Ltd	33	19	29	81
4	NIC Bank Ltd	32	15	33	80
5	Housing Finance Co Ltd	35	17	26	78
6	Diamond Trust Bank Kenya Ltd	34	17	25	76
7	Kenya Commercial Bank Ltd	32	14	30	76
8	Pan Africa Insurance Holdings Ltd	40	17	13	70
9	National Bank of Kenya Ltd	31	23	15	69
10	Jubilee Insurance Co.Ltd	24	14	18	56
11	C.F.C Bank Ltd	31	12	12	55

#### 4.2.5 Industrial and Allied Sector

From Table 6, most of the companies (81%) in this category scored high in corporate governance practices being led by Kenya Power and Lighting. Other companies that followed were predominantly foreign owned. This could be explained by the fact that by their very nature and complexity industrial and allied activities generally tend to require effective leadership and compliance standards to meet the highly technical facets (manufacturing, storage, sales and other logistics) encountered in this sector. This hence calls for application of high corporate governance practices. As would be expected foreign owned companies scored higher than others on corporate governance as most of them have well developed international standards in other countries from which they can easily borrow and apply. The high score by Kenya Power and Lighting could be said to be historical.

KPLC was founded on very sound leadership structure and high business compliance of international standards. This strong foundation coupled with highly technical and safety - related operations seem to have maintained it on good corporate governance footing over the years.

Olympia Holding, Kenya Oil and Crown Berger are on the other hand smaller merchandising companies. Their business structure and leadership are controlled by a few investors who are the majority shareholders. The levels of disclosure and compliance are just enough to meet Capital Market's Authority minimum requirements. Hence the low score on corporate governance.

**Table 6: Extent of Corporate Governance in Industrial and Allied Sector**

	Company	Business Structure & Leadership (Score out of 45)	Transparency & Shareholder Protection (Score out of 20)	Business Conduct & Compliance (Score out of 35)	Total (Score out of 100)
1	Kenya Power & Lighting Co.Ltd	38	17	33	88
2	Mumias Sugar Co. Ltd	34	16	35	85
3	East African Breweries Ltd	34	17	30	81
4	British American Tobacco Kenya Ltd	34	11	33	78
5	B.O.C Kenya Ltd	30	16	30	76
6	Bamburi Cement Ltd	30	12	30	72
7	E.A. Portland Cement Ltd	27	16	27	70
8	E.A. Cables Ltd	29	15	25	69
9	Carbacid Investments Ltd	26	17	25	68
10	Sameer Africa Ltd	25	17	26	68
11	Total Kenya Ltd	22	13	30	65
12	Athi River Mining	28	17	19	64
13	Unga Group Ltd	25	17	21	63
14	Olympia Capital Holdings Ltd	18	13	8	39
15	Kenya Oil Co. Ltd	6	10	9	25
16	Crown Berger Ltd	7	10	5	22

#### 4.2.6 Alternative Investment Market Segment

This sector is a composite of various companies that fall under different industry categories. They are companies that cannot therefore be said to belong to one particular industry. They are also companies that exhibit limited span in share ownership and barely satisfy the minimum requirements to be quoted at the Nairobi Stock Exchange. It is therefore not surprising that their scores on corporate governance was quite low (Table 7).

The only exception in this regard was the Standard Group and Williamson Tea Kenya which scored high on corporate governance. The former was until 2004 foreign owned and controlled with high shareholding dispersion while the latter still enjoys high foreign ownership with high capital reserves.

**Table 7: Extent of Corporate Governance in Alternative Investment Market Segment**

	<b>Company</b>	<b>Business Structure &amp; Leadership</b> (Score out of 45)	<b>Transparency &amp; Shareholder Protection</b> (Score out of 20)	<b>Business Conduct &amp; Compliance</b> (Score out of 35)	<b>Total</b> (Score out of 100)
1	Standard Group Ltd	35	16	26	77
2	Williamson Tea Kenya Ltd	19	19	27	65
3	Kapchorua Tea Co.Ltd	14	18	29	61
4	Express Ltd	19	13	19	51
5	A. Baumann & Co. Ltd	10	10	14	34
6	Eaagads Ltd	13	1	17	31
7	Kenya Orchards Ltd	8	4	3	15
8	City Trust Ltd	2	4	3	9
9	Limuru Tea Co. Ltd	1	4	2	7

## 4.3 Company Performance and Corporate Governance

### 4.3.1 Overall Company Analysis

The extent of Corporate Governance based on percentage score for all 47 companies were correlated against their respective performance in terms of the 5 year average turnover, net profit and market share price giving Pearson Product Moment Correlation Coefficients of 0.29, 0.19 and -0.18 respectively. Table 8 shows the summarised corporate governance scores and the company performance levels. Graphical presentation of this relationship is given in appendices 5 (a), (b) and (c).



**Table 8: Corporate Governance and performance for all companies analysed together**

	Company	Corporate Governance (Score Out of 100)	Average Turnover	Average Net profit	Average MSP
1	Kenya Power & Lighting Co.Ltd	88	23,718,829	-2,108,264	42
2	I.C.D.C Investments Co Ltd	87	194,805	205,700	47
3	Mumias Sugar Co. Ltd	85	7,981,997	280,940	5
4	Kenya Airways Ltd	84	24,610,400	1,342,400	8
5	Barclays Bank Ltd	82	12,359,400	2,773,400	146
6	Standard Chatered Bank Ltd	81	2,739,800	2,249,142	94
7	East African Breweries Ltd	81	27,936,258	2,095,289	180
8	TPS Ltd	80	1,443,706	88,250	25
9	NIC Bank Ltd	80	779,507	260,558	30
10	Housing Finance Co Ltd	78	1,915,951	6,671	7
11	British American Tobacco Kenya Ltd	78	9,998,649	872,031	128
12	Standard Group Ltd	77	1,372,782	63,627	21
13	Diamond Trust Bank Kenya Ltd	76	537,883	116,654	18
14	Kenya Commercial Bank Ltd	76	5,619,971	-399,379	35
15	B.O.C Kenya Ltd	76	694,914	113,598	67
16	Car & General (K) Ltd	73	483,658	18,903	24
17	Bamburi Cement Ltd	72	9,874,400	1,006,600	63
18	Unilever Tea Kenya Ltd	71	4,274,472	243,898	76
19	Sasini Tea & Coffee Ltd	70	927,668	164,632	21
20	Pan Africa Insurance Holdings Ltd	70	138,000	30,724	15
21	E.A. Portland Cement Ltd	70	3,460,656	79,432	26
22	National Bank of Kenya Ltd	69	2,811,994	-184,424	8
23	E.A. Cables Ltd	69	479,834	34,682	18
24	Carbacid Investments Ltd	68	196,239	74,395	68
25	Sameer Africa Ltd	68	2,861,028	257,971	10
26	Nation Media Group	67	4,000,020	421,560	111
27	Uchumi Supermarket Ltd	67	7,996,595	-87,314	31
28	Kakuzi Limited	66	1,281,164	1,207	32
29	Rea Vipingo Plantations Ltd	65	690,720	25,337	5
30	Total Kenya Ltd	65	23,479,146	287,316	46
31	Williamson Tea Kenya Ltd	65	1,000,900	66,465	78
32	Athi River Mining	64	1,156,087	66,982	10
33	Unga Group Ltd	63	6,295,956	-152,374	11
34	Kapchorua Tea Co.Ltd	61	380,712	16,150	133
35	CMC Holdings Ltd	58	4,686,062	160,449	33
36	Marshalls (E.A.) Ltd	56	1,468,662	-67,871	17
37	Jubilee Insurance Co.Ltd	56	436,600	170,609	32
38	C.F.C Bank Ltd	55	1,302,917	248,226	24
39	Express Ltd	51	3,295,797	-31,389	12
40	Olympia Capital Holdings Ltd	39	153,992	11,399	0
41	A. Baumann & Co. Ltd	34	111,434	-11,864	9
42	Eaagads Ltd	31	58,272	-1,887	19
43	Kenya Oil Co. Ltd	25	16,396,093	455,284	111
44	Crown Berger Ltd	22	1,095,087	40,658	13
45	Kenya Orchards Ltd	15	68,302	-5,417	5
46	City Trust Ltd	9	11,339	8,748	21
47	Limuru Tea Co. Ltd	7	52,629	5,725	391
<b>Pearson Product Moment Correlation Coefficient</b>			<b>0.29</b>	<b>0.19</b>	<b>-0.18</b>

The results obtained indicate that there is in general a positive, although weak, correlation between corporate governance and performance in terms of average turnover and net profit. Correlation coefficient of 0.29 with respect to turnover was found to be within 95% confidence limit. Other correlations had statistical significance of below 95%. For all companies analysed together as one group there appears to be no correlation with respect to average market share price. Considering the large diversity in these companies, results obtained from this type of generalised data can only be taken as indicative and not suitable for comparison since each industry category is unique and affected differently by corporate governance and performance forces in the market.

Correlation of performance and corporate governance based on specific market segment categories would give more comparable results for discussion. This is done in the sections that follow.

#### 4.3.2 Agricultural Sector

All the companies in the Agricultural Sector gave a strong positive correlation between corporate governance and performance in its various forms as earlier defined. Pearson Product Moment Coefficients of 0.68, 0.96 and 0.71 were obtained with respect to average turn over, net profit and market share price. Table 9 and appendices 6 (a), (b), and (c) illustrate these results.

**Table 9: Corporate Governance and Performance for Agricultural Sector**

	<b>Company</b>	<b>Corporate Governance (Score out of 100)</b>	<b>Average Turnover</b>	<b>Average Net profit</b>	<b>Average MSP</b>
1	Unilever Tea Kenya Ltd	71	4,274,472	243,898	76
2	Sasini Tea & Coffee Ltd	70	927,668	164,632	21
3	Kakuzi Limited	66	1,281,164	1,207	32
4	Rea Vipingo Plantations Ltd	65	690,720	25,337	5
<b>Pearson Product Moment Correlation Coefficient</b>			<b>0.68</b>	<b>0.96</b>	<b>0.71</b>

A high correlation factor of 0.71 with respect to average market share price, implies a positive relationship between corporate governance practices and the shareholders decision for investing in this sector. The companies falling under this sector mainly export and are very susceptible to the vagaries of weather and foreign exchange fluctuations. Their performance are likely to be erratic in the absence of good corporate governance practice. The fact that the correlation is strong helps confirm the high relative contribution of corporate governance to the performance of this sector.

#### **4.3.3 Commercial and Services**

There was a strong correlation between corporate governance and performance in terms of average turnover and net profit at correlation coefficients of 0.53 and 0.60 respectively as illustrated in appendices 7(a) and (b). No correlation seems to exist with respect to average market price share. It can be seen from table 10 that although two companies in this sector namely Marshalls (K) and Uchumi Supermarkets posted healthy average turnovers, the corresponding average net profits were negative. This could be generally attributed to poor management that fails to convert some of the high turnover to net profit.

**Table 10: Corporate Governance and Performance for Commercial and Services Category**

	<b>Company</b>	<b>Corporate Governance (Score out of 100)</b>	<b>Average Turnover</b>	<b>Average Net profit</b>	<b>Average MSP</b>
1	Kenya Airways Ltd	84	24,610,400	1,342,400	8
2	TPS Ltd	80	1,443,706	88,250	25
3	Car & General (K) Ltd	73	483,658	18,903	24
4	Nation Media Group	67	4,000,020	421,560	111
5	Uchumi Supermarket Ltd	67	7,996,595	-87,314	31
6	CMC Holdings Ltd	58	4,686,062	160,449	33
7	Marshalls (E.A.) Ltd	56	1,468,662	-67,871	17
<b>Pearson Product Moment Correlation Coefficient</b>			<b>0.53</b>	<b>0.60</b>	<b>-0.21</b>

The companies under this sector are generally smaller compared to those in other categories. They are not typical blue chip companies and therefore fail to attract interest from investors even when high returns were posted. Ownership in most of these companies is concentrated within few people. This could help explain why there is no correlation with average market share price despite positive average turnovers.

