CORPORATE GOVERNANCE AND FINANCIAL PERFORMANCE OF WATER COMPANIES IN KENYA

CORNELIUS KIPKEMOI NG’ETICH

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

UNIVERSITY OF NAIROBI

2015
DECLARATION

This research project is my original work and it has never been submitted or presented for examination in any other institution of learning.

Signed ........................................ Date...............................  

CORNELIUS KIPKEMOI NG’ETICH  
D63/68373/2013

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

Signed ................................. Date...............................  

WINNIE NYAMUTE (MRS)  
DEPARTMENT OF FINANCE AND ACCOUNTING  
SCHOOL OF BUSINESS, UNIVERSITY OF NAIROBI
DEDICATION

I would like to sincerely dedicate this research study to my family that has been a source of constant encouragement to me.
ACKNOWLEDGEMENT

I would like to express my sincere gratitude and appreciation to my supervisor for her guidance, continued motivation and invaluable advice and support throughout the research. I would also like to thank my loving family for the support and encouragement during the whole period of this study.
ACRONYMS

CEO – Chief Executive Officer

WASREB – Water Services Regulatory Board

WSB – Water Service Board

WSP – Water Service Provider
# TABLE OF CONTENTS

DECLARATION .................................................................................................................. ii
DEDICATION .................................................................................................................... iii
ACKNOWLEDGEMENT ................................................................................................. iv
ACRONYMS .................................................................................................................... v
TABLE OF CONTENTS ................................................................................................... vi
LIST OF TABLES ............................................................................................................. viii
ABSTRACT ..................................................................................................................... ix

## CHAPTER ONE: INTRODUCTION ............................................................................. 1

1.1 Background .................................................................................................................. 1
  1.1.1 Corporate Governance ...................................................................................... 2
  1.1.2 Financial Performance ..................................................................................... 4
  1.1.3 Corporate Governance and Financial Performance ............................................ 5
  1.1.4 Water Companies in Kenya ............................................................................... 6
1.2 Research Problem ...................................................................................................... 8
1.3 Research Objectives ................................................................................................. 9
1.4 Value of the Study ..................................................................................................... 9
2.1 Introduction ............................................................................................................... 11
2.2 Theoretical Review .................................................................................................. 11
  2.2.1 Agency Theory .................................................................................................. 11
  2.2.2 Stewardship Theory .......................................................................................... 12
  2.2.3 The Stakeholder Theory .................................................................................... 14
  2.2.4 Political Theory ................................................................................................ 15
2.3 Components of Corporate Governance .................................................................. 15
  2.3.1 Board Size ........................................................................................................ 15
  2.3.2 Separation of CEO and Chairman .................................................................... 16
  2.3.3 Independent and Non-Executive Directors ....................................................... 17
  2.3.4 Audit Committee ............................................................................................... 18
  2.3.5 Number of Board Meetings ............................................................................. 19
2.4 Determinants of financial performance in Water companies .................................. 19
  2.4.1 Financial Sustainability .................................................................................... 20
  2.4.2 Management Efficiency .................................................................................... 21
  2.4.3 Profitability ....................................................................................................... 22
  2.4.4 Liquidity management ....................................................................................... 22
2.4.5 Size of the company ................................................................. 23
2.4.6 Age of the company ................................................................. 23
2.5 Empirical Studies .................................................................. 23
2.6 Summary and Conclusion ................................................. 25

CHAPTER THREE: RESEARCH METHODOLOGY ......................... 26
3.1 Introduction ........................................................................ 26
3.2 Research Design ................................................................ 26
3.3 Population ........................................................................... 27
3.4 Sampling ............................................................................ 27
3.5 Data Collection .................................................................... 27
3.6 Data Analysis ................................................................. 28
3.6.1 The Analytical Model .............................................................. 28
3.6.2 Test of Significance .............................................................. 29
3.6.3 Data Reliability and Validity ............................................. 29

CHAPTER FOUR: DATA ANALYSIS, PRESENTATION AND INTERPRETATION OF FINDINGS .............................................. 30
4.1 Introduction ........................................................................ 30
4.2 Descriptive Analysis ............................................................ 30
4.3 Regression Analysis ............................................................. 38
4.4 Correlation Analysis ............................................................. 41
4.5 Discussion and Interpretation of Findings ............................ 42

CHAPTER FIVE: SUMMARY, CONCLUSIONS AND RECOMMENDATIONS ...... 44
5.1 Introduction ........................................................................ 44
5.2 Summary of the findings ...................................................... 44
5.3 Conclusion .......................................................................... 45
5.4 Limitations of the Study ....................................................... 46
5.5 Recommendations ............................................................... 47
5.5 Recommendation for further studies .................................... 48

REFERENCES ............................................................................. 49

APPENDICES ............................................................................ 58
APPENDIX 1: LIST OF LICENSED WATER SERVICE PROVIDERS IN KENYA .......... 58
APPENDIX II: LETTER OF INTRODUCTION TO RESPONDENTS ..................... 61
APPENDIX III: DATA COLLECTION FORM ............................................. 62
### LIST OF TABLES

Table 1: Number of members serving in the Board of Directors ................................. 29
Table 2: Level of agreement with statements on Board size and composition .............. 30
Table 3: Number of times in a year the Board meets .................................................... 32
Table 4: Level of agreement with statements concerning board meetings ................. 32
Table 5: CEO duality .................................................................................................. 33
Table 6: Financial performance .................................................................................. 34
Table 7: Model Summary .......................................................................................... 35
Table 8: ANOVA (Analysis of Variance) .................................................................. 36
Table 1: Regression Coefficients results .................................................................... 37
Table 10: Correlation coefficient of financial performance ...................................... 38
ABSTRACT

Corporate governance has received its fair share of attention in the past decade due to various notable corporate scandals and collapses of large corporations which cause was traced to unethical business practices. Corporate governance is meant to create a balance between the interests of the management and the various stakeholders. It aims to ensure the company strives to achieve its set objectives whilst having the interests of all the stakeholders at heart. Amongst key indicators of success in business is financial performance of an entity. Financial performance generally refers to the financial health of an entity over a given period. It determines the return to shareholders. Financial performance of an entity is dependent on various factors. The target population in this study was all the 65 water companies in Kenya that were registered with WASREB as at 31st December 2015. 20 companies were selected for study based on the size of operations and period of existence. The study used secondary data. A data collection form was used to collect the data on corporate governance variables. The instrument was designed to capture a broad range of data required by the researcher and specifically capture the board size, CEO duality, existence of audit committee, and frequency of meetings and whether there are independent directors. Financial performance was represented by ROA, which is net income divided by Total Assets for the last three financial years 2011/12 to 2013/2015 and are available at the Auditor General and WASREB. The study finding indicated that all the independent variables have positive coefficient. The regression results above reveal that there is a positive relationship between dependent variable (overall performance) and independent variables (CEO duality, size of the board, number of the board meetings, board composition and size of the firm and gender diversity of board.
CHAPTER ONE

INTRODUCTION

1.1 Background

Corporate governance has been the single most significant issue on the business agenda nationally, internationally and globally for the past thirty or more years. Although it may not have always appeared under the same title, its successes and more particularly its failings – will have affected every working individual in every economy across the world during that time (Bloomfield, 2013).

It is the control and direction of companies by ownership, boards, incentives, company law, and other mechanisms. It means setting the direction in which the company is going, its goals and objectives, as well as controlling the implementation of these goals (Thomsen & Conyon, 2012).

It also refers to establishment of appropriate legal, economic and institutional environment that allows companies to thrive as institutions for advancing long-term shareholder value and maximum human-centered development while remaining conscious of their other responsibilities to stakeholders, the environment and the society in general (Gitari, 2005).

Corporate governance comes out strongly as key to success of most organizations. Amongst key indicators of success in business is financial performance of an entity. Financial performance generally refers to the financial health of an entity over a given period. It determines the return to shareholders. Financial performance of an entity is dependent on various factors. (Ongeti, 2015)
1.1.1 Corporate Governance

Corporate governance simply means the extent in which companies are run in a transparent manner. The Cadbury Committee (2002) of United Kingdom defined it as thus; the system by which companies are directed and controlled. The day to day running of businesses in the corporate world is based on fulfilling fair expectations of various stakeholder groups. It involves compliance with legal requirements and demonstrating ethical conduct (Aggarwal, 2013).

Corporate governance has received its fair share of attention in the past decade due to various notable corporate scandals and collapses of large corporations which cause was traced to unethical business practices. Corporate governance is meant to create a balance between the interests of the management and the various stakeholders. It aims to ensure the company strives to achieve its set objectives whilst having the interests of all the stakeholders at heart. It is primarily concerned with finding ways to align interests of managers with those of investors, thus ensuring flow of resources to the firm (Maher and Anderson, 1999).

Managers are in charge of day to day running of the business whereas the investors are the suppliers of resources of finance to the business. At a slightly deeper level of analysis, appropriate supervision is required to oversee the processes by which limited resources are efficiently directed to competing purposes for the use of the organization and its stakeholders (Bloomfield, 2013).
The need for corporate governance can be mainly attributed to the agency problem caused by the principal-agent framework in a company (Jensen and Meckling, 1976). This theory envisages a scenario in corporations where the owner, who is the principal, delegates day-to-day decision making in the company to the directors, who are the shareholder’s agents. The problem that arises as a result of this system is that the agents do not necessarily make decisions in the best interests of the principal. Due to this foreseen conflict of interest, the theory proposes need for strict monitoring and accountability (Grossman and Hart, 1995; Lim, 2010). Another key theory on corporate governance is the Stakeholder theory (Freeman, 1984), which state that companies are so large, and their impact on society so pervasive that they should discharge an accountability to many more sectors of their society than solely their shareholders.

