

**EFFECT OF CORPORATE GOVERNANCE PRACTICES ON PERFORMANCE OF
COFFEE FACTORIES IN KIRINYAGA COUNTY**

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DECLARATION

This research dissertation is my original work and has not been submitted for degree in any other university. I also declare that this contains no material written or published by other people except where due reference is made and author duly acknowledged.

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Declaration by University Supervisor

This research dissertation has been submitted for examination with my approval as university supervisor.

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DEDICATION

This research dissertation is dedicated to my wife, Mary who has given me encouragement in pursuing degree of master of business administration.

ACKNOWLEDGEMENT

The research dissertation has been completed as a result of guidance given to me by my research supervisor Dr Edward Owino and lecturers at the school of post Graduate Studies to whom I am very grateful.

I would also like to express my gratitude to my wife Mary who has struggled to ensure am strong in mind and body. My children; Dennis, Linda and Winnie to whom I will remain as a source of encouragement and motivation.

The Almighty God for his spiritual strength and source of faith.

ABSTRACT

Coffee sector in Kenya has faced a number of challenges, one of them being the corporate governance issues. This has led to a number of studies being carried out to understand the impact of corporate governance practices on performance of coffee factories. However, limited studies have sought to understand the effect of corporate governance practices on performances of coffee factories. Thus this study evaluated the effect of corporate governance practices on performance of coffee factories in Kirinyaga County. Specifically the study established the effect of board diversity, board size and director tenure on the performance of coffee factories. To achieve this, the study employed descriptive study design with the target population being 114 coffee processing factories that are within 15 coffee societies in Kirinyaga County. The 114 coffee factories formed the sample size of the study with data collected analyzed through ANOVA and thereafter presented in form of themes, tables, graphs and frequencies. The research was on secondary data, available at cooperative societies and the factories. The collected research data was edited then coded, categorized and keyed into Statistical Package for social sciences (SPSS), for final data analysis. Descriptive measures including frequencies, means and percentages were computed. The study also conducted a regression analysis to establish the relationship between the independent and dependent variables. The study sought to know the effect of director's tenure, board size and board diversity (age, expertise, gender) on performance of coffee factories in Kenya. The study concludes that there is a positive and significant relationship between the directors' tenure and performance. This could probably indicate the heterogeneity of board which may ensure a greater influx of new ideas for dealing with previously unforeseen threats or new opportunities thereby improving financial performance. In addition, increase in tenure can be associated with increase in experience of handling business challenges and opportunities which when tapped can enhance the financial performance. The study results have been presented in a report to inform both policy and practice through recommendations.

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ABBREVIATIONS AND ACRONAMES

CEO- Chief Executive Officer

ROE- Return on Equity

SASRA- Savings and Societies Regulation Authority

KNBS- Kenya National Bureau of Statistics

SACCO- Saving and credit cooperative societies

KPCU- Kenya Planters Cooperative Union

CFO- Chief Financial Organization

HRM- Human Resource Management

TERMS AND DEFINITIONS

Board Diversity: This refers to the representation of persons from different region, race, profession, ethnic group, sex, education and age in an organization board (Davis, 2011).

Board Size: This represents the number of person in an organization board (Lipton and Lorsch, 1992)

Corporate Governance: It's a term often used to describe the way an organization is managed; monitored and held accountable (Agumba, 2008).

Director Tenure: This is refer to the number of year that a director serves in an organization board(Ragama ,2006)

Performance: The level to which organization is able to achieve its organizational goals and objectives. (Weche, 2004)

CHAPTER ONE

INTRODUCTION

1.1 Background to the study

Cooperative societies differ across regions of the world and are among the poorly understood entities in most countries that comprise the existing institutional base (Cuevas and Fisher, 2006). These institutions' are member owned whose core business is to encourage bring members together with a sole aim of improving the member's welfare. Members combine resources, decrease overall production costs, and through which capabilities and marketing successes are increased. Cooperatives are run similar to other business entities and usually incorporated under state laws (Manyara, 2006). Co-operatives, like other private sector enterprises, have not remained untouched by the recent corporate governance scandals. Societies governance is the system in which they are led, enabled and its leadership held accountable for the actions taken in a bid to manage the societies in the interests of all members (Accosca, 2012).