#### 4.3.4 Finance and Investment Sector

There was positive correlation between corporate governance and all aspects of performance as illustrated in appendices 8(a), (b) and (c). Pearson Moment Correlation coefficients of 0.29, 0.35 and 0.41 were attained for average turnover, net profit and market share price respectively.

Although scoring high on corporate governance practice, Kenya Commercial Bank and National Bank of Kenya were the only companies in this category that posted negative average net profit despite correspondingly high average turnover figures (Table 11). This outcome could be explained from the understanding that the two companies, mainly government owned and controlled, were perceived by the public to practise inconsistent accounting reporting. In practice, this has been observed through high fluctuations in reported net profits from one year to another mainly due to the inconsistent way in which, for example, bad debts are provided for in those years. A good number of the bad debts arose as a result of failure to adhere to established lending policies.

**Table 11: Corporate Governance and Performance for Finance and Investment Sector**

	Company	Corporate Governance (Score out of 100)	Average Turnover	Average Net profit	Average MSP
1	I.C.D.C Investments Co Ltd	87	194,805	205,700	47
2	Barclays Bank Ltd	82	12,359,400	2,773,400	146
3	Standard Chatered Bank Ltd	81	2,739,800	2,249,142	94
4	NIC Bank Ltd	80	779,507	260,558	30
5	Housing Finance Co Ltd	78	1,915,951	6,671	7
6	Diamond Trust Bank Kenya Ltd	76	537,883	116,654	18
7	Kenya Commercial Bank Ltd	76	5,619,971	-399,379	35
8	Pan Africa Insurance Holdings Ltd	70	138,000	30,724	15
9	National Bank of Kenya Ltd	69	2,811,994	-184,424	8
10	Jubilee Insurance Co.Ltd	56	436,600	170,609	32
11	C.F.C Bank Ltd	55	1,302,917	248,226	24
<b>Pearson Product Moment Correlation Coefficient</b>			<b>0.29</b>	<b>0.35</b>	<b>0.41</b>

### 4.3.5 Industrial and Allied Sector

Correlation between corporate governance and performance was generally weak in this sector (Table 12).

**Table 12: Corporate Governance and Performance for Industrial and Allied Sector**

	Company	Corporate Governance (Score out of 100)	Average Turnover	Average Net profit	Average MSP
1	Kenya Power & Lighting Co.Ltd	88	23,718,829	-2,108,264	42
2	Mumias Sugar Co. Ltd	85	7,981,997	280,940	5
3	East African Breweries Ltd	81	27,936,258	2,095,289	180
4	British American Tobacco Kenya Ltd	78	9,998,649	872,031	128
5	B.O.C Kenya Ltd	76	694,914	113,598	67
6	Bamburi Cement Ltd	72	9,874,400	1,006,600	63
7	E.A. Portland Cement Ltd	70	3,460,656	79,432	26
8	E.A. Cables Ltd	69	479,834	34,682	18
9	Carbacid Investments Ltd	68	196,239	74,395	68
10	Sameer Africa Ltd	68	2,861,028	257,971	10
11	Total Kenya Ltd	65	23,479,146	287,316	46
12	Athi River Mining	64	1,156,087	66,982	10
13	Unga Group Ltd	63	6,295,956	-152,374	11
14	Olympia Capital Holdings Ltd	39	153,992	11,399	0
15	Kenya Oil Co. Ltd	25	16,396,093	455,284	111
16	Crown Berger Ltd	22	1,095,087	40,658	13
<b>Pearson Product Moment Correlation Coefficient</b>			<b>0.26</b>	<b>-0.03</b>	<b>0.17</b>

Pearson Correlation Coefficients of 0.26, -0.03 and 0.17 were obtained with respect to average turnover, net profit and market share price. These results are illustrated graphically in appendices 9 (a), (b) and (c). The low correlation obtained could imply that there were other factors other than corporate governance that had high influence on the performance of the companies under this category. It is not possible to identify the exact factors from this study although political and technological factors are likely to play a key role considering the nature of the sector. Industrial and Allied Sector is quite susceptible to government policies that regulate manufacturing, import and export procedures. For example, policies that promote free liberalization without regulating imports into the country end up ruining the companies operating on the local scene. On the other hand, reduced taxes on technological items and promotion of export products greatly enhance the performance of this sector.

Kenya Power and Lighting was the only company in this category that reported negative average net profit despite posting very high average turnover. This could be explained by the monopolistic nature of KPLC which earns it high income but at the same time depicts generally poor management efficiency in converting part of the turnover to profits.

#### **4.3.6 Alternative Investment Market Segment**

It is evident from Table 13 that the correlation between corporate governance and performance in terms of average turnover and net profit was relatively higher than in some of the other sectors.

**Table 13: Corporate Governance and Performance for Alternative Investment Market Segment**

	<b>Company</b>	<b>TOTAL (Score out of 100)</b>	<b>Average Turnover</b>	<b>Average Net profit</b>	<b>Average MSP</b>
1	Standard Group Ltd	77	1,372,782	63,627	21
2	Williamson Tea Kenya Ltd	65	1,000,900	66,465	78
3	Kapchorua Tea Co.Ltd	61	380,712	16,150	133
4	Express Ltd	51	3,295,797	-31,389	12
5	A. Baumann & Co. Ltd	34	111,434	-11,864	9
6	Eaagads Ltd	31	58,272	-1,887	19
7	Kenya Orchards Ltd	15	68,302	-5,417	5
8	City Trust Ltd	9	11,339	8,748	21
9	Limuru Tea Co. Ltd	7	52,629	5,725	391
<b>Pearson Product Moment Correlation Coefficient</b>			<b>0.54</b>	<b>0.57</b>	<b>-0.29</b>

This is further illustrated in appendix 10 (a) and (b). Slightly negative correlation between corporate governance and average market share price had been observed. This implies that the low corporate governance practised by these companies, negatively influenced the market share price and hence investor decisions. Other factors other than corporate governance such as the relatively smaller sizes and composite nature of these companies were likely to have significant influence on the market share price.



## **CHAPTER FIVE**

### **CONCLUSION**

#### **5.1 Summary and Conclusions**

This study was concerned with the investigation into the extent of corporate governance practice across a wide range of companies in Kenya, represented by those quoted at the NSE. The study also sought to establish the relationship, if any, between the extent of corporate governance and company performance. The choice on companies listed on the NSE was deliberate as these would present varying issues of corporate governance, being organisations with different board structures and a wide range of shareholders who are not involved in the running of the companies.

##### **5.1.1 Extent of Corporate Governance**

All the four companies under Agricultural Sector (100%) scored high on the practice of corporate governance, unlike in each of the other sectors where some companies exhibited low to average corporate governance practice. The Agricultural Sector consists of the lowest number of companies (only four). It is also noteworthy that all the companies under this Sector are foreign owned and hence by virtue of their international experience, have well developed corporate governance systems.

Nine out of eleven (82%) of the companies under Finance and Investment scored between high and very high on corporate governance scale followed by Industrial and Allied sector where the extent of corporate governance was above high in thirteen out of sixteen companies representing (81%) of the total. Five out of seven (71%) under Commercial and Services category exhibited high level of corporate governance. However only three out of nine (33%) of the companies under Alternative Market Segment scored high on corporate governance.

The results of the study conclusively indicate that the extent of corporate governance in thirty four out of forty seven (72%) companies analysed was either high or very high, having scored over 60%. Most of the companies practising high level of corporate governance were either foreign owned, or subject to high regulatory conditions or were involved in highly technical industrial undertakings. Each or a combination of these factors appear to play a key role in influencing the practice of corporate governance.

### **5.1.2 Company Performance and Corporate Governance**

The results indicate that the Agricultural sector exhibited high positive correlation between performance and corporate governance in all areas analysed namely average turnover, net profit and market share price.

The next market sector with highest percentage of companies (82%) scoring high on corporate governance was Finance and Investment category. Once again the results indicate that this sector also exhibited positive correlation between performance and corporate governance in all the three performance measures.

Industrial and Allied category was third with 81% of its companies scoring high on corporate governance practice. The correlation obtained between performance and corporate governance in this sector was positive but weak in average turnover and market share price. There was no correlation with respect to average net profit. High corporate governance score and low correlation to performance implies there are factors other than corporate governance which in general have stronger influence on performance.

Commercial Services sector came fourth with 71% of its companies scoring high on corporate governance. The correlation between performance, in terms of average turnover and net profit and corporate governance was strong. There was a slightly negative correlation with respect to average market share price. Similar results hold true for Alternative Market Segment which was the last in corporate governance score with only 33% of its companies achieving high.

Performance in most companies analysed in their respective market categories generally correlated positively with corporate governance practice (Appendix 7). The correlation coefficients were analysed and found to be below 95% confidence limit in all the different market categories. It could therefore be stated that the performance of most companies based on empirical evidence, generally correlates positively with corporate governance practice. The correlation is observed to hold at confidence limits lower than 95%. This is however as far as the general statement goes. It is important to note that this study does not attempt to find out what other factors besides corporate governance influence performance. Although there appears to be positive correlation between performance and corporate governance there is no attempt to prove that high level of corporate governance causes high performance. The relevant conclusion here is that companies that perform well generally appear to practice high corporate governance.

## **5.2 Limitations of the study**

This study centred on establishing the extent of corporate governance and performance in the companies analysed. The study did not consider other factors such as political, environmental, socio-economic and technological factors which invariably influence performance regardless of the corporate governance practices. Arguably, firm performance depends on many other factors other than corporate governance. Without taking these exogenous factors into account, it was therefore not possible to establish the extent of contribution of corporate governance on performance.

In the process of collecting data to help establish the extent of corporate governance, it was assumed that the information given in the Annual Reports and Accounts was completely accurate and portrayed what exactly was happening on the ground at company level. No attempt was made to compare and confirm the actual corporate governance practice with what was disclosed in the reports. It is possible that some companies may choose to impress their shareholders by proclaiming governance practices that are in reality not practised. This could lead to biased information and hence inaccurate results and conclusions.

Both Capital Markets Authority and Nairobi Stock Exchange did not have all the Annual Reports and Accounts for the 47 companies covering the 5 year period under review. Time therefore became a serious constraint as attempts were made to get these reports from respective companies.

The weighted scoring given to each corporate governance element may vary depending on the company size, nature, complexity and industry affiliation and hence requiring differentiated scoring. In this study, same weighting was applied to all companies regardless of their unique circumstances for reasons of comparability.

### **5.3 Suggestions for further research**

Companies quoted at the Nairobi Stock Exchange are obligated by Capital Markets Authority and Nairobi Stock Exchange to declare their various aspects of corporate governance to their shareholders. A study on the extent of corporate governance and its relationship to performance in Kenyan companies not quoted at the Nairobi Stock Exchange and hence not subject to CMA regulations, will provide more insights to corporate governance practitioners in the country.

Measures of corporate performance used in this study were not exhaustive. It would be interesting to confirm or otherwise the findings in this study by carrying out a similar research based on different performance measurements.

Companies tend to be unique by virtue of their size, culture, history industry affiliation, etc. A study generalised to all the 47 companies does not take into account the unique features of each company. A similar study done by carrying out regression analysis for each of the 47 companies on a stand alone basis to evaluate at company level the extent of corporate governance and performance will provide more insight for individual companies.