Stakeholders hold a ‘stake’ rather than simply a ‘share’ and include shareholders, employees, suppliers, customers, creditors, communities in the vicinity of the company’s operations and the general public (Solomon, 2008). In exchange they expect companies as ‘corporate citizens’ to enhance, not degrade, their quality of life (Hill and Jones, 1992). The Water sector in Kenya has undergone major reforms in a bid to ensure efficient and sustainable service delivery. These reforms led to enactment of Water Act in 2002 which introduced new institutional framework to govern water and sanitation. This saw the introduction of commercialization of water resources as part of decentralization process and the participation of stakeholders in the management of national water resources (Moraa et al., 2012).
As a result of the provisions in the Water Act of 2002, the Water Services Regulatory Board (WASREB) was created. It sets rules and enforces standards that guide the sector towards ensuring that consumers are protected and have access to efficient, affordable and sustainable services (WASREB, 2003). This has seen the water services providers adopting the corporate governance guidelines. Some companies have been successful whereas in others, its implementation has been met with stiff resistance.

1.1.2 Financial Performance

Companies are formed to achieve specific objectives. They are vehicles designed to actualize the dreams of the promoters. These objectives could vary from one organization to another as do their purposes for formation. According to Venkatraman and Ramanujam (1986), the common denominator is that companies are in business or various ventures to succeed. Therefore, performance remains a crucial aspect of the organization and at the heart of strategic management. It remains a recurrent theme of great interest to both academic scholars and practicing managers.

Financial performance is a measure for an organization financial health over a certain period of time and can serve as important tool for gauging the performance of industries or even sectors of the economy singularly or overall. It often relates to efficiency, effectiveness, financial viability and relevance of a company (Ongeti, 2015).

According to Opanga (2013), financial performance can be termed as a subjective measure of how well a firm can use assets from its primary mode of business and generate revenues. It can be measured using proxies like profitability, return on equity, liquidity, solvency and sales growth of which all can be extracted from the financial statements.
Information on financial performance is useful in predicting the capacity of the enterprise hence analyzing how well or poorly an enterprise is doing against its set objectives.

Avkiran (1995) states that financial performance of business organizations can be measured using a combination of financial ratios analysis, benchmarking, and measuring performance against budget or a mix of these methodologies.

1.1.3 Corporate Governance and Financial Performance

Corporate governance has dominated the policy agenda in developed market economies for sometime especially among very large firms. It’s believed that good governance generates investor goodwill and confidence and strengthens the foundation for company financial performance (Opondo, 2012).

According to the Government of Australia (2003), essential governance principles include laying solid foundations for management and oversight by recognizing and publishing the respective roles and responsibilities of board and management; structuring the board to add value to the entity; promoting ethical and responsible decision making; safeguarding integrity in financial reporting; disclosing on a timely basis all material matters concerning the entity; respecting the rights of the shareholders; establishing a system of risk oversight and internal control; enhancing board and management performance; remunerate fairly and responsibly all officials and recognize legal and other obligations to all legitimate stakeholders.
Implementation of corporate governance will provide clear-cut leadership strategy formulation and will therefore lead to better performance (Stoeberl and Sherony, 1985). Kim K-H et al (2008) points out that poor implementation, however, may create information sharing costs, conflicts between CEO and other board members hence inefficiency of the board; it was costly to communicate the firm’s specific information to others in a timely manner; decision making process and execution may both be less efficient; it may be more difficult to assign blame for bad company value.

Corporate governance brings new outlook and enhances a firm’s corporate entrepreneurship and competitiveness (Kihara, 2006) and its relevance cannot be over-emphasized since it constitutes the organization climate for internalizing success in the activities of a company (Guzeh, 2011). Stakeholders can demand change in management if the firm does not provide the required services for which they were established. Success in the provision of these services is interpreted as good corporate governance (Wachter et al., 2001).

1.1.4 Water Companies in Kenya

Water supply and sanitation in Kenya has witnessed major reforms since 1990s when it became clear that the government targets as set in early 1980s could not be achieved. By that time, the sector performance in Kenya had suffered a downward performance attributed to government’s limited funding, poor management of utilities, mismanagement of funds and unprecedented growth in demand. This led to crises in public health and other public services directly related to water services which served as an impetus for change with civic pressure, expressed through formal complaints procedures and the media (World Bank, 2010).
The institutional reforms that were brought about following the enactment of the Water Act 2002 were meant to minimize duplication and maximize efficiency. The water service providers were mandated with service development and provision. According to Appida and K’Akumu (2005), this was expected to remedy the poor provision of water and sanitation through commercialization of the publicly-owned utilities to private entities under the Companies Act (Cap.486) of the laws of Kenya.

Sections 49 and 50 of the Water Act 2002 define the National Water Services Strategy. The strategy objectives are to make arrangements to ensure that at all times there is in every area a person capable of providing water, and to design a program that progressively extends sewerage to every centre of population. The national strategy describes the process of ensuring that every area has adequate water and sewerage services and that there is a service provider (IEA, 2007).

Water Service Providers (WSPs) are thus business entities with the sole mandate of retailing water and sewerage services to consumers. To be allowed to operate, the entity must be registered by WASREB and be licensed by water service board. Most WSPs were owned by the local authorities, municipal and town councils, which have since been subsumed by the county governments.
The Water Act defines a WSP as “a company, non – governmental organization or other person providing water services under and in accordance with an agreement with a licensee (the water services boards).” The main responsibilities of the WSP are provision of water and sewerage services, operating and maintaining facilities, complying with regulations as regards to quality standards and service levels, billing and collection of revenue for company operations.

1.2 Research Problem

Performance of WSPs in Kenya is crucial in attaining government objectives of improved water supply and sanitation. However, sustenance of a significant number of WSPs has proved difficult despite emergence of models that have shown increasing success in terms of their ability to deliver water to the masses in a cost-effective manner (Chua, 1998).

Commercialization of the WSPs led to separation of ownership and control which induces conflicts between the management and the boards - which represent the shareholders (Berle and Means, 1932). Whereas shareholders are interested in maximizing the value of the firm, managers could be more concerned with their perks and job security. Mwanzia (2010) postulates that proper governance of public sector organizations in developing countries can result to value addition in form of improved financial performance. WASREB has developed a code of governance for the WSPs which are at varying stages of implementation. This study, therefore, is meant to find out if corporate governance has any impact on financial performance of WSPs in Kenya.

Ndung’u (2013) in his recommendations on study of financial sustainability of water companies in Nyeri county states that companies should beef-up their governance structure.
Oriaro (2001) carried an assessment on the suitability of a regulatory framework for operations of water companies in Kenya. Wanjohi (2008), investigated competitive strategies and positioning within a changing business environment adopted by water companies in Kenya. These studies have focused on financial performance and financial sustainability. However, there is a missing link on how corporate governance affects financial performance which is vital in sustainability of an organization. This study seeks to establish if there is correlation (if any) between corporate governance and financial performance. The study looks into differences in the financial performance between WSPs which are compliant with corporate governance and those which are not.

1.3 Research Objectives
The objective of this study is to investigate the relationship between corporate governance and financial performance of water companies in Kenya.

1.4 Value of the Study
The study is of value to the following group of individuals;

**Policymakers:** The policymakers at the Ministry of Water and Irrigation in Kenya will find this study key in acknowledging the extent of Water reforms. WASREB was to appreciate the impact on corporate of governance of its code governance and the extent of implementation by the WSPs. It will therefore assist in the drafting of policies in future and improvement of current policies.
Management of WSPs: Management of WSPs will benefit from the findings of this study by studying the recommendations and comparing themselves against their peers in the sector.

Academicians: Those in the academic realm cannot be forgotten too. Future researchers and academic Institutions, especially those of higher learning can use the findings of this research as a source for future reference.
CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter presents the research objectives against views from other scholars and researchers on the same areas of corporate governance and financial performance. It also gives highlights, definitions and briefly delves into the theories that support and explain various aspects significant to matters corporate governance and financial performance particularly to this study. It comprises of theoretical review, empirical review, and conceptual framework, critique of the review and research gaps.

2.2 Theoretical Review

Theoretical review seeks to present relevant theories that support and explain various issues in corporate governance and their significance to performance of a firm. In this study, the following theories are discussed; Agency theory, Stewardship theory, the stakeholder theory and the political theory.

2.2.1 Agency Theory

This theory is anchored on separation of ownership and management. It was first discussed by Berle and Means (1932), who indicated that it could be a source of conflicts. Jensen and Meckling (1976), define an agency relationship as a contract under which one or more persons “the principal (s)” engage another person “the agent” to perform some duty on their behalf. This involves delegation of some decision making authority to the agent. Conflicts arise when the management is perceived by the firm owners to prefer other interests other than those of the owners themselves.
According to Green (2008), separation of ownership and control in a large organization is often seen to create a power base for executive management. This is because superior information is available to professional managers who are given full responsibility to run the firm and this can make them act in a manner which will give them undue gain at the expense of value-addition for shareholders. This is also grounded on the fact that people are self-interested rather than self-sacrificing and cannot be trusted to act in the best interests of others hence they seek to maximize their own utility (Opanga, 2013). Two factors can influence the prominence of the agency theory (Daily et al, 2003). The first argument is that the theory reduces the company into two stakeholders; managers and the shareholders.