Good Corporate Governance can improve the performance of institutions and helps in assuring its long term survival in the face of stiff competition. Corporate Governance is the manner in which power is exercised in the stewardship of its assets and resources to increase and sustain shareholders value and to satisfy the needs and interest of all stakeholders (Ademba, 2012). One of the principal challenges which societies face is that of establishing proper governance systems (Branch & Baker, 1998). Good governance can improve the performance of a cooperative society and help assure its long term survival (Thomsen, 2008). The issue of corporate governance has become of increasing interest to Societies as it is considered to be one of the weakest areas in the industry (CSFI, 2008). According to Labie and Mersland (2011), there are several reasons for governance to be at the forefront of cooperative society's debate of which among the major ones are firstly, the tremendous growth in number of societies over the past few years.

Corporate governance is a concept that is currently receiving a great deal of attention worldwide in both the private and public sector. Corporate governance can be defined as the manner in

which the power of a corporate entity is exercised in the stewardship of the entity's total portfolio of assets and resources with the objective of maintaining and increasing shareholders value with the satisfaction of other stakeholders in the context of its corporate mission. In broad terms, corporate governance refers to the processes by which corporate entities are directed, controlled and held accountable. It also encompasses the authority, accountability, leadership, direction and control exercised in corporations. Effective system of corporate governance helps to facilitate decision-making, accountability and responsibility among the stakeholders. Good corporate governance ensures that the varying interests of stakeholders are balanced, decisions are made in a rational, informed and transparent fashion; contribute to the overall efficiency and effectiveness of the organization (Crawford, 2007).

The cooperative movement in Kenya was one of the nationally organized institutions available for all cadres of persons. Its agenda was usually based on locally determined proposals whose aims were to empower citizens. Often, co-operative societies bring together various classes of people regardless of their socio-economic status and their agenda would be one only to share ideas, suggest and implement viable practices. In Kenya the Center for Co-operative Governance stipulates seven core principles in the code of best practice in mainstreaming corporate governance in cooperatives; voluntary and open membership, democratic member control, economic participation by members, autonomy and independence, education, training and information, co-operation among co-operatives and concern for community in general. The corporate governance principles in Kenya borrow heavily from the OCED principles which focus on publicly traded companies, both financial and non-financial. However they are applicable to improve corporate governance in non-traded companies including cooperative societies (OECD, 2004). In addition the ministry in charge of cooperatives has over time introduced corporate governance practices for cooperative societies in Kenya. However, the effect of corporate governance practices on performance of coffee societies and factories are yet to be fully established.

1.1.1 The Concept of Corporate Governance

While the 20th century might be viewed as the age of management, the early 21st century is expected to be more focused on governance. Both terms address control of corporations but governance has always required an examination of underlying purpose and legitimacy. According to McRitchie (2009), corporate governance is most often viewed as both the structure and the relationships which determine corporate direction and performance. The board of directors is typically centralized to corporate governance. Moreover, the relationship of the board of directors to other primary participants, especially shareholders and managers, is critical. Additional participants include employees, customers, suppliers, and creditors.

Corporate governance refers to the role that a company board or executive team plays in leadership and oversight to create and maintain company direction and simultaneously promote goodwill with shareholders and other stakeholders (Neil, 2007). Similarly, the Hong Kong institute of directors (2015), states that the presence of independent directors is one of the key elements of Corporate Governance. Consequently, the directors will avoid prejudice and conflicts of interest between board and management. The board should be impartial. In addition, Separation of owner's role from operator role is important, especially for small companies that do not have Board of Directors. This will free the owner from attending day to day operational duties and enables him to focus on long term strategic business planning.

Ongore (2011) highlights the following as the selection criteria for the board of governors; first, the board size should be moderate. Too small board denies the company benefits that arise from diversity of board composition. Too large board led to conflict of ideas. The board should have an odd number. Research has shown that working boards comprises of seven (7) to thirteen (13) members. A minimum of five (5) should seat for effective deliberations. And secondly, is the Profile of board members. General experience of processes and procedures helps to facilitate board meetings. While specific experience helps the boards make decisions that are supported by facts, academic knowledge and Professional training are also important to consider in the board selection. Relevant experience and knowledge will enrich the board.

1.1.2 Organization Performance

Performance measures can be grouped into two basic types: those that relate to results (outputs or outcomes such as competitiveness or financial performance) and those that focus on the determinants of the results (inputs such as quality, flexibility, resource utilization, and innovation). They serve to align an organization's efforts to the achievement of its mission. As part of a company's evaluation and control program, they quantifiably monitor important characteristics of the company's products and services and the performance of the individuals and processes creating them. Performance measures best serve an organization when they are understandable, broadly applicable, uniformly interpreted, and economic to apply. They should cascade through an organization's hierarchy such that achievement of lower tiered performance goals support higher tiered goals that in turn ultimately support achievement of the company's mission. This suggests that performance measurement frameworks can be built around the concepts of results and determinants (Mululu, 2008).