## **5.4 Recommendations for policy and practice**

From the research findings it is revealed that majority of the companies quoted at the Nairobi Stock Exchange practice corporate governance at a high level. Further, the findings generally give evidence to the positive correlation between performance and corporate governance.

From these findings it is recommended that Capital Markets Authority and Nairobi Stock Exchange step up the corporate governance minimum requirements and demand that the few companies (28%) whose corporate governance practice is still low are prevailed upon to boost their level of governance. Although there is no empirical evidence that this will result in increased performance, this boost is expected to combine with other factors to enhance performance in the long run. The Government and other stakeholders should demand high governance practices to safeguard companies against unwarranted inefficiencies, frauds and possible collapse. Shareholders should demand to have effective Board structures, leadership, full compliance and disclosures as some of the cardinal pre-requisites in the companies they choose to invest in.

By demanding that all listed companies meet a certain minimum level of reporting and disclosures, Capital Markets Authority and Nairobi Stock Exchange do play a key role in enhancing the quality of corporate governance in the listed companies. However the two institutions should improve on the mechanisms which ensure that the corporate governance disclosures documented in the annual reports are not simply statements of good intentions but are actually implemented at firm level. This would greatly boost the level of compliance and assist many widely dispersed individual shareholders who ordinarily have little or no influence in improving the corporate governance of the organisations they invest in.

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## APPENDICES

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**Appendix 1: DATA COLLECTION FORM**

**Section A: GENERAL INFORMATION**

- (a) Name of company .....
- Industry category.....
- Date of formation of company .....
- Regional Spread:   Multinational .....
- Local .....
- Nature of business/services provided .....
- .....

**Section B: BOARD STRUCTURE AND LEADERSHIP**

1. Declaration of Corporate objectives.

Disclosed  [1]           Not disclosed  [0]

Comment(s) \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

2. Existence of explicit statement of commitment by the Board of Directors on Corporate Governance.

Exists  [1]           Does not exist  [0]

Comment(s) \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

3. Existence of specific Corporate Governance policies and guidelines disclosed.

Specific practices disclosed  [3] Only general statement made  [0]

Comment(s) \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

4. Size of Board.

Up to 5 members  [1]

5 - 10 members  [2]

11 - 15 members  [3]

> 15 members  [2]

Comment(s) \_\_\_\_\_

\_\_\_\_\_

5. Proportion of Executive to Non-executive Directors.

0 - 25%  [2]      26 - 50%  [4]      51 - 75%  [3]      76 - 100%  [2]

Comment(s) \_\_\_\_\_

\_\_\_\_\_

6. Existence of a formal mechanism for appointment and resignation of directors of the board.

Appointment:      Exists  [1]      Does not exist  [0]

Resignation:      Exists  [1]      Does not exist  [0]

Comment(s) \_\_\_\_\_

\_\_\_\_\_

7. Clear documentation of the responsibilities of the Board.

Precisely specified  [3]

Generally specified  [2]

Not specified  [0]

Comment(s) \_\_\_\_\_

\_\_\_\_\_

8. Separation of powers between Board Chairman and CEO.

Chairman and CEO (same person)  [1]

Chairman and CEO (different persons)  [2]

Comment(s) \_\_\_\_\_

\_\_\_\_\_

9. Clear documentation of the duties of Chairman and CEO.

Chairman: Documented  [1] Not documented  [0]

CEO: Documented  [1] Not documented  [0]

Comment(s) \_\_\_\_\_

\_\_\_\_\_

10. Documentation of the responsibilities of board committees.

Documented  [3] Not documented  [0]

Comment(s) \_\_\_\_\_

\_\_\_\_\_

11. Existence of supervisory board committees to deal with more complex matters.

Audit Exists  [2] Does not exist  [0]

Corporate Governance Exists  [2] Does not exist  [0]

Compensation Exists  [2] Does not exist  [0]

Comment(s) \_\_\_\_\_

\_\_\_\_\_

12. Disclosure of Academic qualifications and experience of each board member.

Disclosed  [3] Not disclosed  [0]

Comment(s) \_\_\_\_\_

\_\_\_\_\_

13. Existence of mechanism of evaluation of board performance.

Exists  [3] Does not exist  [0]

Comment(s) \_\_\_\_\_

\_\_\_\_\_

14. Specification of frequency of meetings.

Specified  [3] Not specified  [0]

Comment(s) \_\_\_\_\_

\_\_\_\_\_

15. Existence of mechanism for resolution of conflicts.

1. Conflict of interest.                      Exists  [2]                      Does not exist  [0]

2. Conflict among board members      Exists  [2]                      Does not exist  [0]

Comment(s) \_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

16. Specification of term limit of board members.

Specified  [2]                                      Not Specified  [0]

Comment(s) \_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

**Section C: TRANSPARENCY AND SHAREHOLDER PROTECTION**

1. Existence of any other form of communication to shareholders besides Annual and Semi-annual Reports.

Exists  [1]                                      Does not exist  [0]

Comment(s) \_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

2. Assistance given to shareholders to vote by proxy where necessary.

Yes  [2]                                      No  [0]

Comment(s) \_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

3. Impartiality of external auditors:

1. carries out auditing only  [1]

2. carries out other consultancy assignments  [0]

Comment(s) \_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

4. Existence of risk management performance (to balance aspects of debt/equity, market prices, foreign currency and interest rate fluctuations).  
Exists  [3]      Does not exist  [0]  
Comment(s) \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_
5. Disclosure of formal mechanism for the board members remuneration.  
Disclosed  [3]      Not Disclosed  [0]  
Comment(s) \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_
6. Individualised disclosure of Board of Directors remuneration.  
Disclosed  [2]      Not disclosed  [0]  
Comment(s) \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_
7. Full disclosure of any other aggregate amounts paid to directors for whole year.  
Disclosed  [3]      Not disclosed  [0]  
Comment(s) \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_
8. Full disclosure of directors interest in the shareholding of the company  
Disclosed  [1]      Not disclosed  [0]  
Comment(s) \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_
9. Disclosure of the distribution of the company's shareholding.  
Disclosed  [1]      Not disclosed  [0]

10. Disclosure of Directors loans for the period under review.

Disclosed  [3]

Not Disclosed  [0]

Comment(s) \_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

**Section D: BUSINESS CONDUCT AND COMPLIANCE**

1. Documentation of the principal activities of the company

Documented  [1]

Not documented  [0]

Comment(s) \_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

2. Existence of written Policies and Procedures.

Exists  [4]

Does not exist  [0]

Comment(s) \_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

3. Disclosed items of compliance

Disclosed  [2]

Not disclosed  [0]

Comment(s) \_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

4. Existence of documented financial control procedures.

Exists  [5]

Does not exist  [0]

Comment(s) \_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

5. Clarity and presentation of financial reports

Presented according to IGAAP  [1] Not according to IGAAP  [0]

Comment(s) \_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_



6. Provision of adequate information to directors ahead of the board meeting.

Provided  [3]

Not provided  [0]

Comment(s) \_\_\_\_\_

7. Existence of mechanism of evaluation of Management Performance

Exists  [5]

Does not exist  [0]

Comment(s) \_\_\_\_\_

8. Existence of formal Code of Ethics.

Exists  [3]

Does not exist  [0]

Comment(s) \_\_\_\_\_

9. Existence of formal statement of Corporate Social Responsibility

Exists  [2]

Does not exist  [1]

Comment(s) \_\_\_\_\_

10. Specific aspects of Corporate Social Responsibility undertaken by the company during the period under review.

Stated  [3]

Not stated  [0]

Comment(s) \_\_\_\_\_

11. Existence of Health, Safety & Employee Welfare policy as part of Corporate Social Responsibility.

Exists  [4]

Does not exist  [0]

Comment(s) \_\_\_\_\_

12. Regular reporting of directors changes in their shareholding.

Regularly reported  [2]

Not regularly reported  [0]

Comment(s) \_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

**Section E: FINANCIAL PERFORMANCE DATA**

	YEAR ENDING				
Performance Measure	2004	2003	2002	2001	2000
Turnover					
Net Profit					
Market Share Price					

## **Appendix 2: LIST OF COMPANIES QUOTED AT THE NAIROBI STOCK EXCHANGE**

### **Agricultural**

1. Unilever Tea Kenya Ltd
2. Kakuzi
3. Rea Vipingo Plantations Ltd
4. Sasini Tea & Coffee Ltd

### **Commercial and Services**

5. Car & General (K) Ltd
6. CMC Holdings Ltd
7. Hutchings Biemer Ltd
8. Kenya Airways Ltd.
9. Marshalls (E.A) Ltd
10. Nation Media Group
11. TPS Ltd (Serena)
12. Uchumi Supermarket Ltd.

### **Finance and Investment**

13. Barclays Bank Ltd.
14. C.F.C. Bank Ltd
15. Diamond Trust Bank Kenya Ltd
16. Housing Finance Company Ltd
17. I.C.D.C Investments. Co. Ltd
18. Jubilee Insurance Co. Ltd
19. Kenya Commercial Bank Ltd.
20. National Bank of Kenya Ltd
21. NIC Bank Ltd
22. Pan Africa Insurance Holdings Ltd
23. Standard Chartered Bank Ltd

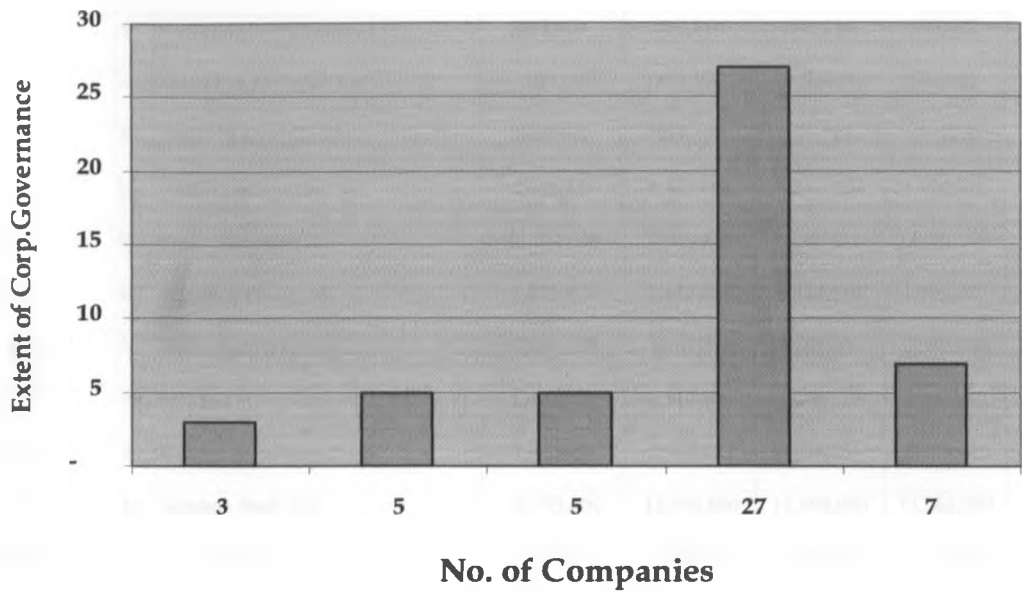
### **Industrial and Allied**

24. Athi River Mining
25. B.O.C. Kenya Ltd
26. Bamburi Cement Ltd
27. British American Tobacco Kenya Ltd
28. Carbacid Investments Ltd
29. Crown Berger Ltd
30. Olympia Capital Holdings Ltd
31. E.A Cables Ltd
32. E.A. Portland Cement Ltd
33. East African Breweries Ltd
34. Sameer Africa Ltd
35. Kenya Oil Co. Ltd
36. Mumias Sugar Co. Ltd
37. Kenya Power and Lighting Ltd
38. Total Kenya Ltd
39. Unga Group Ltd