The second argument is that agents are self-seeking. Ideally, the agent is expected to act in the best interest of the principal. However, on the contrary, that may not necessarily happen (Padilla, 2000). The proponents of this theory looks at the board of directors as the guardian of the owner’s interests. According to them, corporate governance is meant to be a check on the perceived conflicts between principal and agent (Mallin, 2010; Fama and Jensen, 1983). To counter the agency problems, (Jensen, 1983) suggests two steps; the company internal systems must be designed to operate in an efficient manner and monitored through an institutional framework and performance contracts between the owners and the managers.

2.2.2 Stewardship Theory

Guzeh (2012) explains that corporate executives and managers are seen as stewards who work, protect and make profit for the shareholders. As such, they will work diligently, responsibly and honestly in the interest of the company and its owners. Donaldson and Davis (1994), states that managers are goal-oriented and self-motivated stewards of the firm.
This theory argues that managers are primarily responsible for the failure or success of a business and expect stern consequences in a case of failure and indeed bonuses and other incentives when they succeed. As such, they deserve more freedom in decision making as they will feel constrained if controlled by external directors which may in turn hinder their optimum productivity.

Stewardship theory proposes the need for a structure that brings a harmonized relationship which allows the best to be achieved between managers and owners. According to Argyris (1964), agency theory concerns the employee or people as an economic being, which stifles individual’s own dreams and aspirations while stewardship theory recognizes the need of structures that empower the manager and offers maximum autonomy built on trust (Donaldson and Davis, 1994). Moreover, this theory suggests convergence of the role of chief executive officer and chairman so as to reduce agency costs and to have the managers taking a greater role in stewardship of the organization and better safeguard the interests of the owners. Directors can be classified into four categories of insiders, business experts, support specialists and community influencers. The insiders are current and former executives of the firm and they provide expertise in specific areas such as finance and law on the firm itself as well as general strategy and direction.

The business experts, on the other hand, are current, former senior executives and directors of other large for-profit firms and they provide expertise on business strategy, decision making and problem solving.
2.2.3 The Stakeholder Theory

This theory states many people have stake in a firm beyond the shareholders and the managers. According to Clarkson (1994) the purpose of the firm is to create wealth or value for all its stakeholders by converting their stakes into goods or services. It’s a system of stakeholders operating within the larger system of the host society that provides the necessary legal and market infrastructure for the firm’s activities. Indeed, Friedman and Miles (2006) contends that the company should be perceive itself as a grouping of stakeholders and its purpose is to manage their interests, needs and viewpoints. This role is thought to be fulfilled by the managers of the firm. The goal of the directors and managers is to create and maximize shareholder wealth (Philips, 2003). In order to succeed and be sustainable over time, executives must keep the interests of customers, suppliers, employees, communities and shareholders aligned and going in the same direction.

The focus of stakeholder theory is best captured in two concerns, purpose of the firm and the responsibility of the management to stakeholders (Freeman, 1994). The purpose of the firm brings a shared sense of the value they create and thus uniting its stakeholders and enhances the firm performance. The responsibility to stakeholders propels the management to design how they want to do business and how they will relate to their stakeholders in achieving their business goals (Guzeh, 2012). In this theory, therefore, every stakeholder comes in creating and deriving value from the firm by participating in its activities and obtains benefits whereas their priority is not self-evident.
2.2.4 Political Theory

According to Hawley and Williams (1996), government allocates corporate power, responsibility and profits between owners and all other stakeholders.

This, therefore, puts each stakeholder in a bargaining position trying to negotiate higher allocation to its advantage. This theory demonstrates the developing boardroom democracy which involves creation of a voting support from shareholders rather than vote-buying. Bargaining is of essence (Guzeh, 2012).

2.3 Components of Corporate Governance

The major aspects which drive the practice of corporate governance in firms and which this study seek to focus on include Board size, CEO duality, Independent and non-executive directors, presence of an audit committee in the Board and the number of board meetings held over a period.

2.3.1 Board Size

Board size refers to the number directors on the board of a company at a given time. It’s believed to have a significant impact on firm’s performance, which is usually observed to be positive (Aggarwal, 2013). However, conflicting results emerge on whether it is a large, rather than a small board, that is more effective. This is seen in a review of the work of Monks and Minow (1995) by Yermark (1996) who argues that large boardrooms tend to be slow in making decision and hence can be an obstacle to change. Another reason for the support of small board size is that directors rarely criticize the policies of top managers and that this problem tends to increase with the number of directors (Lipton and Lorsch, 1992; Yermark, 1996).
Yermark (1996) empirically tested these arguments using 452 large U.S firms and reported a negative relationship between board size and performance. Sundgren and Wells (1996), tested relationship between board size and profitability on small and midsize Finnish Firm and found a negative association between the two but Barnhart and Rosentein (1998), found that firms with smaller board size perform better, and are highly valued than those with larger size.

However, another school of thought considers that a large board will improve a firm’s performance (Pfeffer, 1972; Klein, 1998; Coles et al., 2008). These studies indicate that a large board will support and advise firm management more effectively because of a complex of business environment and an organizational culture (Klein, 1998). Moreover, a large board size will gather much more information. As a result, large board size appears to be better for firm performance (Dalton et al., 1999). Dalton and Dalton (2005) concluded that smaller board may lack the expertise, experience and wise decision that would have otherwise been available around a table of more board members.

2.3.2 Separation of CEO and Chairman

Even though empirical studies cannot provide an agreed view on a contribution of separation of the office CEO and Chairman to a company’s performance, there is a general agreement amongst stakeholders – shareholders, institutional investors, and policymakers that a chairman or chairwoman of a board should not be the same with the chief executive officer (VO & Phan, 2012). Several studies that have examined the separation of office of Board Chair from that of CEO generally sought to reduce agency costs for a firm. Kajola (2008) found a positive and statistically significant relationship between performance and separation of board chairman and CEO.
Conflict of interest, concentration of power and reduced board independence are usually observed when the roles of CEO and Chairman of the board are exercised by the same individual (Aggarwal, 2013). However, it has also been argued that, situations in which the CEO is one and the same person may enhance the performance of the firm as there is one responsible and accountable steward. This means that one person has the full power to take any decision.

In their study, Dahya et al., (2009) presented that, between 1994 and 2003, policymakers in advanced nations and the United Kingdom recommended a chairman or chairwoman of a board should not be the same with the Chief Executive Officer. In addition, Fama and Jensen (1983), Jensen (1993) concluded that duality would reduce a board’s supervision of the management of a company. This reduction reduces results in an increase of costs to an agency.

2.3.3 Independent and Non-Executive Directors

The primary role of the executive directors is to implement the strategy agreed by the board. The chief executive officer is the main interface with the board, and in most companies, is the only executive member of the board. The executive is the full time manager of a business and they are the custodians as they in charge of day to day activities. Most studies have agreed on the importance of independent directors to the success of a firm.

Aggarwal (2013) states that, “it’s widely believed that independent directors play a significant role in monitoring and advising the company’s management. They are required to safeguard overall organization and stakeholders’ interest”. Zahra and Pearce (1989) pointed out that boards are among the most venerable instruments of corporate governance.
A positive relationship is expected between firm performance and the proportion of outside director sitting on board, unlike inside directors, outside directors are better able to challenge the CEOs.

### 2.3.4 Audit Committee

According to Guzeh (2012), the audit committee has become a key component in corporate governance in across many countries in the world. The audit committee is thought to be effective in overcoming various weaknesses in corporate governance and also serving as one of the measures in checking the agency problem. This has audit committee endorsed by professional and regulatory bodies to be adopted by corporate entities. The agency framework developed by Jensen and Meckling (1976) and reviewed by Fama and Jensen (1983) depicts the audit committee as a means of reducing these agency costs, providing more credibility to the firm, boosting its image which subsequently leads to increased performance.

Directors and audit committees that are independent from management should improve the firms’ reporting system and the quality of reported earnings because they are not subject to potential conflicts of interest that reduce their monitoring capacity. Aggarwal (2013) posited that high profile corporate scams have heightened the need for an effective audit committee. Frequent meetings and independence of audit committee can ensure credibility of audit reports. Amba (2013) contends that independent audit committee members for maintaining the integrity and quality of the corporate financial reporting process.
2.3.5 Number of Board Meetings

Board members should meet sufficient times. Very few meetings show lack of interest on the part of Board, while too frequent meetings indicate some trouble in the organization (Aggarwal, 2013). Otieno (2011) in her study of local airlines in Kenya observes that the board should balance the costs and benefits of meetings frequency as it will improve corporate performance. Most regulatory institutions have recommended the frequency of board meetings in various sectors.

2.4 Determinants of financial performance in Water companies

Mwangi and Murigu (2015) states “Financial performance is a measure of an organization’s earnings, profits, appreciations in value as evidenced by the rise in the entity’s share price (in a case where the entity is publicly traded)”. Water companies play a crucial role in the economy of any given country, providing water and sanitation to all sectors of the economy and more specifically on the health of its people.