Most studies of organizational performance define performance as a dependent variable and seek to identify variables that produce variations in performance (March & Sutton, 1997). While financial measures of performance are often used to gauge organizational performance, other measures of performance in line with the organizational objectives are also important. Therefore, it is better that managers not rely on one set of measures to provide a clear performance target. Many firms still rely on measures of cost and efficiency, when at times such indicators as time, quality, and service would be more appropriate measures.

1.1.3 Coffee Sector in Kirinyaga County

Kirinyaga County is one of the leading coffee-producing regions in Kenya and there for a number of coffee cooperative societies exists in the County. The cooperative societies are members of the Kenya National Federation of co-operatives. Kenya has had a success story dating back to 1965 in respect to cooperative societies with a current number of approximately 10800 co-operatives having a membership of more than 6 million. Kenya has over 500 coffee cooperatives devoted to improving crop yield and marketing of produce. In addition there are over 500 coffee factories. Kirinyaga County has a total of 15 coffee societies. Within the 15 societies there are 114 coffee factories and 114 directors as each coffee factory has one director

based at the society level. The 15 coffee societies are; Kibirigwi, Mutira, Mwirua, Inoi, Kabare and Baragwi (Each having a total of 9 directors). Karithathi, Rung'eto, New Ngariama, Ngiriambu, Rwama kanjuu, Mirici, and Urumandi (each having 7 directors) and Thirikwa having 5 directors. From the 15 coffee societies the county has 114 coffee factories (Kirinyaga County 2015).

1.2 Statement of the Problem

Performance of coffee industry has gained traction with report indicating mixed performance of coffee industry. According to ICC (2015) the performance of coffee has shown mixed results with countries like Brazil, CostaRica, Indonesia, and Venezuela showing negative performance in coffee sector. On the contrary Uganda, India, Tanzania, Ethiopia have all reported positive performance over the past five years. The mixed performance in coffee industry has been attributed to challenges such as poor market performance, global fall in prices, poor organization of farmers, and lack of access to finance among others. Coffee industry performance in Kenya has been on the decline due to similar challenges experienced across the globe in coffee industry, with one such challenges being corporate governance issues.

Governance of coffee sector in Kenya has drawn a lot of interest especially because of the collapse of many coffee processing factories and cooperative societies. According to a report by KPCU (2015), corporate governance is a challenge among coffee societies, and factories by extension. To address this, guidelines have been developed by the ministry of cooperatives for implementation by the coffee societies, with inconclusive findings on their effect on performance of coffee factories and societies. Similarly, according to a study by Technoserve (2012), poor corporate governance practices among coffee farmer organization is a challenge. Similar sentiments have been expressed by Gama and Komo (2002); Wanyama (2009) and Nyoro and Ngugi (2008) who argued the need to address the performance of coffee industry on both financial and corporate governance perspective.

A number of studies have been carried out in Kenya on corporate governance practices in coffee society sector. The studies include Musya (2010) who did a study on corporate governance and

performance of coffee cooperatives in Bungoma County. This study focused on CEO, Board composition and open democracy variables. The study relied on primary data, but for more accuracy there is need for secondary data studies. Similarly Otieno & Ombuna (2015) carried out a study on corporate governance practices and performance of coffee cooperative societies in Kisii County. The study narrowed down to board size, board independence and CEO duality and left out board diversity and director tenure in the analysis.

The aforementioned studies have focused on board size, board composition, corporate governance principles, board independence and CEO duality. This left a gap for the study of other corporate governance variables. In addition these studies solely used primary data while focusing only on coffee societies and excluded coffee factories thus leaving a gap for studies using secondary data. Thus this study has been carried out to evaluate the effect of corporate governance practices on performance of coffee factories in Kirinyaga County by using secondary data.

1.3 Research objective

The general objective of this study was to investigate the effect of corporate governance practices on the performance of coffee processing factories in Kirinyaga County.

The specific objectives of this study were;

1. To establish the effect of gender diversity on the performance of coffee factories in Kirinyaga County.
2. To assess the effect of director's tenure on the performance of coffee factories in Kirinyaga County.
3. To assess the effect of board size on the performance of coffee factories in Kirinyaga County.