### **Alternative Investment Market segment**

40. A. Baumann & Co. Ltd
41. City Trust Ltd
42. Eaagads Ltd
43. Express Ltd
44. Williamson Tea Kenya Ltd
45. Kapchorua Tea Co. Ltd
46. Kenya Orchards Ltd
47. Limuru Tea Co. Ltd
48. Standard Group Ltd

**EXTENT OF C.G. AND No. OF COMPANIES**



**Appendix 4: Performance of Companies in Turnover**

INDUSTRY CATEGORY	COMPANY NAME		TURNOVER					
			2004	2003	2002	2001	2000	Average
AGRIC.	1	Unilever Tea Kenya Ltd	4,656,109	3,975,876	4,251,285	4,371,947	4,117,143	4,274,472
AGRIC.	2	Kakuzi Limited	1,424,503	1,435,388	1,082,190	1,250,943	1,212,796	1,281,164
AGRIC.	3	Rea Vipingo Plantations Ltd	873,408	720,210	665,830	598,477	595,677	690,720
AGRIC.	4	Sasini Tea & Coffee Ltd	1,039,639	858,171	848,445	874,602	1,017,484	927,668
COM. & SERV.	5	Car & General (K) Ltd	629,100	489,308	436,741	434,550	428,591	483,658
COM. & SERV.	6	CMC Holdings Ltd	6,048,231	4,493,092	4,552,390	4,224,218	4,112,378	4,686,062
COM. & SERV.	7	Kenya Airways Ltd	30,421,000	27,461,000	25,165,000	22,525,000	17,480,000	24,610,400
COM. & SERV.	8	Marshalls (E.A.) Ltd	1,273,874	1,652,221	1,424,543	1,485,722	1,506,952	1,468,662
COM. & SERV.	9	Nation Media Group	4,866,200	4,469,100	4,103,400	3,538,800	3,022,600	4,000,020
COM. & SERV.	10	TPS Ltd	1,672,490	1,217,130	1,450,158	1,473,952	1,404,798	1,443,706
COM. & SERV.	11	Uchumi Supermarket Ltd	7,962,986	8,900,858	7,936,755	7,954,005	7,228,371	7,996,595
FIN. & INVEST.	12	Barclays Bank Ltd	13,775,000	13,942,000	11,494,000	11,262,000	11,324,000	12,359,400
FIN. & INVEST.	13	C.F.C Bank Ltd	1,450,494	1,103,918	953,860	1,153,167	1,853,145	1,302,917
FIN. & INVEST.	14	Diamond Trust Bank Kenya Ltd	768,338	624,565	441,506	354,411	500,593	537,883
FIN. & INVEST.	15	Housing Finance Co Ltd	1,154,825	2,037,417	2,675,097	1,550,661	2,161,755	1,915,951
FIN. & INVEST.	16	I.C.D.C Investments Co Ltd	354,570	221,028	153,975	124,375	120,077	194,805
FIN. & INVEST.	17	Jubilee Insurance Co.Ltd	558,000	552,000	359,000	359,000	355,000	436,600
FIN. & INVEST.	18	Kenya Commercial Bank Ltd	3,921,685	4,049,045	4,735,345	6,608,506	8,785,274	5,619,971
FIN. & INVEST.	19	National Bank of Kenya Ltd	3,226,195	3,277,654	3,326,037	2,128,294	2,101,789	2,811,994
FIN. & INVEST.	20	NIC Bank Ltd	862,015	777,586	693,882	749,382	814,668	779,507
FIN. & INVEST.	21	Pan Africa Insurance Holdings Ltd	194,000	337,000	70,000	30,000	59,000	138,000
FIN. & INVEST.	22	Standard Chatered Bank Ltd	2,704,000	3,571,000	2,417,000	2,488,000	2,519,000	2,739,800
IND. & ALLIED	23	Athi River Mining	1,639,508	1,240,388	1,126,385	883,740	890,415	1,156,087
IND. & ALLIED	24	B.O.C Kenya Ltd	830,675	728,720	697,505	655,728	561,941	694,914
IND. & ALLIED	25	Bamburi Cement Ltd	12,284,000	10,411,000	10,073,000	8,894,000	7,710,000	9,874,400
IND. & ALLIED	26	British American Tobacco Kenya Ltd	9,865,047	9,446,056	9,422,530	10,363,992	10,895,622	9,998,649
IND. & ALLIED	27	Carbacid Investments Ltd	213,104	218,773	174,433	155,474	219,413	196,239
IND. & ALLIED	28	Crown Berger Ltd	1,157,585	1,090,626	1,015,704	1,029,549	1,181,971	1,095,087
IND. & ALLIED	29	Olympia Capital Holdings Ltd	291,887	274,450	67,852	67,919	67,852	153,992
IND. & ALLIED	30	E.A. Cables Ltd	825,316	428,430	388,008	358,161	399,255	479,834
IND. & ALLIED	31	E.A. Portland Cement Ltd	4,166,289	3,842,138	3,207,060	3,169,645	2,918,148	3,460,656
IND. & ALLIED	32	East African Breweries Ltd	30,766,665	28,918,151	27,734,679	26,813,674	25,448,122	27,936,251
IND. & ALLIED	33	Sameer Africa Ltd	3,270,254	2,538,316	2,736,539	3,073,773	2,686,256	2,861,028
IND. & ALLIED	34	Kenya Oil Co. Ltd	34,478,830	16,658,516	13,317,933	10,959,240	6,565,948	16,396,09
IND. & ALLIED	35	Mumias Sugar Co. Ltd	9,792,503	7,628,937	7,847,233	6,659,315		7,981,997
IND. & ALLIED	36	Kenya Power & Lighting Co.Ltd	20,302,734	19,185,376	27,353,043	28,188,525	23,564,466	23,718,82

**Appendix 4 Continued**

IND. & ALLIED	37	Total Kenya Ltd	37,628,109	22,393,229	16,291,258	17,925,997	23,157,136	23,479,146
IND. & ALLIED	38	Unga Group Ltd	6,305,387	5,702,613	5,500,307	7,142,432	6,829,041	6,295,956
ALT.INV.MKT.SGMT	39	A. Baumann & Co. Ltd	107,685	110,092	112,749	108,808	117,836	111,434
ALT.INV.MKT.SGMT	40	City Trust Ltd	13,523	9,060	9,077	12,220	12,817	11,339
ALT.INV.MKT.SGMT	41	Eaagads Ltd	34,940	48,852	82,037	64,378	61,154	58,272
ALT.INV.MKT.SGMT	42	Express Ltd	1,762,203	3,964,581	3,984,859	3,595,292	3,172,049	3,295,797
ALT.INV.MKT.SGMT	43	Williamson Tea Kenya Ltd	855,610	837,958	1,010,236	1,255,517	1,045,177	1,000,900
ALT.INV.MKT.SGMT	44	Kapchorua Tea Co.Ltd	416,059	413,673	383,334	345,183	345,311	380,712
ALT.INV.MKT.SGMT	45	Kenya Orchards Ltd	78,816	75,112	67,763	60,898	58,921	68,302
ALT.INV.MKT.SGMT	46	Limuru Tea Co. Ltd	56,277	57,491	47,654	45,429	56,292	52,629
ALT.INV.MKT.SGMT	47	Standard Group Ltd	1,762,993	1,510,214	1,321,611	1,149,858	1,119,236	1,372,782

**Appendix 5:**
**Performance of companies in Net Profit**

INDUSTRY CATEGORY	COMPANY NAME		NET PROFIT					
			2004	2003	2002	2001	2000	Average
AGRIC.	1	Unilever Tea Kenya Ltd	360,946	62,254	124,029	223,274	448,989	243,898
AGRIC.	2	Kakuzi Limited	83,733	(11,795)	7,593	(45,223)	(28,273)	1,207
AGRIC.	3	Rea Vipingo Plantations Ltd	128,666	3,225	24,809	3,996	(34,010)	25,337
AGRIC.	4	Sasini Tea & Coffee Ltd	771,162	(67,224)	(6,940)	15,390	110,772	164,632
COM. & SERV.	5	Car & General (K) Ltd	36,544	60,679	7,451	(5,870)	(4,287)	18,903
COM. & SERV.	6	CMC Holdings Ltd	262,962	176,988	152,780	86,862	122,654	160,449
COM. & SERV.	7	Kenya Airways Ltd	1,302,000	400,000	869,000	1,357,000	2,784,000	1,342,400
COM. & SERV.	8	Marshalls (E.A.) Ltd	22,256	22,045	29,251	(308,673)	(104,235)	(67,871)
COM. & SERV.	9	Nation Media Group	641,400	602,800	403,800	256,700	203,100	421,560
COM. & SERV.	10	TPS Ltd	130,526	25,077	105,889	96,706	83,052	88,250
COM. & SERV.	11	Uchumi Supermarket Ltd	(698,911)	(196,569)	49,664	89,198	320,048	(87,314)
FIN. & INVEST.	12	Barclays Bank Ltd	3,694,000	3,367,000	1,783,000	2,955,000	2,068,000	2,773,400
FIN. & INVEST.	13	C.F.C Bank Ltd	433,048	299,357	173,689	141,392	193,642	248,226
FIN. & INVEST.	14	Diamond Trust Bank Kenya Ltd	163,998	139,241	75,525	40,932	163,574	116,654
FIN. & INVEST.	15	Housing Finance Co Ltd	59,976	51,847	55,851	(186,543)	52,223	6,671
FIN. & INVEST.	16	I.C.D.C Investments Co Ltd	241,350	159,149	246,522	154,334	227,147	205,700
FIN. & INVEST.	17	Jubilee Insurance Co.Ltd	276,586	212,761	164,442	121,154	78,102	170,609
FIN. & INVEST.	18	Kenya Commercial Bank Ltd	787,051	485,520	(3,000,639)	195,644	(464,469)	(399,379)
FIN. & INVEST.	19	National Bank of Kenya Ltd	382,611	403,899	198,758	298,868	(2,206,254)	(184,424)
FIN. & INVEST.	20	NIC Bank Ltd	261,356	242,592	229,135	257,119	312,589	260,558
FIN. & INVEST.	21	Pan Africa Insurance Holdings Ltd	93,811	(23,440)	(15,614)	163,911	(65,047)	30,724
FIN. & INVEST.	22	Standard Chatered Bank Ltd	1,832,647	2,788,717	2,206,127	2,243,082	2,175,138	2,249,142
IND. & ALLIED	23	Athi River Mining	116,718	97,106	57,390	33,805	29,890	66,982
IND. & ALLIED	24	B.O.C Kenya Ltd	160,117	152,619	105,491	75,050	74,715	113,598
IND. & ALLIED	25	Bamburi Cement Ltd	1,718,000	1,067,000	1,228,000	731,000	289,000	1,006,600
IND. & ALLIED	26	British American Tobacco Kenya Ltd	1,210,194	1,140,021	823,120	604,109	582,710	872,031
IND. & ALLIED	27	Carbacid Investments Ltd	90,466	88,484	55,816	44,995	92,213	74,395
IND. & ALLIED	28	Crown Berger Ltd	59,166	55,442	23,210	19,480	45,990	40,658
IND. & ALLIED	29	Olympia Capital Holdings Ltd	39,330	26,913	5,051	(16,098)	1,800	11,399
IND. & ALLIED	30	E.A. Cables Ltd	123,661	9,365	(5,946)	15,936	30,394	34,682
IND. & ALLIED	31	E.A. Portland Cement Ltd	(269,177)	226,143	123,179	736,485	(419,468)	79,432
IND. & ALLIED	32	East African Breweries Ltd	3,849,058	1,500,008	2,319,915	1,573,406	1,234,060	2,095,289
IND. & ALLIED	33	Sameer Africa Ltd	275,171	157,194	231,407	333,600	292,484	257,971
IND. & ALLIED	34	Kenya Oil Co. Ltd	838,484	468,745	441,460	375,072	152,659	455,284
IND. & ALLIED	35	Mumias Sugar Co. Ltd	791,451	(215,608)	65,116	482,800		280,940