There is need to check the performance of WSPs and how they are managed to ensure that water and sanitation services provision is at par with international standards. The Constitution of Kenya (2010) made access to clean and safe water a human right. This has put more emphasis on why all players in the water sector should measure, report and improve its performance. This involves an evaluation based on a balanced multidimensional system which includes both financial ratios and non-financial indicators. Analysis of the determinants of corporate financial performance is essential for all the stakeholders, but especially for investors.
2.4.1 Financial Sustainability

According to Ndung’u (2013), the measures of financial sustainability enable an organization to gauge its financial performance, as well as compare its performance against those of others. Christensen et al., (2007) identified seven key financial sustainability measures against which performance can be measured. They are; operating surplus/ (deficit) which measures the extent to which operating revenue is or is not sufficient to meet all of the costs of providing organizations goods and services, operating surplus ratio which expresses the operating surplus/ (deficit) as a percentage of general and other rates, net of rebates, asset sustainability ratio which expresses the net capital expenditure on renewal and replacement of existing assets as a percentage of the optimal level for such expenditure as shown in an organization’s infrastructure and asset management plan, net financial liabilities as a percentage of total operating revenue.

Hawken (2003) contends that prudent long term financial management means that an organization remains in a healthy financial position, gives financial outcomes greater stability and certainty and also gives the organization a fair degree of stability and predictability when it comes to current and future rates. Abrams (1998) defines sustainability as “whether or not something continues to work over time”. It’s estimated that 35% of all rural water supplies in sub-Saharan Africa are not functioning (Baumann, 2005) and despite the frequency with which it appears in development discourse, the reality of sustainability remains elusive.
2.4.2 Management Efficiency

Management efficiency is a key determinant on the financial performance of a WSP. It’s represented by various indicators developed by the regulator like the growth in the number of customer connections, continued growth in billing and collection rates. However, it’s a complex subject to capture in financial ratios. Moreover, operational efficiency in managing the operating expenses is another dimension for management quality (Ongore & Kusa, 2013). Management performance can be measured qualitatively through subjective evaluation of management systems, organizational discipline, control systems, quality of staff, and many other aspects.

Notably, some financial ratios of the financial statements act as a measure for management efficiency. The capability of the management to deploy its resources efficiently, income maximization, reducing operating costs can be measured by financial ratios.

One of such ratios used to measure management quality is operating profit to income ratio (Rahman et al., in Ilhomovich, 2009; Sangmi and Nazir, 2010). The higher the operating profits to total income (revenue) the more the efficient management is in terms of operational efficiency and income generation. Another ratio which can be used to measure management quality is expense to asset ratio. The ratio of operating expenses to total asset is expected to be negatively associated with profitability. Management quality in this regard, determines the level of operating expenses and in turn affects profitability (Athanasoglou et al., 2005).
2.4.3 Profitability

Profit is simply the difference between the revenues and expenses. Profitability is mainly influenced by two factors: net turnover and net profit margin. Ross et al (1996) contends that both can influence the profitability of a company one time. Net turnover of WSPs is mainly influenced by the internal decisions of management and board. Net profit margin, on the other hand, is determined by external factors.

This is because the price of water is decided by WASREB through a very political and legal process. At the firm level, profit is the essential pre-requisite for the sustainability, growth and competitiveness of water providers and the cheapest source of funds. It’s a key pursuit for the management of water providers to attain profit so as to improve on their solvency and as a key indicator of financial sustainability.

2.4.4 Liquidity management

Liquidity refers to the degree to which debts obligations coming due in the next twelve months can be paid from cash or assets that was turned into cash (Mwangi and Murigu, 2015). Liquidity of a WSP means the ability to fulfill their immediate commitments to various stakeholders; customers, suppliers, regulator, staff without having to increase the price of water (water tariff) or liquidate financial assets. The cash and bank balances are to be kept sufficient to meet the immediate liabilities towards claims due for payment but not yet settled (Chaharbaghi and Lynch, 1999).
2.4.5 Size of the company

The size of the firm influences its financial performance in many ways. Large firms can be more efficient compared to small firms due to exploitation of economies of scales (Mwangi and Murigu, 2015). Size of a WSP can be determined by the number of customers which is the number of active water connections at a given time. Larger firms can also use this advantage to get some financial benefits in business relations (Mathur and Kenyon, 1997). Large companies have easier access to the most important factors of production, including human resources. Besides, large organizations often get cheaper funding.

2.4.6 Age of the company

Several earlier studies (Batra, 1999, Lumpkins & Dess, 1999) argued that the company age has an influence on its performance. Older firms are more experienced, have enjoyed the benefits of learning, are not prone to the liabilities of newness, and can therefore enjoy superior performance. On the other hand, older firms are prone to inertia, and bureaucratic traditions that goes along with age; they might have developed routines, which are out of touch with changes in market conditions, in which case an inverse relationship between age and profitability or growth could be observed (Shiu, 2004; and Demirguc-Kunt and Maksimovic, 1998).

2.5 Empirical Studies

Both theoretical and empirical studies suggest that relation between corporate governance characteristics and corporate governance can be positive (Morck et al., 1989); negative (Lehmann & Weigand, 2000) or none (Demsetz & Lehn, 1985; Burkart et. al., 1997). According to Pandey (2010), there are several financial measures to determine financial performance.
They include return on assets (ROA) which is measured by dividing profit after tax by book value of total assets (BVTA); return on investment (ROI) which is found by dividing earnings before interest and tax by total asset; return on equity found by dividing net profit by shareholders equity, and the Tobin Q which is the market value of equity by book value of total assets. The financial performance measure selected for this study is the return on assets.

However, Coskun and Sayilar (2012) in their study of the relationship between corporate governance and financial performance of Turkish companies concludes that the hypothesis that better corporate governance is associated with higher firm values and better performance could not be supported. They explain that the poor relationship between corporate governance and profitability is that accounting figures are biased measures of company performance and that in long run as the awareness and perception of the investors regarding corporate governance rating scores improve, the relationship between corporate governance and firm performance will more evident.

Areba (2011) concludes that good corporate governance approach aims at performing the main function of separating the firm’s principals and agent and corporate governance themes in a corporation separates management from the board. He established that board size and composition, splitting the roles of chairman and chief executive, optimal mix of inside and outside directors, participation of outside directors and number of board of directors affected the financial performance of the corporation. Langat (2013) concurs that corporate governance is important and impacts financial performance.
Opanga (2013) established that the number of board committees, board meeting frequency, number of resolutions passed in an AGM and number of board directors is all positively correlated with financial performance. He suggests that each of these variables of corporate governance play a key role in the financial performance of insurance firms in Kenya.

Opondo (2012) in his study of the impact of the corporate governance practices on operating performance of the unlisted financial institutions in Kenya established that none of the unlisted firms in had achieved 100% compliance with the governance mechanisms. He found out that corporate governance did not have a significant effect on firm value as well as on firm performance.

2.6 Summary and Conclusion

The chapter reviews and highlights the theoretical background of corporate governance and reviews by other scholars around the world. It also gives insight on what determines the corporate financial performance and wider perspective of the components of corporate governance. It delves into the relationships between various elements of corporate governance against the financial performance of a firm. Most studies are general in nature with few industry-specific studies.

The water sector in Kenya is very unique industry which was commercialized recently. Yet water is fundamental to all businesses. Having a little or too much, or water that’s too dirty or too expensive can have an impact on your bottom line. This has continually raised concern amongst various stakeholders. This study is industry – specific and is meant to analyze whether the corporate governance that is being pushed by various stakeholders influence financial performance of these companies.
CHAPTER THREE
RESEARCH METHODOLOGY

3.1 Introduction

This chapter presents the methodology which the researcher used in this study. It describes the study design, population area of study, sample design, data collection, procedure, and data analysis method.

3.2 Research Design

The researcher used survey research design. The survey design enabled the study to measure variables by asking questions and then examining the relationship between the identified variables. The survey design also allowed the researcher to use data collection forms that were used to collect data on corporate governance areas of board size, CEO duality, Independent and non-executive directors, audit committee, and frequency of board meetings.

Descriptive research design was also used in the study. Descriptive research explains relationship among variables and fact finding inquiries of different kinds. Data on financial performance of the firms was obtained from Audited Financial Statements by Kenya National Audit Office. Mugenda & Mugenda (2003) defines research design as a conceptual structure within which research is conducted. Further, according to Cooper and Schindler, (2005), descriptive research tries to explain relationship among variables and fact finding inquiries of different kinds.
3.3 Population

Population is the total collection of elements which the researcher wishes to make inferences (Cooper and Schindler, 2006). The target population for this study was all the 65 water companies in Kenya that were registered with WASREB as at 31st December 2015 as provided in Appendix I. The study sampled respondents from the population.

3.4 Sampling

The researcher used stratified random sampling. In this case, the population was divided into several sub-groups that are individually more homogenous than the total population. The researcher sampled 20 companies based on age and size of the company due to the financial resources.

3.5 Data Collection

The study used secondary data. A data collection form was used to collect the data on corporate governance variables. The data collection forms are preferred in this study because the information being sought by the researcher is readily available and the fact that respondents of the study, Finance managers are literate and expected to answer the questions adequately.