1.4 Research Hypothesis

In order to attain the study objectives, this research was guided by the following research hypothesis;

H₀₁: There is no significant relationship between gender diversity and performance of coffee factories in Kirinyaga County

H₀₂: There is no significant relationship between director of tenure and performance of coffee factories in Kirinyaga County

H₀₃: There is no significant relationship between board size and performance of coffee factories in Kirinyaga County

1.5 Significance of the study

The study was aimed at investigating the factors that affect Performance of coffee sector in Kirinyaga County. The study came up with recommendations that will help in solving problems in the coffee sector. The findings of the study may be important in several ways; improved service delivery by the people in charge of management of the coffee sector in Kirinyaga County, The coffee farmers in Kirinyaga County will realize the need to elect competent board members.

The study assumed that corporate governance issues are the major ailments affecting the coffee sector in Kirinyaga County. Other factors also play a significant role; internal factors like intercropping and shift to other economic activities. External factors like globalization drop in world demand and price of coffee, overproduction of coffee by other countries and introduction of alternative beverages.

1.6 The Scope of the Study

The study focused on corporate governance and performance among different coffee processing firms in Kirinyaga County. The study concentrated on internal co-operative governance, more specifically on board diversity, director's tenure and board size. The study also focused on coffee factories and we use secondary data available at the cooperative societies and county offices.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter presented literature review on the effects of Corporate Governance on Coffee sector in Kenya and across the world. This section also delved into theoretical framework and conceptual framework.

2.2 Theoretical Literature Review

A number of theories have been used to study the relationship between corporate governance practices and firm performance. However, in this study agency theory and resource based theory has been applied.

2.2.1 Agency Theory

The dominant theoretical perspective applied in corporate governance is agency theory (Shleifer and Vishny, 1997; Dalton et al., 1998; Daily et al., 2003). Jensen and Meckling (1976) propose agency theory as an explanation of how companies (especially public company) could operate, given the main assumptions that managers are self-interested and a context where those managers do not care about the full wealth effects of their decisions. In particular, they define agency relationship as a contract in which one party (the principal, i.e. shareholders) gives other party (the agent, i.e. management) decision-making power to perform business activities on its behalf. That may be the first adequate explanation of public companies mechanisms since Berle and Means (1932) observed the key problems regarding the separation between ownership and control.

Agency theory is manifested in situations that deal with conflict of interest in organizations. Assumed autonomy and self-interests create the problems within agency relationships such as the association between principals and employees. In such a situation, employees are the agents that

are hired to serve the principal's interests. As applied to corporate governance, the principal uses ownership and control to ensure that his agents, which are company directors serve the principals' interests instead of personal interests. To avoid losing returns as a result of director's self-interest, principals accept certain agency costs such as monitoring executive conduct to constrain the agents' opportunism. Particularly, in this study agency theory has been used to understand the role of directors who act as agents of farmers. Farmers as the principals have the powers to elect directors for a given period, determine the board size and even determine the representation of women in the board depending on the director's performance on the coffee factories and societies. Therefore, the agency theory was used to test the impact of board diversity, director tenure and board size on performance of coffee factories in Kirinyaga County.

2.2.2 Resource Dependency Theory

The origins of resource dependency theory can be traced to Pfeffer and Salancik (1978) who presented the resource dependence theory, in which a firm is viewed as an open system which depends on contingencies in their external environment (Hillman et al., 2009). The main assumption of Resource Dependence Theory (RDT) is that reliance on critical resources affects the actions of organizations and organizational decisions can be explained based on the particular dependency situations. According to RDT, organizations are formed to secure the critical resources (Pfeffer & Salancik, 1978; Pfeffer & Leong, 1977). When successfully secured, critical resources enable organizations acquire power and influence as well as long-term stability. Notably, organizations that possess necessary resources have higher influence than those that depend on others for resources.

According to this theory, the board of directors is seen as a tool "to manage external dependency, reduce environmental uncertainty and reduce transaction costs associated with environmental interdependency by linking the organization with its external environment" (Lynall et al., 2003). This theory provides us with a more appropriate theoretical framework to study diversity on the board of directors and firm performance (Carter et al., 2010).

Boards are important sources for counsel and advice and they enhance the reputation and legitimacy of the firm (Lynall et al., 2003). Interlocks between directors have also been found to

be important for the dissemination of information across firms, as well as securing preferential access to critical resources (Lynall et al, 2003). An important notion of this theory is that directors bring different resources and linkages to the board, and board composition should therefore be adjusted to the specific needs of the firm. The board should be adjusted over time when the needs of the firm changes (Hillman et al., 2009). Resource dependency theory was used to provide an understanding on how board diversity, board size and director tenure impacts on performance of coffee societies. This is because board diversity, size and director tenure are determined by among other the resource contribution of board members and director tenure. The theory provided a framework to understand the performance of coffee factories since performance of firms is determined by among other the resource levels that a firm possess, with board members being a human resource to firms. Thus this theory helped the researcher to understand the effect of director tenure and board diversity on performances of coffee processing industries in Kirinyaga County.