Appendix 5: Continued

IND. & ALLIED	36	Kenya Power & Lighting Co.Ltd	457,807	(3,051,355)	(1,879,553)	(2,876,711)	(3,191,506)	(2,108,264)
IND. & ALLIED	37	Total Kenya Ltd	577,007	514,963	360,201	(222,101)	206,509	287,316
IND. & ALLIED	38	Unga Group Ltd	(101,949)	(27,046)	(56,813)	(116,568)	(459,495)	(152,374)
ALT.INV.MKT.SGMT	39	A. Baumann & Co. Ltd	(10,543)	(2,406)	(48,092)	(2,582)	4,302	(11,864)
ALT.INV.MKT.SGMT	40	City Trust Ltd	11,018	6,908	5,351	9,281	11,181	8,748
ALT.INV.MKT.SGMT	41	Eaagads Ltd	(1,434)	(4,273)	3,861	947	(8,534)	(1,887)
ALT.INV.MKT.SGMT	42	Express Ltd	4,610	(68,151)	(56,007)	(31,422)	(5,973)	(31,389)
ALT.INV.MKT.SGMT	43	Williamson Tea Kenya Ltd	80,421	64,354	(26,922)	136,238	78,236	66,465
ALT.INV.MKT.SGMT	44	Kapchorua Tea Co.Ltd	38,643	34,811	(13,830)	6,258	14,867	16,150
ALT.INV.MKT.SGMT	45	Kenya Orchards Ltd	(15,954)	(11,489)	493	7,226	(7,361)	(5,417)
ALT.INV.MKT.SGMT	46	Limuru Tea Co. Ltd	9,659	8,047	2,077	(2,983)	11,824	5,725
ALT.INV.MKT.SGMT	47	Standard Group Ltd	77,790	49,463				63,627

## Appendix 6: Performance of companies in Market Share Price

INDUSTRY CATEGORY	COMPANY NAME		MARKET SHARE PRICE					Average
			2004	2003	2002	2001	2000	
AGRIC.	1	Unilever Tea Kenya Ltd	90.50	66.00	54.00	72.00	97.00	75.90
AGRIC.	2	Kakuzi Limited	40.00	14.65	14.65	36.00	55.00	32.06
AGRIC.	3	Rea Vipingo Plantations Ltd	9.50	5.15	2.55	2.90	3.70	4.76
AGRIC.	4	Sasini Tea & Coffee Ltd	20.50	17.30	13.20	19.80	34.75	21.11
COM. & SERV.	5	Car & General (K) Ltd	15.00	68.00	10.00	10.00	19.00	24.40
COM. & SERV.	6	CMC Holdings Ltd	55.00	68.00	17.25	9.00	16.00	33.05
COM. & SERV.	7	Kenya Airways Ltd	9.60	5.75	7.85	7.55	7.50	7.65
COM. & SERV.	8	Marshalls (E.A.) Ltd	17.50	6.05	18.30	18.30	23.50	16.73
COM. & SERV.	9	Nation Media Group	170.00	191.00	84.00	43.25	69.00	111.45
COM. & SERV.	10	TPS Ltd	47.25	27.25	19.00	17.00	15.80	25.26
COM. & SERV.	11	Uchumi Supermarket Ltd	17.50	31.75	16.60	45.50	42.75	30.82
FIN. & INVEST.	12	Barclays Bank Ltd	200.00	280.00	101.00	72.50	75.50	145.80
FIN. & INVEST.	13	C.F.C Bank Ltd	58.00	33.00	9.20	9.00	10.05	23.85
FIN. & INVEST.	14	Diamond Trust Bank Kenya Ltd	28.00	28.00	10.00	9.00	14.00	17.80
FIN. & INVEST.	15	Housing Finance Co Ltd	8.50	12.05	5.20	6.00	5.50	7.45
FIN. & INVEST.	16	I.C.D.C Investments Co Ltd	67.00	51.00	19.00	47.75	49.50	46.85
FIN. & INVEST.	17	Jubilee Insurance Co.Ltd	58.00	50.00	15.50	15.50	18.50	31.50
FIN. & INVEST.	18	Kenya Commercial Bank Ltd	64.00	54.00	17.00	16.35	25.50	35.37
FIN. & INVEST.	19	National Bank of Kenya Ltd	18.90	13.35	3.65	2.90	3.15	8.39
FIN. & INVEST.	20	NIC Bank Ltd	50.00	45.50	19.70	15.00	17.75	29.59
FIN. & INVEST.	21	Pan Africa Insurance Holdings Ltd	21.00	23.50	7.00	13.10	11.00	15.12
FIN. & INVEST.	22	Standard Chatered Bank Ltd	122.00	191.00	62.00	47.00	49.50	94.30
IND. & ALLIED	23	Athi River Mining	15.00	21.25	4.70	4.00	4.00	9.79
IND. & ALLIED	24	B.O.C Kenya Ltd	137.00	99.50	26.75	30.00	43.00	67.25
IND. & ALLIED	25	Bamburi Cement Ltd	95.00	126.00	43.75	16.70	34.00	63.09
IND. & ALLIED	26	British American Tobacco Kenya Ltd	200.00	276.00	54.00	49.00	60.50	127.90
IND. & ALLIED	27	Carbacid Investments Ltd	116.00	105.00	35.75	35.00	49.00	68.15
IND. & ALLIED	28	Crown Berger Ltd	35.50	7.00	5.00	9.00	10.00	13.30
IND. & ALLIED	29	Olympia Capital Holdings Ltd	0.00	0.00	0.00	0.00	0.00	0.00
IND. & ALLIED	30	E.A. Cables Ltd	51.00	13.65	9.20	9.20	9.25	18.46
IND. & ALLIED	31	E.A. Portland Cement Ltd	47.50	46.25	12.50	11.00	12.40	25.93
IND. & ALLIED	32	East African Breweries Ltd	445.00	226.00	82.50	79.50	65.50	179.70
IND. & ALLIED	33	Sameer Africa Ltd	12.50	11.90	8.70	7.00	11.50	10.32
IND. & ALLIED	34	Kenya Oil Co. Ltd	50.50	272.00	81.00	68.50	81.00	110.60
IND. & ALLIED	35	Mumias Sugar Co. Ltd	9.05	3.40	2.50	6.35		5.33

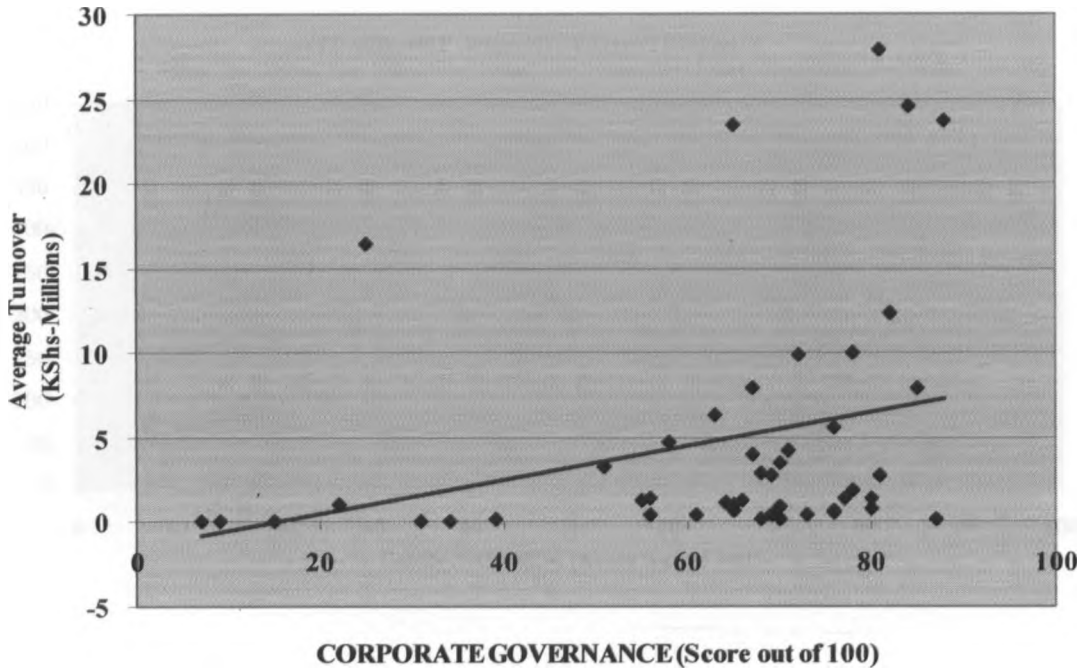
## Appendix 6. Continued

IND. & ALLIED	36	Kenya Power & Lighting Co.Ltd	88.50	32.00	8.65	29.25	51.50	41.98
IND & ALLIED	37	Total Kenya Ltd	94.50	39.75	22.75	19.00	55.00	46.20
IND. & ALLIED	38	Unga Group Ltd	14.50	12.05	4.10	7.75	15.40	10.76
ALT.INV.MKT.SGMT	39	A. Baumann & Co. Ltd	8.25	5.50	9.00	6.95	14.30	8.80
ALT.INV.MKT.SGMT	40	City Trust Ltd	30.00	21.00	17.50	16.20	20.00	20.94
ALT.INV.MKT.SGMT	41	Eaagads Ltd	17.00	15.95	19.00	20.50	25.00	19.49
ALT.INV.MKT.SGMT	42	Express Ltd	7.80	9.00	6.80	18.65	16.75	11.80
ALT.INV.MKT.SGMT	43	Williamson Tea Kenya Ltd	80.00	70.00	51.00	100.00	87.00	77.60
ALT.INV.MKT.SGMT	44	Kapchorua Tea Co.Ltd	100.00	137.00	137.00	140.00	150.00	132.80
ALT.INV.MKT.SGMT	45	Kenya Orchards Ltd	3.80	5.30	5.30	5.30	5.00	4.94
ALT.INV.MKT.SGMT	46	Limuru Tea Co. Ltd	355.00	160.00	394.00	394.00	650.00	390.60
ALT.INV.MKT.SGMT	47	Standard Group Ltd	43.50	39.75	9.40	5.50	7.40	21.11

	<b>Average Turnover</b>	<b>Average Net Profit</b>	<b>Average MSP</b>
<b>All companies combined</b>	Significant +ve correlation	No significant +ve correlation	No significant +ve correlation
<b>Agricultural sector</b>	Significant +ve correlation	Significant +ve correlation	Significant +ve correlation
<b>Commercial and Services sector</b>	Significant +ve correlation	Significant +ve correlation	No significant +ve correlation
<b>Finance and Investment sector</b>	Significant +ve correlation	Significant +ve correlation	Significant +ve correlation
<b>Industrial and Allied sector</b>	Significant +ve correlation	No significant +ve correlation	No significant +ve correlation
<b>Alternative Investment Market Segment</b>	Significant +ve correlation	Significant +ve correlation	No significant +ve correlation