The instrument were designed to capture a broad range of data required by the researcher and specifically capture the board size, CEO duality, existence of audit committee, and frequency of meetings and whether there are independent directors. Financial performance was represented by ROA, which is net income divided by Total Assets for the last three financial years 2011/12 to 2013/2015 and are available at the Auditor General and WASREB.
3.6 Data Analysis

After administering the questionnaire, coding was done and the data converted into numerical codes for statistical analysis. Statistical Package for Social Sciences (SPSS) was used for data analysis. Descriptive statistics were computed for all the variables to ensure quality of data. The result from the sample was used to generalize the population. Regression is the main tool used in measuring the relationship between the dependent variable and the independent variable. Correlation was used to measure the significance level of the relationship.

3.6.1 The Analytical Model

The five aspects of Board Composition as a factor of corporate governance that may affect financial performance of water service providers companies were analyzed. The regression equation took the following form:

\[ \text{ROA} = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \beta_5 X_5 + \beta_6 X_6 + \varepsilon \]

Where:

- \( \text{ROA} \) = is the financial performance measure of the firm
- \( \beta_0 \) = performance of the company with zero corporate governance practices
- \( X_1 \) = Number of board meeting
- \( X_2 \) = Board composition
- \( X_3 \) = Board size
- \( X_4 \) = Chief executive officer’s dual role for the CEO and the chairman of the board (CEO duality)
- \( X_5 \) = size of the firm measured by the total assets
- \( X_6 \) = gender diversity of board, number of female and male directors
ε = error term

X1-X6 = coefficients of variations

Data was summarized and analyzed with the use of computer package SPSS

3.6.2 Test of Significance

The measure of the dependent variable is determined by the financial performance of the water companies in time, transparency and accountability. The dependent variable in this case is denoted as Y and is a representative of the organization’s financial performance represented by Return on Assets. Correlation was used to establish the relationship between the variables in question. The test of significance was performed at 95% level of confidence.

3.6.3 Data Reliability and Validity

Validity indicates whether the items measure what they are designed to measure (Borg and Gall 1989). The study used content validity to examine whether the instruments answer the research questions. Adjustments and additions to the research instrument were done after consultations and discussions with the supervisor to establish content validity. Instrument reliability is the dependability, consistency or trustworthiness of a test.

Cronbach’s Coefficient Alpha approach was used to measure internal consistency of the research instruments. This approach is recommended by Cohen, Manion and Morrison, (2007) for its ability to give average split-half correlation for all possible ways of dividing the test into two parts. Cronbach’s Coefficient Alpha is a scale measurement tool appropriate in measuring internal consistency in descriptive survey researches. The study will employ close monitoring and verification of data collection process to ensure that the unintended people do not fill the data collection forms.
CHAPTER FOUR

DATA ANALYSIS, PRESENTATION AND INTERPRETATION OF FINDINGS

4.1 Introduction

This chapter covers data presentation and analysis. The main objective of the study was to determine the effect of corporate governance practices on the financial performance of Water firms in Kenya. In order to simplify the discussions, the researcher provided tables that summarize the collective reactions and views of the respondents.

The targeted sample size was 22 water companies in Kenya. Those filled and returned questionnaires were 20 that represented response rate of 98% and 31% of the targeted population.

4.2 Descriptive Analysis

4.2.1 Number of members serving in the Board of Directors

The researcher wanted to find out how many members were serving in the board of directors.

Table 1: Number of members serving in the Board of Directors

<table>
<thead>
<tr>
<th>Number of years</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Less than 5 members</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>6-10 members</td>
<td>2</td>
<td>50</td>
</tr>
<tr>
<td>11-15 members</td>
<td>1</td>
<td>25</td>
</tr>
<tr>
<td>16 members and above</td>
<td>1</td>
<td>25</td>
</tr>
<tr>
<td>Total</td>
<td>4</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: Survey (2015)
The study findings indicated that 50% of the respondents indicated that the number of members serving in their board of directors is between 6-10 members. 25% of the respondents indicated that the number of members serving on their board is between 11-15 members and 16 members and above. Therefore the findings indicated that most of the firms had boards which had six members or more.

4.2.2 Level of agreement with statements on Board size and composition

The researcher wanted to find out the level of agreement with statements on board size and composition.
Table 2: Level of agreement with statements on Board size and composition

<table>
<thead>
<tr>
<th>Statements on board size and composition</th>
<th>Mean</th>
<th>Standard deviation</th>
<th>Skewness</th>
<th>Curtosis</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gender balance is considered in the board members selection and composition</td>
<td>3.93</td>
<td>0.897</td>
<td>0.443</td>
<td>-1.256</td>
</tr>
<tr>
<td>Some of the board members are employees of the company or affiliates of the company</td>
<td>4.11</td>
<td>1.692</td>
<td>0.244</td>
<td>-0.462</td>
</tr>
<tr>
<td>The company has two-third or more of board members as completely independent non-executive directors</td>
<td>4.40</td>
<td>0.831</td>
<td>0.378</td>
<td>-1.471</td>
</tr>
<tr>
<td>Current board members have the required qualification and skills necessary to improve the company’s performance</td>
<td>4.62</td>
<td>0.630</td>
<td>0.383</td>
<td>-1.326</td>
</tr>
<tr>
<td>New board members are nominated by independent board nomination committee</td>
<td>4.67</td>
<td>0.841</td>
<td>0.314</td>
<td>-0.429</td>
</tr>
<tr>
<td>When selecting board members their level of professional qualifications is important and deficiencies in the skills of current board members are considered</td>
<td>4.21</td>
<td>1.043</td>
<td>0.278</td>
<td>-1.402</td>
</tr>
<tr>
<td>The company has a predetermined plan secession of each board member and executive director</td>
<td>3.63</td>
<td>1.682</td>
<td>0.147</td>
<td>-0.153</td>
</tr>
<tr>
<td>The age and duration that each board member serves in the board affects the financial performance of the firm</td>
<td>3.57</td>
<td>0.992</td>
<td>0.127</td>
<td>-0.132</td>
</tr>
</tbody>
</table>

Source: Survey (2015)
The researcher found out that the most of the respondents strongly agreed with most of the statements. They strongly agreed that Gender balance is considered in the board members selection and composition with a mean of 3.93 and a standard deviation of 0.897, that some of the board members are employees of the company or affiliates of the company with a mean of 4.11 and a standard deviation of 1.692, that The company has two-third or more of board members as completely independent non-executive directors with a mean of 4.40 and a standard deviation of 0.831, that the Current board members have the required qualification and skills necessary to improve the company’s performance with a mean of 4.62 and a standard deviation of 0.630, that New board members are nominated by independent board nomination committee with a mean of 4.67 and a standard deviation of 0.841 and lastly that When selecting board members their level of professional qualifications is important and deficiencies in the skills of current board members are considered with a mean of 4.21 and a standard deviation of 1.043.

However the respondents moderately agreed that The age and duration that each board member serves in the board affects the financial performance of the firm with a mean of 3.57 and a standard deviation of 0.992 and also that The company has a predetermined succession plan for each board member and executive director with a mean of 3.63 and a standard deviation of 1.682.

4.2.3 Number of times in a year the Board meets

The researcher sought to find out the number of times in a year the board usually meet.
Table 3: Number of times in a year the Board meets

<table>
<thead>
<tr>
<th>Period</th>
<th>Frequency</th>
<th>Percentages</th>
</tr>
</thead>
<tbody>
<tr>
<td>Annually</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Semiannually</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>Quarterly</td>
<td>19</td>
<td>99</td>
</tr>
<tr>
<td>Monthly</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Total</td>
<td>20</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: Survey (2015)

The research findings indicated that the most of the boards in the four firms usually meet quarterly as 99% percent of the respondents agreed so. Also 1% of the respondents agreed that the board usually meets semiannually.

4.2.4 Level of agreement with statements concerning board meetings

The researcher wanted to find out the level of agreement of the respondents with the following statements concerning board meetings.
The study findings concerning the board meetings indicated that the respondents strongly agreed that New board members is given an orientation and training before attending the board meetings with a mean of 4.77, also they strongly agreed that Board members have the calendar and update events affecting the board meetings with a mean of 4.56. However they agreed that sufficient time is provided during the board meetings for discussion before making board decision with a mean of 3.69 and also that Board meeting minutes and records are kept accurately and timely with a mean of 3.71.

Table 4: Level of agreement with statements concerning board meetings

<table>
<thead>
<tr>
<th>Statement</th>
<th>Mean</th>
<th>Std. deviation</th>
<th>Skewness</th>
<th>Curtosis</th>
</tr>
</thead>
<tbody>
<tr>
<td>New board members is given an orientation and training before attending the board meetings</td>
<td>4.77</td>
<td>1.027</td>
<td>0.119</td>
<td>-1.226</td>
</tr>
<tr>
<td>Board members have the calendar and update events affecting the board meetings</td>
<td>4.56</td>
<td>0.631</td>
<td>0.394</td>
<td>-0.522</td>
</tr>
<tr>
<td>Sufficient time is provided during the board meetings for discussion before making board decision</td>
<td>3.69</td>
<td>0.842</td>
<td>0.278</td>
<td>-1.431</td>
</tr>
<tr>
<td>Board meeting minutes and records are kept accurately and timely</td>
<td>3.71</td>
<td>1.143</td>
<td>0.263</td>
<td>-1.326</td>
</tr>
</tbody>
</table>
4.2.5 How the organization is governed

The researcher wanted to find out if the organization is governed by a separate chairman & Chief executive officer.