2.3 Empirical Review

This section presents review of studies on corporate Governance and its effect on firm performance. The literature of interest will be Board Diversity, board size, director's tenure and firm performance

2.3.1 Gender Diversity and the Firm Performance

Board diversity is an area that is attracting increasing interest, whereby board diversity is defined broadly in terms of gender or nationality, Davis, (2011). It may be argued that board's diversity enables different perspectives to be taken on various issues given that men and women may approach issues from different behavioral patterns as well. Similarly, individuals from different backgrounds may bring additional cultural insights to the boardroom.

The relationship between board composition and firm performance has been investigated in many studies but in general, the results have been that board composition does not influence to a greater extent the firm's performance. The relationship between the percentage of women on boards and firms performance however have recently attracted much attention. There are theoretical reasons why a higher share of women on the board might be associated with better

performance (Cartel et al, 2003). The possibility of diverse board having members with more knowledge and skill at their disposal is real. Such boards help to minimize the effect of authoritative CEO. Such boards needs to be diverse in professional composition with representation from field like lawyers, Accountants, Economists, Architects, bankers, Engineers and other fields as well as networking skills. Greater Gender diversity has the possibility of leading to a better understanding of markets that are themselves diverse in terms of gender (Robinson & Dechant, 2004) and could increase creativity and innovativeness (Sign & Vinnicombe, 2004).

Significant numbers of prior empirical study have been already conducted to examine the relationship between board diversity and financial performance. Some of them address board size or board independence such as De Andres et al. (2005); Kiel and Nicholson (2003); and Nicholson and Kiel (2007). Besides, other researches as well as this research focus on demographic aspect, particularly in nationality and gender diversity. Hillman et al. (2002), for instance, examine how female and racial minority directors in the United States differ from white male directors. Using samples of Fortune 1000 firms, they infer that female and African-American directors more likely come from non-business background. In addition, they are more likely to hold advanced educational degrees, and involved in multiple boards faster than white male directors.

A research on board diversity is also conducted by Ben-amar, Francoeur, Hafsi, and Labelle (2013). They study about board diversity configuration on merger and acquisition (M&A) performance in Canadian firms. The effect can be observed in the two following figures. The first figure indicates a negative effect at lower level and positive effect at higher level of board diversity on board strategic decision and eventually performance. Thus, it implies a threshold level beyond which demographic diversity gives positive effect on performance as presented in the second figure about the relationship between demographic diversity and performance.

Furthermore, Anderson, Reeb, Upadhyay, and Zhao (2011) study the potential cost and benefit of building diversity on board of director. They use Tobin's Q as a proxy of financial performance and measure board diversity with six dimensions included gender and nationality. The empirical result indicates that a heterogeneous pool of directors positively affects firm

performance. This result implies that board diversity improves board efficiency and is considered by investors as protecting or benefiting their interests. Besides, board diversity is also related to operational complexity. When a company faces complex operations, a diverse board increases performance. Conversely, it exhibits a negative impact on performance in a company with less complex operating environments.

Otieno (2013) sought to examine the relationship between corporate governance practices and the growth of SACCOs in Nairobi County. Four dimensions of corporate governance practices i.e. Board composition (gender diversity), Education level of the board members, CEO duality and number of the board members were used as independent variables and percentage of annual net changes in loan divided by total loans as growth measurement which is the dependent variable in study. The study found out that board diversity is not significantly related with the performance of SACCOs in Nairobi County.

2.3.2 Board of Directors Tenures and Performance of Firms

Board tenure is a policy set out to ensure the board is at all times operating in a coordinated and effective manner so as to best promote the interest of perpetual owners and its shareholders. Tenures include the duration that the directors are to serve in the board, election procedures, their removal and performance expectations. Many boards in firms do not have a maximum period of time a director may serve, although some specify a maximum of either three or four three years term totalling nine to twelve years (Ragama ,2006).

According to Berles and Means (2012), corporations with separate ownership and control boards play a crucial role in corporate governance and firm performance. The tenure of a firm's director at the aggregate level affects both the level of the board performance- specific knowledge as well as the extent of its independence. According to Celikyurt and Shivdasani (2012) the firm's specific knowledge can be accumulated as tenure duration increases over time and on the other hand, job learning improves firm's value and performance. However, increased familiarity between the board and management can undermine performance and independence (Fracassi & Tate, 2011). Anecdotal evidence suggests that long board tenure is negatively associated with firm's financial performance.