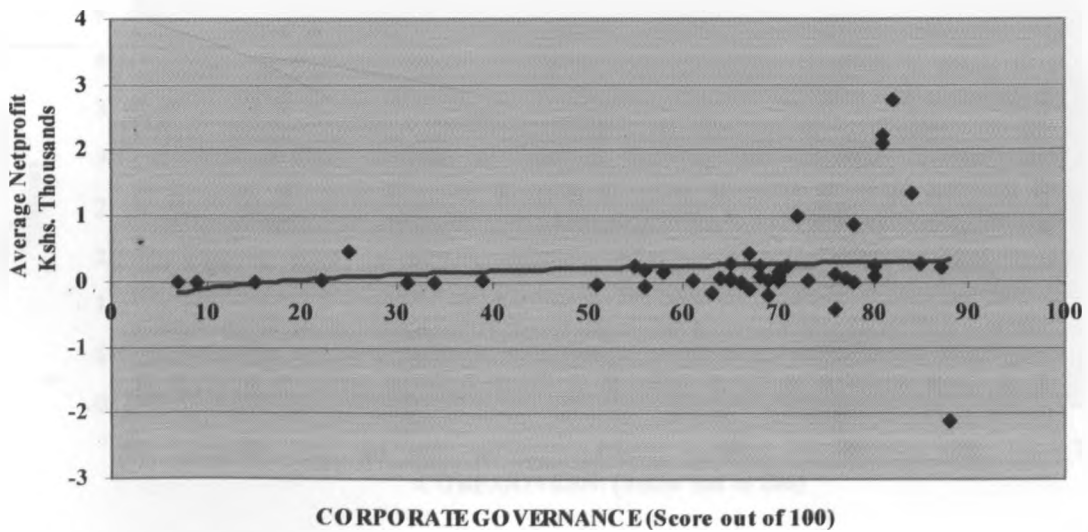
**Appendix8(a): Corporate Governance and Performance in Average Turnover for all Companies in General**

**AVERAGE TURNOVER AND CORP.GOVERNANCE**

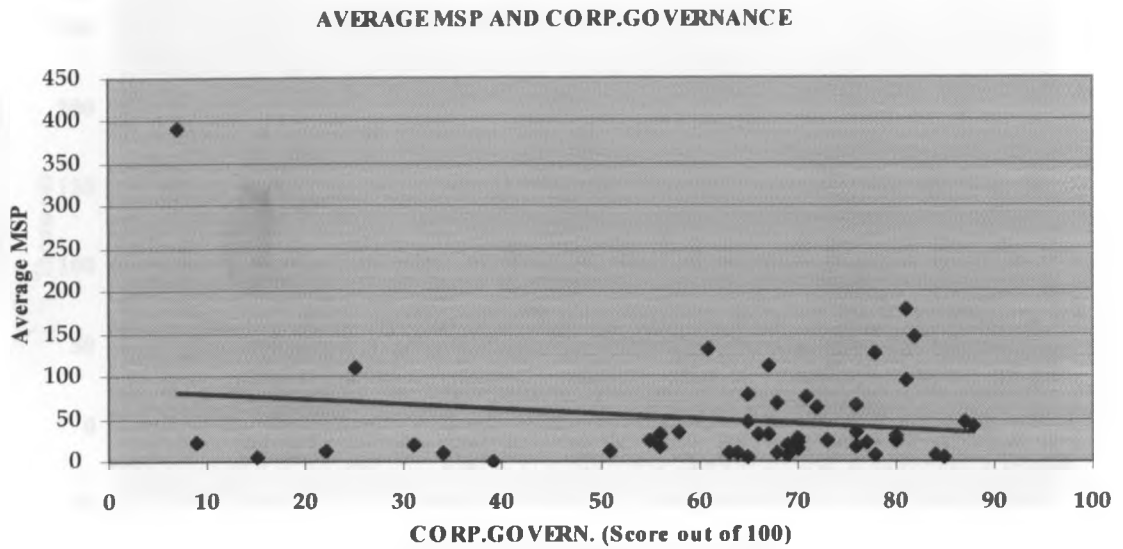


**Appendix 8(b): Corporate Governance and Performance in Average Net Profit for all Companies in General**

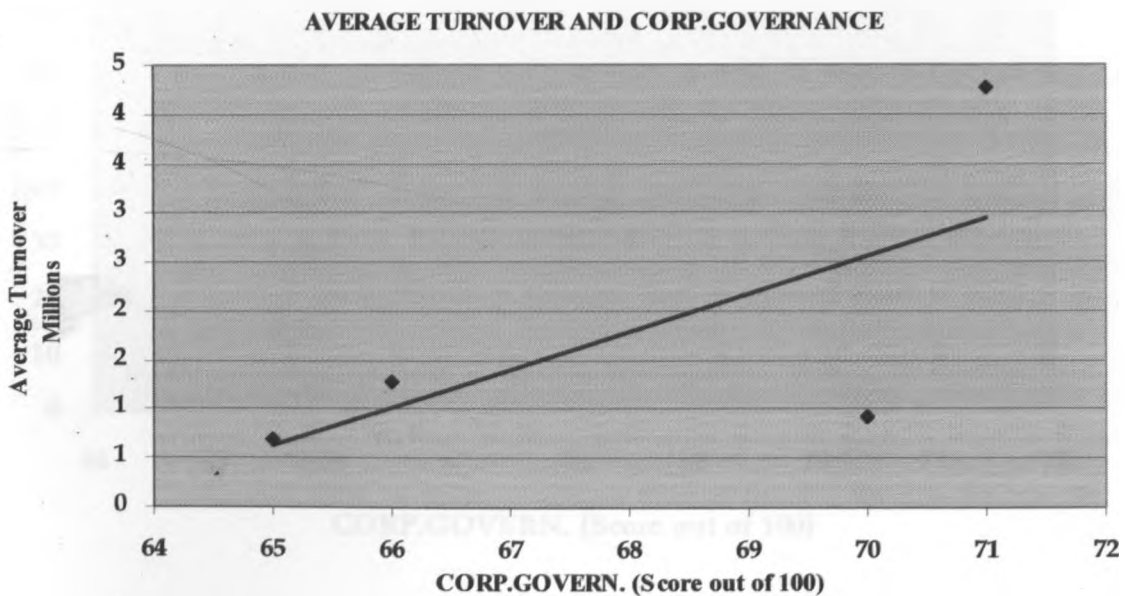
**AVERAGE NET PROFIT AND CORP.GOVERNANCE**



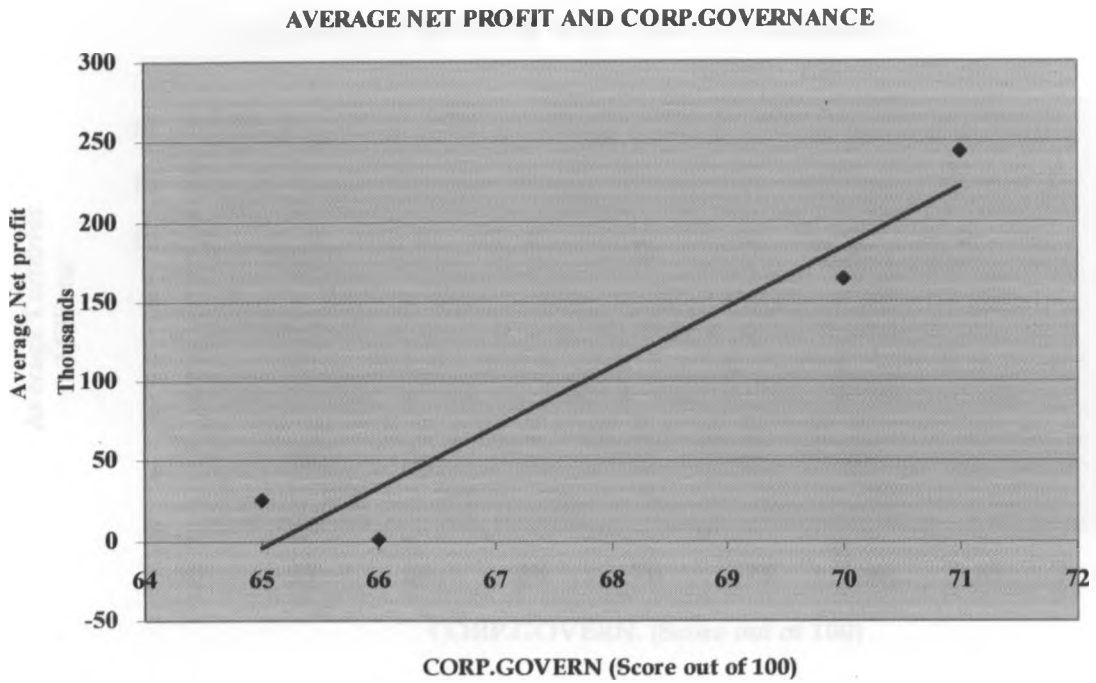
**Appendix 8(c): Corporate Governance and Performance in Average Market Share Price for all Companies in General**



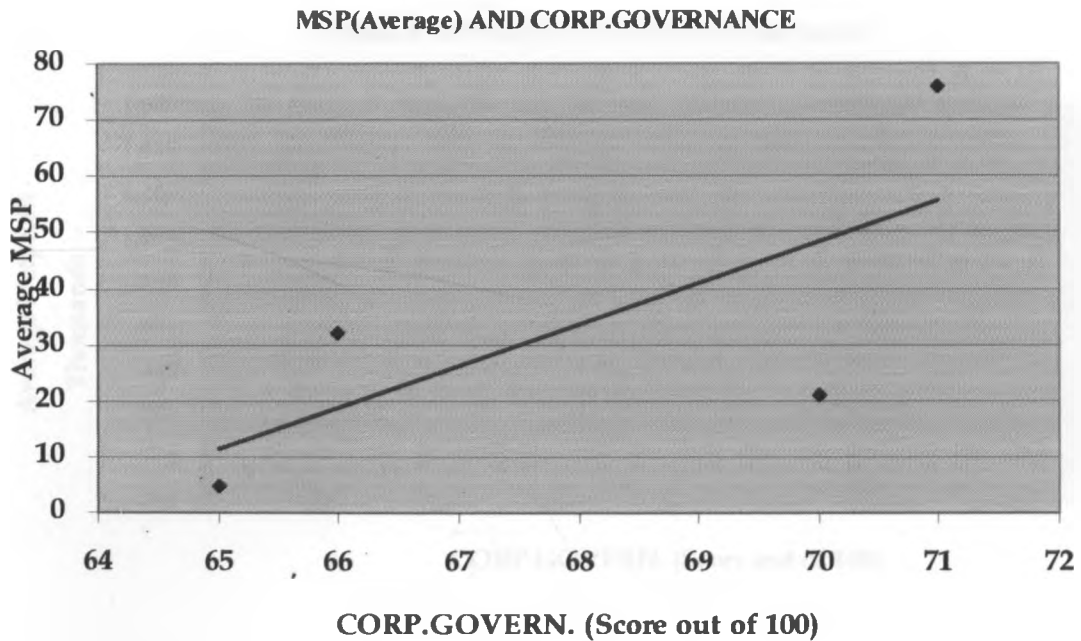
**Appendix 9(a): Corporate Governance and Performance in Average Turnover for Agricultural Sector**