Table 5: CEO duality

<table>
<thead>
<tr>
<th></th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>No</td>
<td>19</td>
<td>99</td>
</tr>
<tr>
<td>Total</td>
<td>20</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: Survey (2015)

The study findings indicated that in most of the firms the chairman acts as the chief executive officer. 1 % of the respondents disagreed that they have a separate chairman and chief executive officer. 99% of the respondents are that ones who agreed that the chairman acts as the chief executive officer.

4.2.6 Financial performance

The researcher wanted to find out the level of agreement of the respondents concerning the financial performance of the companies.
Table 6: Financial performance

<table>
<thead>
<tr>
<th></th>
<th>Mean</th>
<th>Std. deviation</th>
<th>Skewness</th>
<th>curtosis</th>
</tr>
</thead>
<tbody>
<tr>
<td>Company’s profitability has increased for the last three years</td>
<td>4.31</td>
<td>1.592</td>
<td>0.171</td>
<td>-1.491</td>
</tr>
<tr>
<td>The organization currently has audited financial reports</td>
<td>4.40</td>
<td>0.897</td>
<td>0.342</td>
<td>-1.026</td>
</tr>
<tr>
<td>The organization is able to achieve objectives within their budgets</td>
<td>3.57</td>
<td>0.730</td>
<td>-0.343</td>
<td>-0.223</td>
</tr>
<tr>
<td>Over the past three years, the organization has shown steady, measurable cost reduction</td>
<td>4.69</td>
<td>1.041</td>
<td>0.174</td>
<td>-1.151</td>
</tr>
</tbody>
</table>

Source: Survey (2015)
4.3 Regression Analysis

The following are the results of regression analysis.

Table 7: Model Summary

<table>
<thead>
<tr>
<th>Model</th>
<th>R</th>
<th>R Square</th>
<th>Adjusted R Square</th>
<th>Std. Error of the Estimate</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>.5713a</td>
<td>.7685</td>
<td>.7681</td>
<td>.42127</td>
</tr>
</tbody>
</table>

a. **Predictors**: (Constant), CEO duality, size of the board, number of the board meetings, board composition, size of the firm and gender diversity.

b. **Dependent Variable**: Financial performance

Analysis in the table above shows that the coefficient of determination (the percentage variation in the dependent variable being explained by the changes in the independent variables) $R^2$ equals 0.7685, that is, CEO duality, size of the board, number of the board meetings, board composition, size of the firm and gender diversity of the board. The Analysis of Variance (ANOVA) was used to check how well the model fits the data. The results are presented in table 10.
Table 8: ANOVA (Analysis of Variance)

<table>
<thead>
<tr>
<th></th>
<th>Sum of Squares</th>
<th>Df</th>
<th>Mean Square</th>
<th>F</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Regression</td>
<td>1.045</td>
<td>5</td>
<td>.123</td>
<td>.678</td>
</tr>
<tr>
<td></td>
<td>Residual</td>
<td>5.102</td>
<td>14</td>
<td>.177</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Total</td>
<td>5.628</td>
<td>19</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

a. **Predictors:** (CEO duality, size of the board, number of the board meetings, board composition, size of the firm and gender diversity of the board.)

b. **Dependent Variable:** financial performance

The F statistic is the regression mean square (MSR) divided by the residual mean square (MSE). Since the significance value of the F statistic is small (0.000 smaller than say 0.05) then the predictors variables i.e. CEO duality, size of the board, number of the board meetings, size of the firm and gender diversity of boards explain the variation in the dependent variable which is financial performance.

Consequently, we accept the hypothesis that all the population values for the regression coefficients are not 0. Contrary, if the significance value of F was larger than 0.05 then the independent variables would not explain the variation in the dependent variable, and the null hypothesis that all the population values for the regression coefficients are 0 should have been accepted. The regression output of most interest is the following table of coefficients and associated output:
### Table 2: Regression Coefficients results

<table>
<thead>
<tr>
<th>Model</th>
<th>Standardized Coefficients</th>
<th>Beta</th>
<th>t</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>(Constant)</td>
<td></td>
<td>2.254</td>
<td>7.367</td>
<td>0.000</td>
</tr>
<tr>
<td>CEO duality</td>
<td></td>
<td>0.971</td>
<td>2.021</td>
<td>0.045</td>
</tr>
<tr>
<td>Size of the board</td>
<td></td>
<td>0.739</td>
<td>1.157</td>
<td>0.021</td>
</tr>
<tr>
<td>Number of the board meetings</td>
<td></td>
<td>0.835</td>
<td>1.194</td>
<td>0.034</td>
</tr>
<tr>
<td>CEO duality</td>
<td></td>
<td>1.337</td>
<td>1.113</td>
<td>0.029</td>
</tr>
<tr>
<td>Size of the firms</td>
<td></td>
<td>1.271</td>
<td>1.017</td>
<td>0.045</td>
</tr>
<tr>
<td>Board composition</td>
<td></td>
<td>1.173</td>
<td>1.186</td>
<td>0.033</td>
</tr>
<tr>
<td>Gender diversity</td>
<td></td>
<td>1.299</td>
<td>1.103</td>
<td>0.047</td>
</tr>
</tbody>
</table>

**Source:** Survey (2015)

From the Regression results in table above, the multiple linear regression model finally appear as:

\[ Y = 2.254 + 0.971D + 0.739SC + 0.835CM + 1.271NS + 1.173SC + 0.421 \]

The multiple linear regression models indicate that all the independent variables have positive coefficient. The regression results above reveal that there is a positive relationship between dependent variable (overall performance) and independent variables (CEO duality, size of the board, number of the board meetings, board composition and size of the firm and gender diversity of board).

From the findings, one unit change in CEO duality leads to 1.337 units increase in financial performance. One unit increase in size of the board, results in 0.739 units increase in financial performance. One unit change in the size of the firm results in 1.271 increases in financial performance. One unit change in number of board meetings, results in 0.835 units increase in financial performance.
One unit change in board composition results 1.173 units increase in financial performance. The t statistics helps in determining the relative importance of each variable in the model. As a guide regarding useful predictors, we look for t values well below -0.5 or above +0.5. In this case, the most important variable was size of the company CEO duality, size of the board, board composition and number of the board meetings respectively.

4.4 Correlation Analysis
The Pearson product-moment correlation coefficient is a measure of the strength of a linear association between two variables and is denoted by r. The Pearson correlation coefficient, r, can take a range of values from +1 to -1. A value of 0 indicates that there is no association between the two variables. A value greater than 0 indicates a positive association, that is, as the value of one variable increases so does the value of the other variable. A value less than 0 indicates a negative association, that is, as the value of one variable increases the value of the other variable decreases.

Table 10: Correlation coefficient of financial performance

<table>
<thead>
<tr>
<th></th>
<th>CEO duality</th>
<th>size of the board</th>
<th>number of board meetings</th>
<th>size of the firm</th>
<th>Board composition</th>
<th>Return on Assets</th>
</tr>
</thead>
<tbody>
<tr>
<td>CEO duality</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>size of the board</td>
<td>0.6135</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>number of board meetings</td>
<td>0.5297</td>
<td>0.7914</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>size of the firm</td>
<td>0.7612</td>
<td>0.8321</td>
<td>0.7294</td>
<td>1</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Board composition</td>
<td>0.5136</td>
<td>0.9487</td>
<td>0.3457</td>
<td>0.8971</td>
<td>1</td>
<td></td>
</tr>
<tr>
<td>Return on Assets</td>
<td>0.6913</td>
<td>0.8163</td>
<td>0.7568</td>
<td>0.8679</td>
<td>0.8827</td>
<td>1</td>
</tr>
</tbody>
</table>

Source: Survey (2015)
The study in table 10, show that almost all the predictor variables were shown to have a positive association between them at a significant level of 0.05 and hence included in the analysis. There was strong positive relationship between CEO duality and size of the board (0.6135), size of the firm and size of the board (0.8321), number of the board meetings and size of the firm (0.7294), board composition and CEO duality (0.5136) and return on assets and size of the board (0.8163), return on assets and number of the sub-committee meetings(0.7568), return on assets and number of board meetings (0.8917), lastly between return on assets and size of the firm (0.8679).

4.5 Discussion and Interpretation of Findings

The various corporate governance components aspects of Board composition were analyzed and the outcome is as shown in Table 10 above. The results in the table shows that there is a positive relationship of \( r = 0.6913 \) between CEO duality and Return on Assets. This implies that when one person holds both the office of the board chair and the CEO, financial performance is high. This tendency of the two variables to move in tandem positively is a matter that needs to be examined in relation to other factors and not in isolation to clearly deduce the relationship. This outcome therefore is that CEO duality is one of the main factors in corporate governance that affect financial performance.

On the variable of size of the board in relation to financial performance, the positive relationship as shown by correlation coefficient of \( r=0.8163 \), which implies that, the size of the Board has huge impact on financial performance.
The relationship between number of board meetings and financial performance is a positive correlation coefficient of $r=0.7568$ which is equally high in significance. This also implies that a Board that holds meetings regularly would have better returns on assets than one that meets a few numbers of times in a year. From the respondents’ feedback, all water companies’ boards meet regularly and this means that full benefits of this variable currently are enjoyed by the companies.