When directors first joins the board, it can take time for them to become familiar with the firm and how it operates, such that they are not contributing at full capacity until a number of years have passed. On the other side of the spectrum, when a director stays at the board for a very long time, they may become complacent and not fulfil the required level of due diligence in the review of its operations, opportunities and performance (Ragama, 2006).

Research carried out by Egan (2012) identified which tenure the directors and CEOs had performed best over five years period based on revenue growth, improvement on operating margins, total shareholders returns and corporate governance. There was no strong correlation between tenure and performance, although the study did note a trend where performance improved as average directors tenure increased until a certain point when it began to decrease. The strongest performance for the companies studied was where directors were on average serving their third or fourth terms on the board.

There was a similar though much stronger trend for the length of time the CEO had served in the board, with six to nine years being the sweet spot for the company performance. For the chairman, according to Egan (2012) study, a trend was difficult to pin-point, although it appeared that company chairmen who had served in the board for a maximum of two terms performed better on average. According to the research, the average tenure for Non-Executive directors of the top two hundred companies was just under six years. Therefore, a director would need to serve a longer than the average term in order to hit the sweet spot noted in the trend.

According to another research carried out by Huang (2013), it stated that board tenure measured as an average tenure of outside board members exhibits an inverted U-shaped relations with the firm value and various corporate decisions related to firms performance, financial reporting quality, corporate strategies, innovation, executive compensation and CEO replacement. For firm with greater advisory needs or with less entrenchment costs, firm value could increase up to 12yrs. The result was consistent with the interpretation that for additional year of tenure, learning effects prevails for younger board, while entrenchment costs dominates for older boards.

However, there are variability based on industries and other firm characteristics. Firms with more complex operations or with more intangible assets benefits more from larger tenure

directors while those with less analysts following and weaker shareholders rights, where the monitoring value of an independent boards can be greater, tends to benefit from shorter tenured boards. The quantitative study tends to confirm that the researcher's intuition that some length of tenure benefits the firm as director's move up the learning curve, but there can be entrenchment effect for a very long serving director (Huang, 2013).

In 2013 Vafeas examined how the length of board tenure relates to director independence. He suggested that board tenure is an additional determinant of director quality. There are, however, conflicting views on how this relationship is constructed (Vafeas, 2013). Vafeas (2013) quotes research suggesting that long-term director engagement is associated with greater competence, experience and commitment, because a long-term director has more knowledge of the firm and its business environment. An alternative view is that an extended tenure isolates groups from key information sources and reduces intra-group communication.

Both Vafeas (2013), McIntyre et al. (2007) and Chamberlain (2010) find that board tenure is positively correlated with firm performance, but the effect is non-linear. It increases in the beginning of tenure, as the director learns the ropes after which it flattens out and later decreases. Chamberlain (2010) argue that the accumulated learning and power effects of long tenure enables directors to be more effective. Vafeas (2013) proposes that the decrease of firm performance with long board tenure depends upon the fact that long-term directors are more likely to befriend managers and therefore less likely to monitor them, which in turn affects the quality of monitoring and thus firm performance.

Fiegenger, Nielsen and Sisson (2006) came to a slightly different conclusion when they found a significant and positive linear relationship between outside director tenure and firm performance in their study of commercial banks. They hypothesised that it may take several years for an outside director to become effective and that senior directors tend to have a greater influence on the board. They further suggest that senior directors are less susceptible to group pressure and more objective in their opinions and decisions, which makes them more effective in their role as a director.

Tenure heterogeneity of a board's outside directors is another aspect of board tenure that has been studied in relationship to firm performance. Both Fiegener et al. (2006) and McIntyre et al. (2007) found the relationship to be significant and positive. Fiegener et al (2006) argued that directors hired at the same date are shaped by the same board experiences and therefore have a tendency to show preferences for actions that are consistent with previous actions and at the same time maintain status quo.

In conclusion, there seems to be a positive relationship between director tenure and firm performance. The point of contention is whether this relationship is linear or "U"-shaped. Both Fiegener et al. (2006), McIntyre et al. (2007) and Chamberlain (2010) recommend that directors should serve a long time on the board, and that outsider directors should be replaced in cohorts of small size over time. The goal is to maintain both board experience and organisational memory while at the same time making sure that the board is cognitively diverse. The optimal board tenure was found by McIntyre et al. (2007) to be around 12 years.