**Appendix 9(b): Corporate Governance and Performance in Average Net Profit for Agricultural Sector**

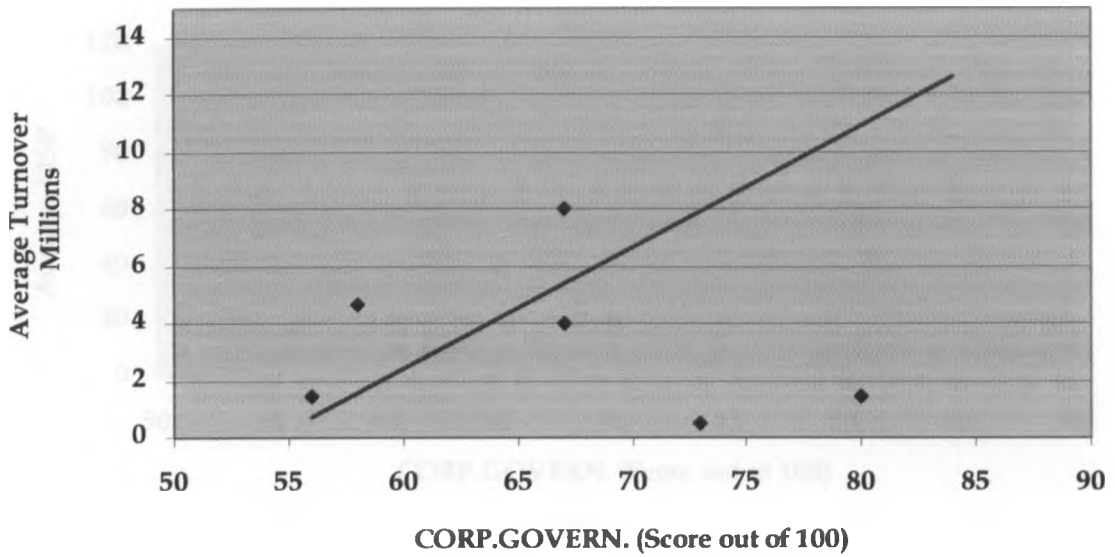


**Appendix 9(c): Corporate Governance and Performance in Average Market Share Price for Agricultural Sector**



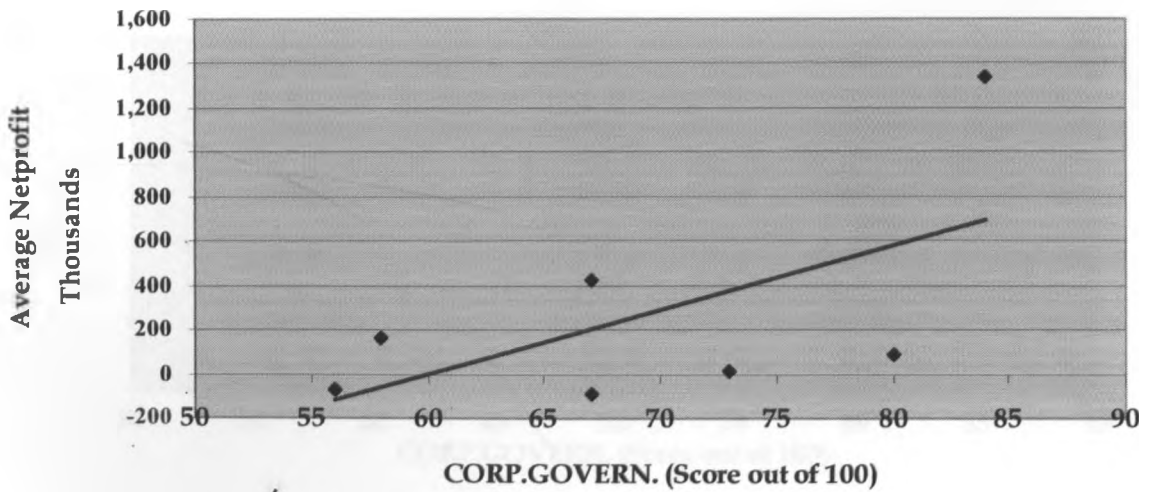
**Appendix 10(a): Corporate Governance and Performance in Average Turnover for Commercial and Services Sector**

**AVERAGE TURNOVER AND CORP.GOVERNANCE**



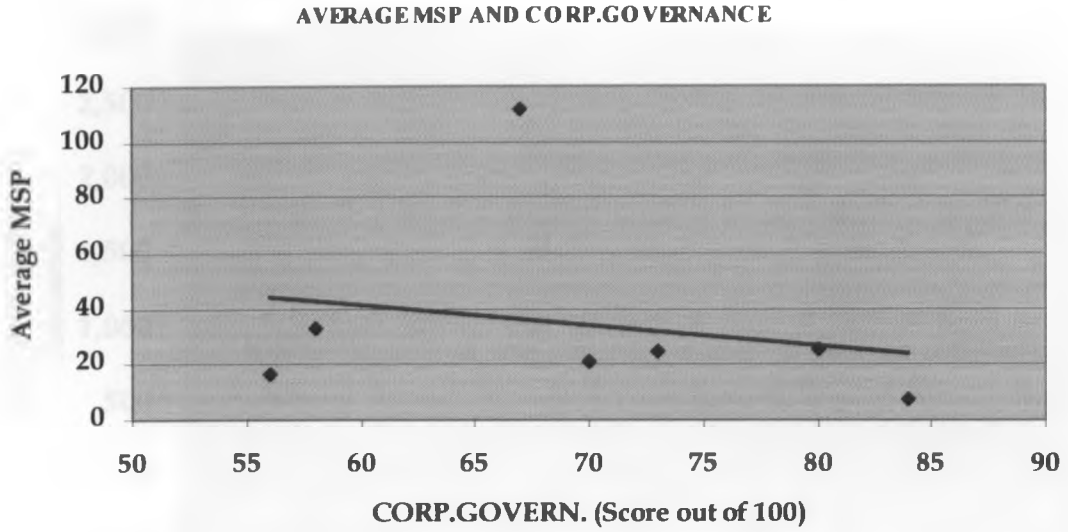
**Appendix 10(b): Corporate Governance and Performance in Average Net Profit for Commercial and Services Sector**

**AVERAGE NET PROFIT AND CORP.GOVERNANCE**

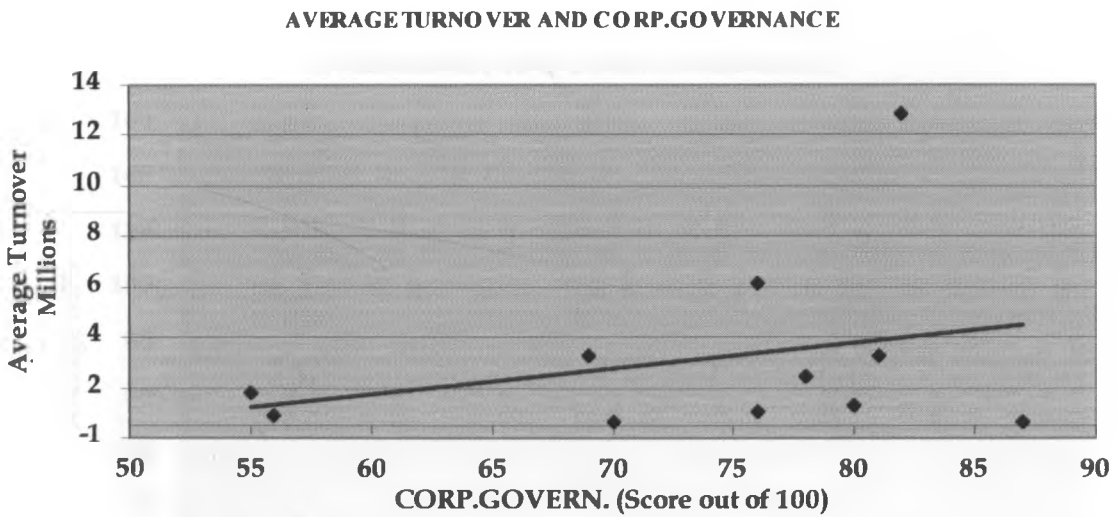




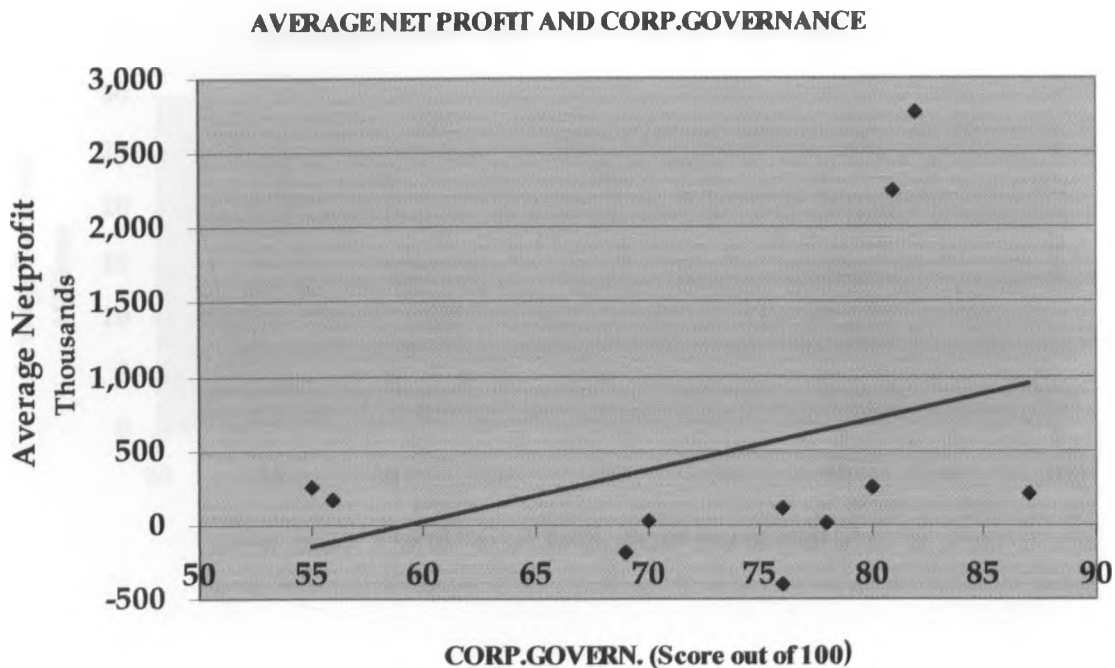
**Appendix 10(c): Corporate Governance and Performance in Average Market Share Commercial and Services Sector**



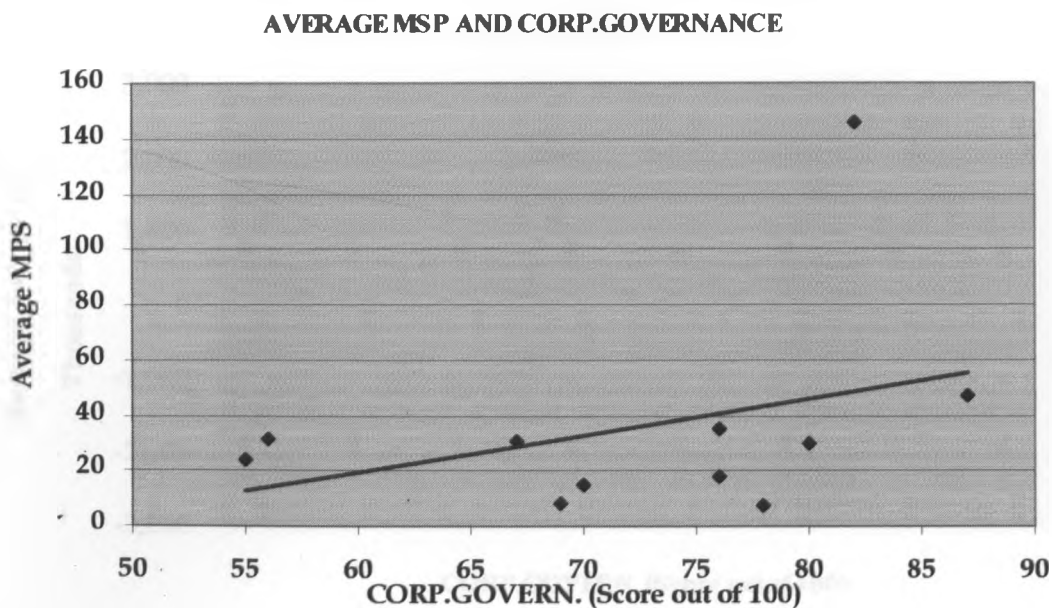
**Appendix 11(a): Corporate Governance and Performance in Average Turnover for Finance and Investment Sector**