On the size of the firm, the result is a correlation coefficient of $r=0.8679$. This indicates high correlation between the variable of the firm’s size and financial performance. This means that the bigger the firm the better the financial performance. According to the respondents, this is attributed to the fact that bigger companies afford the corporate governance costs and thus are able reap fully its benefits.

In Conclusion, the study found that there is a positive relationship between corporate governance component and all the variables tested in relation to financial performance. Affecting any of the variables therefore would affect financial performance. From the results of the study, it can be concluded that corporate governance component in any water company has an impact on financial performance. It can therefore be deduced in the overall model that the positive relationship in line with findings of other previous studies.
CHAPTER FIVE

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

The chapter provides the summary of the findings from chapter four, and it also gives the conclusions and recommendations of the study based on the objectives of the study. The objectives of this study were to determine the effect of corporate governance on the financial performance of water companies in Kenya.

5.2 Summary of the findings

The study aimed at investigating the effect of corporate governance on the financial performance of water companies in Kenya.

5.2.1 CEO duality on the financial performance

The respondents strongly agreed that the water companies’ leadership played an important role in selecting, monitoring, and replacing the CEO. The respondents also strongly agreed that the manager should be different from the CEO to realize better financial performance of the entity.

5.2.2 Size of the board and financial performance

The study found that 84.77% of the respondents indicated that their organizations had board of directors. They also agreed that the board size and composition affected the financial performance in the Firms to a little extent with a mean of 3.40 and a standard deviation of 0.497.
5.2.3 Board meetings and the financial performance

The number of board meetings in a year has significant impact on financial performance of the entity as was indicated by the respondents and had a mean of 4.57. The findings also show that adoption of the following corporate governance practices did have a direct influence on profitability of the firms that participated in the study: holding four or more regular sub-committee meetings per year; the choice of shareholder date or location to encourage attendance; and sub-committee approval requirement for related party transactions.

5.2.4 Effect of the board on the financial performance

The existence of a board of management enhances the financial performance of the entity. Delegation of the duties by the chief executive officer helped increase the efficiency of the organization. The study found that financial monitoring by the board affected the financial performance of the water company to a very great extent as shown by a mean of 4.69; number of meetings held by the board affected the financial performance of the water firms to a very great extent as shown by a mean of 4.50.

5.3 Conclusion

This paper has considered the effects of corporate governance on the financial performance of the water firms in Kenya. In this regard, a number of propositions have been proposed regarding the board structure, and leadership structure. These propositions have been informed by prior research and logic, and seek to advance theory development regarding how water companies might consider different governance mechanisms as substitutes and complements to maximize organization value (Coles et al., 2001).
The propositions are not intended to represent all viable propositions concerning corporate governance and the performance of water firms, nor the only ones that can be advanced from past inquiry or reasoning; but to stimulate serious inquiry into the interrelationships between corporate governance mechanisms and the performance of publicly traded firms. These propositions are illustrative and appear to be some of the most supportable and interesting.

Undoubtedly advancing knowledge regarding the corporate governance—financial performance relationship of water companies in Kenya, but informs corporate governance policy guidelines and assists policy makers and business owners to improve transparency of governance systems of water companies. To this end, the leadership of publicly traded firms can be informed of possible combinations of governance mechanisms they can consider, within a specific industry context, to enhance financial performance. This paper provides important insights in this regard as it seeks to stimulate further research that was build theory and enhance understanding of how corporate governance mechanisms or financial performance of water companies in developing economies.

5.4 Limitations of the Study

The researcher encountered various limitations that were likely to hinder access to information sought by the study. The researcher encountered problems of time as the research was being undertaken in a short period with limited time for doing a wider research. However, the researcher countered the limitation by carrying out the research across the water companies that were selected which enabled generalization of the study findings on the effects of corporate governance and the financial performance of the water companies in Kenya.
The respondents approached were reluctant in giving information fearing that the information they give might be used to intimidate them or print a negative image about the institution especially, financial information. The researcher handled the problem by carrying an introduction letter from the University and assured the respondents that the information they gave was to be treated confidentially and it was to be used purely for academic purpose. Moreover, a study should also be carried out to establish the challenges the water companies face. The same study should be carried out in other sectors to find out if the same results can be obtained.

5.5 Recommendations

The study recommends that the board size and composition be considered since they affect the financial performance of the water industries. The number of non-executive directors needs to be selected well since they affect financial performance of the water industries.

The board of directors needs to comprise of well-educated people since they are actively involved in shaping water firms strategy. The study recommends that non-executive directors be trained on internal corporate governance mechanisms. Ownership concentration needs to be reduced to avoid few people controlling the financial performance of the organization. Employees should be encouraged to be more active in financial management aspects of the water companies.

Finally, the study recommends that financial monitoring should be done thoroughly by the board of directors. A constitution which clearly indicates how to select and replace the CEO and directors need to be adopted. Water companies should consider adopting conduct of regular Corporate Governance Audits and Evaluations.
Good Corporate Governance has a positive economic impact on the institution in question as it saves the organization from various losses e.g. those occasioned by frauds, corruption and similar irregularities.

5.5 Recommendation for further studies

This study has reviewed the effects of corporate governance on the financial performance of the water industry in Kenya. To this end therefore, a further study should be carried out to establish how the water industries have been able to come up with various strategies, polices and systems to comply with a regulated business environment. In addition, the researchers should be able to conduct a similar study in different parts of the continent.
REFERENCES


Argyris, C (1964). Integrating the individual or the organization. New York, Wiley.


Batra, Geeta; *Job Reallocation, the Export Market, and Firm Performance: Microeconomic Evidence*; World Bank Policy and Research; Business Environment Unit; Ref. 683-26; Vol. 10(1); Jan-Mar 1999.


IEA, (2007), A Rapid Assessment of Kenya’s Water, Sanitation and Sewerage Framework. *Institute of Economic Affairs*


Lumpkin, G.T. and Gregory G. Dess; Linking two dimensions of entrepreneurial orientation to firm performance: The moderating role of environment, firm age, and industry life cycle; *Journal of Business Venturing*; Forthcoming; 1999.


# APPENDIX 1. LIST OF LICENSED WATER SERVICE PROVIDERS IN KENYA

## WATER COMPANIES IN KENYA

### Very Large WSPs

<table>
<thead>
<tr>
<th></th>
<th>Company Name</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Eldoret Water and Sanitation Company Limited</td>
</tr>
<tr>
<td>2</td>
<td>Mombasa Water and Sanitation Company Limited</td>
</tr>
<tr>
<td>3</td>
<td>Nairobi City Water and Sanitation Company Limited</td>
</tr>
<tr>
<td>4</td>
<td>Nakuru Water and Sanitation Company Limited</td>
</tr>
<tr>
<td>5</td>
<td>Thika Water and Sanitation Company Limited</td>
</tr>
</tbody>
</table>