2.3.3 Board Size and Firm Performance

Previous studies conducted have found out that board size play a role in performance of businesses. It is argued that although larger board size initially facilitates key board functions, there comes a point when larger boards suffer from coordination and communication problems and hence board effectiveness and firm performance declines (Lipton and Lorsch, 1992; and Jensen, 1993). Lipton and Lorrch (1992) argue that a board size of eight to nine directors is optimal, while Jensen (1993) argues that the optimum board size should be around seven or eight.

Locally some studies have been carried out. Wambua (2011) conducted a study on the effects of corporate governance on the financial performance of Sacco's in Kenya. The study found that 59% of the respondents indicated that the board size and composition affected the financial performance in the Sacco to a little extent. Wasike (2012) also conducted a study corporate governance practices and performance at Elimu Sacco in Kenya. The study concluded that the corporate governance helped in defining the relation between the SACCO and its general environment, the social and political systems in which it operates and also linked the way

management and control were organized thus affecting the performance of the SACCO and its long run competitiveness.

Otieno, Mugo, Njeje and Kimathi (2015) carried out a study to find out the effect of corporate governance on financial performance of savings and credit cooperatives. One of the objectives of the study was to establish the effect of board size on financial performance. The study targeted 121 Sacco's in Nakuru, out of which there are 50 active Sacco's. The study found out that there was a significant relationship between board size and financial performance of savings and credit cooperatives, with leaners boards exhibiting better financial performance.

2.4 Knowledge Gap

Good corporate governance practices enforce the measures laid down so that the recommended corporate structures are put in place and practiced to the later. The board of directors leads and controls the firm and these structures forms the link between managers and the investors. A good corporate practice that a firm should consider adopting is the performance of regular corporate audit. Good corporate governance practices results to increased profitability, effectiveness and efficiency of the firms. The studies cited in the literature review show the role of corporate governance on performance of companies and cooperative societies. However, from the studies covered it was evident that most studies have focused on the effect of corporate governance practices on coffee societies with limited studies done on coffee factories. However, limited studies have been done on effect of corporate governance practice on coffee factories, the subsidiaries of the coffee societies in Kenya.

2. 5 Conceptual Framework

The study variables are presented in Figure 2.1. The figure shows three independent variables; board diversity, board tenure and board size. The dependent variable in the study was factory performance.

Independent Variable

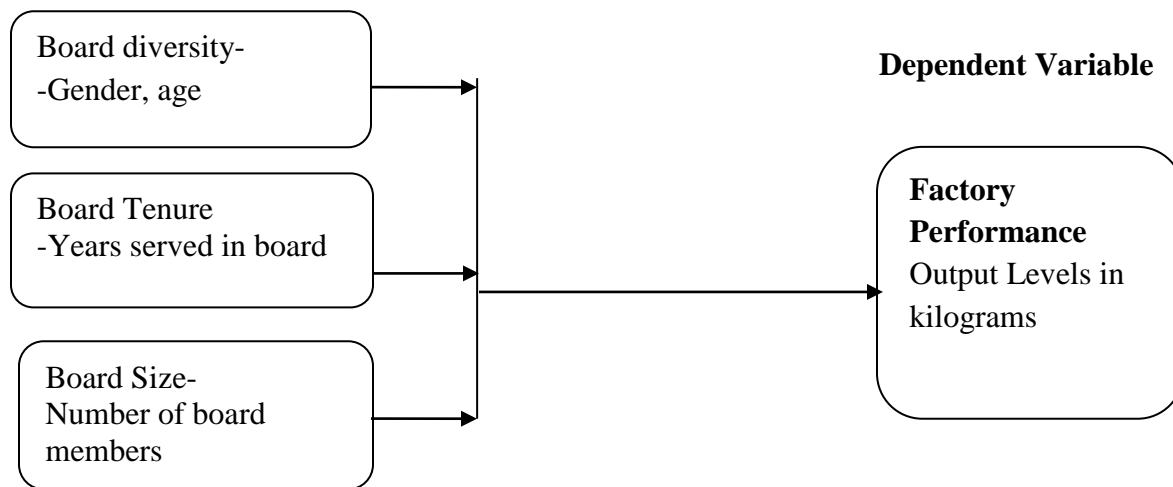


Figure 2.1: Conceptual Framework

2.6 Operationalization of Study Variables

The study variables were broken down to show the respective indicators resulting in Table 2.1.

The related scale in the instrument per item was also presented.