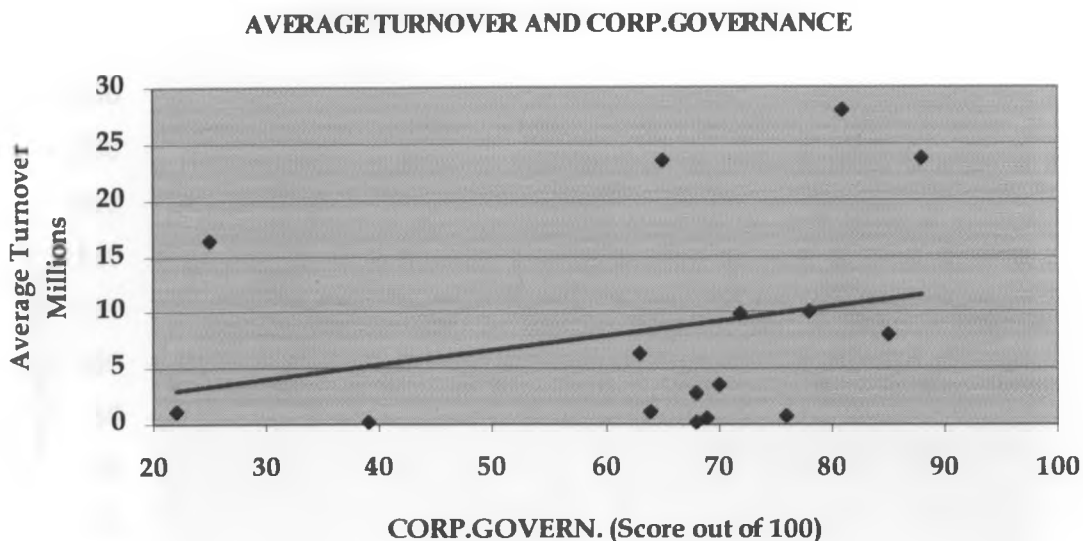
**Appendix 11(b): Corporate Governance and Performance in Average Net Profit for Finance and Investment Sector**



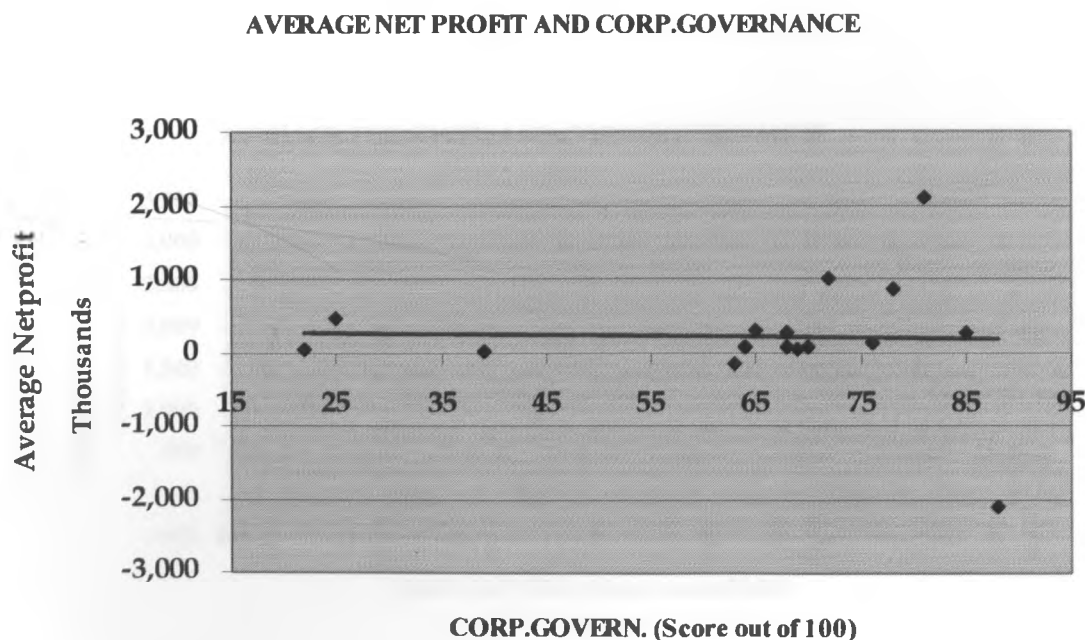
**Appendix 11(c): Corporate Governance and Performance in Average Market Share Finance and Investment Sector**



**Appendix 12(a): Corporate Governance and Performance in Average Turnover for Industrial and Allied Sector**

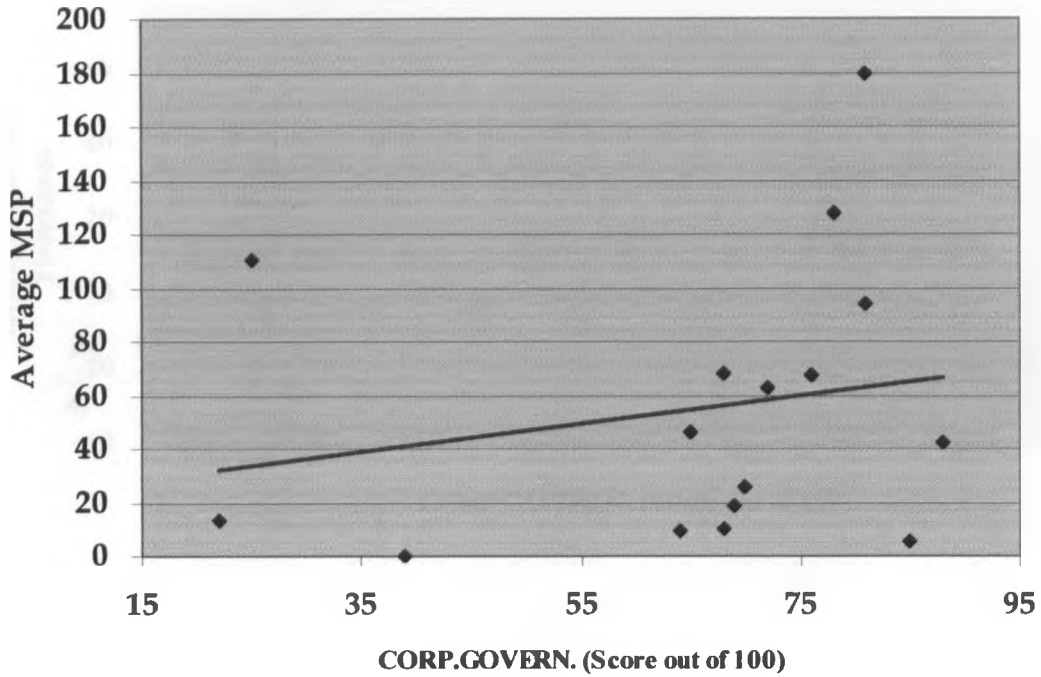


**Appendix 12(b): Corporate Governance and Performance in Average Net Profit for Industrial and Allied Sector**



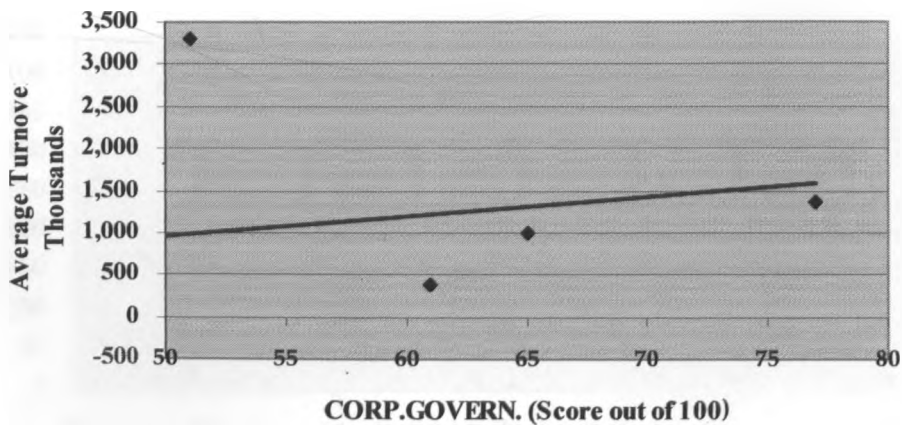
**Appendix 12(c): Corporate Governance and Performance in Average Market Share Industrial and Allied Sector**

**AVERAGE MSP AND CORP. GOVERNANCE**

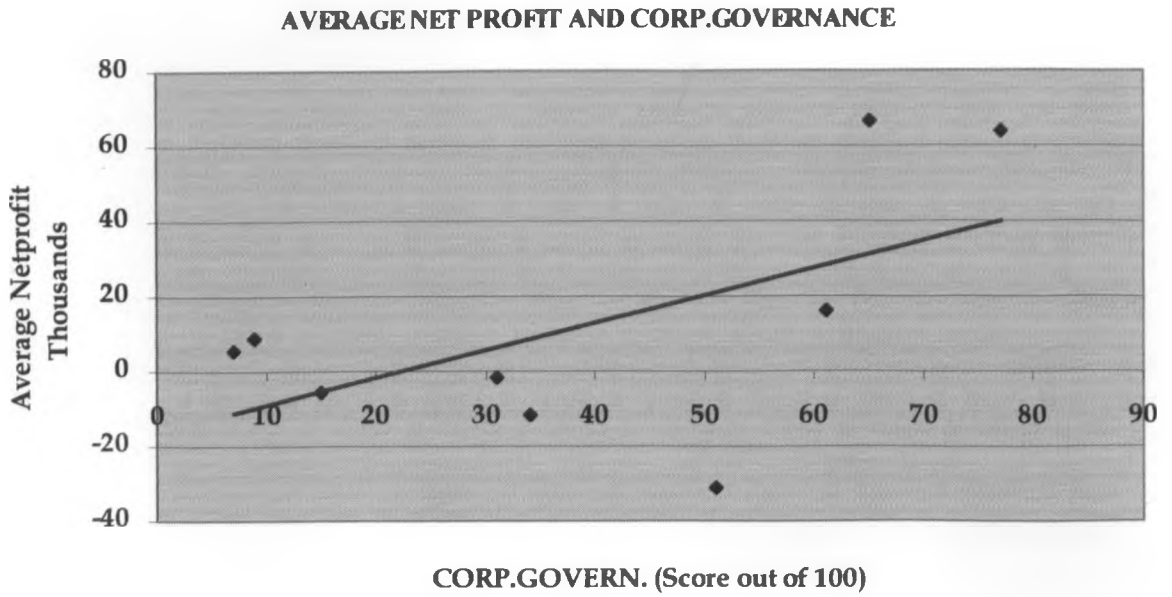


**Appendix 13(a) Corporate Governance and Performance in Average Turnover for Alternative Investment Market Segment**

**AVERAGE TURNOVER AND CORP.GOVERNANCE**



**Appendix 13(b): Corporate Governance and Performance in Average Net Profit for Alternative Investment Market Segment**



**Appendix 13(c): Corporate Governance and Performance in Average Market Share Alternative Investment Market Segment**