### Large WSPs

<table>
<thead>
<tr>
<th></th>
<th>Company Name</th>
</tr>
</thead>
<tbody>
<tr>
<td>6</td>
<td>Embu Water and Sanitation Company Limited</td>
</tr>
<tr>
<td>7</td>
<td>Gatundu South Water and Sanitation Company Limited</td>
</tr>
<tr>
<td>8</td>
<td>Gusii Water and Sanitation Company Limited</td>
</tr>
<tr>
<td>9</td>
<td>Imetha Water and Sanitation Company Limited</td>
</tr>
<tr>
<td>10</td>
<td>Kahuti Water and Sanitation Company Limited</td>
</tr>
<tr>
<td>11</td>
<td>Kakamega Busia Water and Sanitation Company Limited</td>
</tr>
<tr>
<td>12</td>
<td>Kericho Water and Sanitation Company Limited</td>
</tr>
<tr>
<td>13</td>
<td>Kikuyu Water and Sanitation Company Limited</td>
</tr>
<tr>
<td>14</td>
<td>Kilifi Mariakani Water and Sanitation Company Limited</td>
</tr>
<tr>
<td>15</td>
<td>Kirinyaga Water and Sanitation Company Limited</td>
</tr>
<tr>
<td>16</td>
<td>Kisumu Water and Sanitation Company Limited</td>
</tr>
<tr>
<td>17</td>
<td>Malindi Water and Sanitation Company Limited</td>
</tr>
<tr>
<td>18</td>
<td>Mathira Water and Sanitation Company Limited</td>
</tr>
<tr>
<td>19</td>
<td>Murang’a South Water and Sanitation Company Limited</td>
</tr>
<tr>
<td></td>
<td>Nakuru Rural Water and Sanitation Company Limited</td>
</tr>
<tr>
<td>---</td>
<td>--------------------------------------------------------------------------------------------------</td>
</tr>
<tr>
<td>21</td>
<td>Nanyuki Water and Sanitation Company Limited</td>
</tr>
<tr>
<td>22</td>
<td>Nyahururu Water and Sanitation Company Limited</td>
</tr>
<tr>
<td>23</td>
<td>Nyeri Water and Sanitation Company Limited</td>
</tr>
<tr>
<td>24</td>
<td>Nzoia Water and Sanitation Company Limited</td>
</tr>
<tr>
<td>25</td>
<td>Otahya Mukurweini Water and Sanitation Company Limited</td>
</tr>
<tr>
<td>26</td>
<td>Tetu Water and Sanitation Company Limited</td>
</tr>
<tr>
<td>27</td>
<td>Tililbei Water and Sanitation Company Limited</td>
</tr>
<tr>
<td></td>
<td><strong>Medium WSPs</strong></td>
</tr>
<tr>
<td>28</td>
<td>Garissa Water and Sanitation Company Limited</td>
</tr>
<tr>
<td>29</td>
<td>Gatamathi Water and Sanitation Company Limited</td>
</tr>
<tr>
<td>30</td>
<td>Gatanga Water and Sanitation Company Limited</td>
</tr>
<tr>
<td>31</td>
<td>Karimenu Water and Sanitation Company Limited</td>
</tr>
<tr>
<td>32</td>
<td>Kwale Water and Sanitation Company Limited</td>
</tr>
<tr>
<td>33</td>
<td>Limuru Water and Sanitation Company Limited</td>
</tr>
<tr>
<td>34</td>
<td>Machakos Water and Sanitation Company Limited</td>
</tr>
<tr>
<td>35</td>
<td>Meru Water and Sanitation Company Limited</td>
</tr>
<tr>
<td>36</td>
<td>Murang'a Water and Sanitation Company Limited</td>
</tr>
<tr>
<td>37</td>
<td>Ngandori Nginda Water and Sanitation Company Limited</td>
</tr>
<tr>
<td>38</td>
<td>Ruiru Juja Water and Sanitation Company Limited</td>
</tr>
<tr>
<td>39</td>
<td>Sibo Water and Sanitation Company Limited</td>
</tr>
<tr>
<td>40</td>
<td>Tavevo Water and Sanitation Company Limited</td>
</tr>
<tr>
<td></td>
<td><strong>Small WSPs</strong></td>
</tr>
<tr>
<td>41</td>
<td>Amatsi Water and Sanitation Company Limited</td>
</tr>
<tr>
<td></td>
<td>Company Name</td>
</tr>
<tr>
<td>---</td>
<td>------------------------------------------------------------</td>
</tr>
<tr>
<td>42</td>
<td>Eldama Ravine Water and Sanitation Company Limited</td>
</tr>
<tr>
<td>43</td>
<td>Embe Water and Sanitation Company Limited</td>
</tr>
<tr>
<td>44</td>
<td>Githunguri Water and Sanitation Company Limited</td>
</tr>
<tr>
<td>45</td>
<td>Gulf Water and Sanitation Company Limited</td>
</tr>
<tr>
<td>46</td>
<td>Isiolo Water and Sanitation Company Limited</td>
</tr>
<tr>
<td>47</td>
<td>Karuri Water and Sanitation Company Limited</td>
</tr>
<tr>
<td>48</td>
<td>Kiamber Mwingi Water and Sanitation Company Limited</td>
</tr>
<tr>
<td>49</td>
<td>Kiambu Water and Sanitation Company Limited</td>
</tr>
<tr>
<td>50</td>
<td>Kibwezi Makindu Water and Sanitation Company Limited</td>
</tr>
<tr>
<td>51</td>
<td>Kitui Water and Sanitation Company Limited</td>
</tr>
<tr>
<td>52</td>
<td>Kyeni Water and Sanitation Company Limited</td>
</tr>
<tr>
<td>53</td>
<td>Lamu Water and Sanitation Company Limited</td>
</tr>
<tr>
<td>54</td>
<td>Lodwar Water and Sanitation Company Limited</td>
</tr>
<tr>
<td>55</td>
<td>Mavoko Water and Sanitation Company Limited</td>
</tr>
<tr>
<td>56</td>
<td>Mikutra Water and Sanitation Company Limited</td>
</tr>
<tr>
<td>57</td>
<td>Murugi Mugumango Water and Sanitation Company Limited</td>
</tr>
<tr>
<td>58</td>
<td>Ngagaka Water and Sanitation Company Limited</td>
</tr>
<tr>
<td>59</td>
<td>Nithi Water and Sanitation Company Limited</td>
</tr>
<tr>
<td>60</td>
<td>Nolturesh Loitoktok Water and Sanitation Company Limited</td>
</tr>
<tr>
<td>61</td>
<td>Nyanas Water and Sanitation Company Limited</td>
</tr>
<tr>
<td>62</td>
<td>Nyandarua Water and Sanitation Company Limited</td>
</tr>
<tr>
<td>63</td>
<td>Oloolaiser Water and Sanitation Company Limited</td>
</tr>
<tr>
<td>64</td>
<td>South Nyanza Water and Sanitation Company Limited</td>
</tr>
<tr>
<td>65</td>
<td>Tuuru Water and Sanitation Company Limited</td>
</tr>
</tbody>
</table>

*Source: WASREB*
APPENDIX II: LETTER OF INTRODUCTION TO RESPONDENTS

Dear Respondent,

RE: RESEARCH PROJECT

I am a student pursuing a Master of Science programme at the University of Nairobi. The second Part of the course requires me to conduct a research project on a specified topic on my field of study.

Consequently, I am carrying out a study on “Corporate Governance and Financial Performance of Water Companies in Kenya”. I will therefore be grateful if you provide me with the information requested in the attached questionnaire. This information was treated with confidentiality and will solely be used for the purposes of this study.

Thank you in advance for your co-operation

Yours faithfully,

Cornelius K. Ng’etich
APPENDIX III: DATA COLLECTION FORM

This data collection form has been designed to collect information from the persons in charge of Finance of respective water service providers and is meant for academic purposes only. The questionnaire is divided into two sections. Please complete each section as instructed. Do not write your name or any other form of identification on the questionnaire. All the information in this form was treated in confidence.

Section A: Company Profile

Q1: Name of the Company.............................................

Q2: How long has this company been operating............... (Years)

Q3: How many branches does this company have in Kenya................?

Q4: Do you have board of directors? Yes [ ] No [ ]

Section B: Corporate Governance Practices

A. Board size and composition

Q6: How many members are serving in the Board of Directors?

Less than 5 [ ] 6_10 [ ] 11_15 [ ] 16 and above [ ]

Please indicate your level of agreement with the following statements using the following rating:

5 – Strongly Agree  4 – Agree  3 – Neither Agree nor Disagree  2 – Disagree
1 – Strongly Disagree
<table>
<thead>
<tr>
<th>Q7</th>
<th>Gender balance is considered in the board members selection and composition</th>
</tr>
</thead>
<tbody>
<tr>
<td>Q8</td>
<td>Some of the board members are employees of the company or affiliates of the company</td>
</tr>
<tr>
<td>Q9</td>
<td>The company has two-third or more of board members as completely independent non-executive directors</td>
</tr>
<tr>
<td>Q10</td>
<td>Current board members have the required qualification and skills necessary to improve the company’s performance</td>
</tr>
<tr>
<td>Q11</td>
<td>New board members are nominated by independent board nomination committee</td>
</tr>
<tr>
<td>Q12</td>
<td>When selecting board members their level of professional qualifications is important and deficiencies in the skills of current board members are considered</td>
</tr>
<tr>
<td>Q13</td>
<td>The company has a predetermined plan secession of each board member and executive director</td>
</tr>
<tr>
<td>Q14</td>
<td>The age and duration that each board member serves in the board affects the financial performance of the firm</td>
</tr>
</tbody>
</table>

**B. Board meeting**

Q15: How many times in a year does the Board meet?

- Annually [ ]
- Semi-annually [ ]
- Quarterly [ ]
- Monthly [ ]
- Other [ ] Specify __________

Q16: How many members in the board is required to fill the quorum in the board
Please indicate your level of agreement with the following statements using the following rating:

5 – Strongly Agree    4 – Agree    3 – Neither Agree nor Disagree    2 – Disagree
1 – Strongly Disagree

<table>
<thead>
<tr>
<th>Q17</th>
<th>New board members is given an orientation and training before attending the board meetings</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
</tr>
</thead>
<tbody>
<tr>
<td>Q18</td>
<td>Board members have the calendar and update events affecting the board meetings</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Q19</td>
<td>Sufficient time is provided during the board meetings for discussion before making board decision</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Q20</td>
<td>Board meeting minutes and records are kept accurately and timely</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**C. CEO duality**

Q21: Is the organization governed by a separate chairman & Chief executive officer? Choose *Yes or no as Appropriate*

Yes [   ] No [   ]

<table>
<thead>
<tr>
<th>Q22</th>
<th>The responsibilities of the chairman and the CEO are completely independent from one another</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
</tr>
</thead>
<tbody>
<tr>
<td>Q23</td>
<td>The separation of the chairman and CEO creates a control and</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
accountability environment which improves companies performance

Section C: Financial Performance

<table>
<thead>
<tr>
<th>Q24</th>
<th>Company’s profitability has increased for the last three years</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
</tr>
</thead>
<tbody>
<tr>
<td>Q25</td>
<td>The organization currently has audited financial reports</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Q26</td>
<td>The organization is able to achieve objectives within their budgets</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Q27</td>
<td>Over the past three years, the organization has shown steady, measurable cost reduction</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

A company document checklist on effects of gender diversity and financial performance

<table>
<thead>
<tr>
<th>Year</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of female directors</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Number of male directors</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

A Company document checklist on Return on Assets as the measure of financial performance.

<table>
<thead>
<tr>
<th></th>
<th>2012</th>
<th>2013</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>EBIT</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total Assets</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

THANK YOU VERY MUCH FOR YOUR COOPERATION!

65