Table 2.1 Operationalization of Study Variables

Objectives	Variable	Indicators	Measurement Scale
To establish the extent to which board diversity affects the performance of coffee factories in Kirinyaga County.	Independent Board Diversity	Number of Females and Males in board	Ordinal/Interval
To assess the effect of director's tenure on the performance of coffee factories in Kirinyaga County.	Independent: Director Tenure	Year of service as board member	Ordinal/Interval
To assess the extent to which board size affects the performance of coffee factories in Kirinyaga County.	Independent: Board Size	Number of directors in board in the company	Ordinal/Interval
	Dependent Performance of processing factories	Output levels of factories	Ordinal/Interval

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter provides a description of procedures used in carrying out the study. It describes the research design, target population, sample size and sampling procedures, data collection instruments and procedures, reliability and validity of instruments that were used as well as the other data processing and presentation methods/data analysis techniques.

3.2 Research Design

The research problem was studied through the use of descriptive research design. According to Orodho (2005), descriptive survey can be used to describe some aspects of population like opinions, attitudes and beliefs. Best and Kahn (2005) survey gathered data at a particular point in time with the intention of describing the nature of existing conditions to determine the relationship that exists between specific events. This design was appropriate because it involved collection of data in order to answer questions concerning current phenomenon and draw conclusion from the facts obtained. This study was carried out in Kirinyaga County. The researcher used a survey design to carry out the study since data collected will be standardized thus allowing easy comparison.

3.3 Target Population

A target population is the collection of elements about which some inferences can be made (Cooper & Schindler, 2008). There are 114 coffee factories in Kirinyaga County, affiliated to 15 different coffee societies (Kirinyaga County, 2015). Our target population will be the 114 coffee factories.

3.4 Sample Size and Sampling Techniques

Census was used in the study with all the 114 cooperative owned factories included in the study. Census technique was used because population size is relatively small.

3.5 Data Collection Instruments

The data for this research was secondary sources. Data was collected for a 10 year period. Data was on output levels, gender representation, board size and director's tenure. It was collected from the cooperative societies and Kirinyaga county cooperatives department which is tasked to ensure adherence to corporate governance and performance in the county (Kirinyaga County, 2015). The data collection form in Appendix 1 was used to collect data for the period 2006-2015.

3.6 Data Collection Procedure

The researcher got a letter of introduction from the KCA university and thereafter taken to the Kirinyaga County Governments for approval and authorization to collect data. The researcher then visited the coffee societies and factories on different days to make appointment and collect data. The researcher collected data for the periods and variables specified in appendix 1.

3.7 Data Analysis and Presentation

The study used multiple regression models to determine the relationship between the dependent and the independent variables. The dependent variable in the study was the performance of processing firms while the independent variables was board diversity, board size and director tenure. The multiple regression models for this study were;

$$Y = \alpha + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \epsilon$$

Where;

Y= the dependent Variable (performance of coffee factories)

α = Constant term, showing the performance in the absence of
Corporate Governance Practices

β_1 = Co-efficient of X1 Variable

X_1 = Directors Tenure

β_2 = Co-efficient of X_2 Variable

X_2 = Board diversity (gender)

β_3 = Co-efficient of X_3 Variable

X_3 = Board Size (number of board members)

ε = Error term

The data was pre tested for assumption of regression analysis. A coefficient of determination (R^2) was used to determine model fitness. The data is presented in tables, graphs and figures.

3.8 Ethical Consideration

The researcher assured that the respondents of the purposes of the study, confidentiality and privacy were assured. A letter of introduction and permission for the study was sought from the KCA University and Kirinyaga County Government. A scanned letter was presented to the respondents. This letter was attached to the questionnaire and presented to respondents at time of data collection.

CHAPTER FOUR

FINDINGS AND DISCUSSION

4.1 Introduction

The chapter presents data analysis and interpretation of findings to establish the effect of corporate governance on the performance of coffee factories in Kirinyaga County.

4.2 Descriptive Statistics of the Variables

Following a descriptive analysis of the key variables, the results in Table 4.1 were arrived at. The table shows that the total response was 150. The mean analysis shows that on average the boards had 9 members. The maximum board size was 9 members and the minimum one member based on gender.

Table4.1: Descriptive Statistics

Statistics		Board	Gender	Tenure	Output in Kilogram
N	Valid	150	150	150	150
	Missing	0	0	0	0
Mean		8.2533	1.6267	1.6533	2,387,237.17
Minimum		6.00	1.00	1.00	251,658.00
Maximum		9.00	3.00	3.00	10,526,885.00

4.2.1 Corporate Performance on output, in Kilograms

This study carried out the following descriptive statistics; mean, variance, standard deviation, minimum and maximum values. The descriptive statistics for the independent variables in Table 4.2 indicates that firms under this study had a mean of 2 for gender indicating that most coffee societies have one woman in their boards. On the director tenure the study indicated that average tenure of directors was between 6-9 years. On board size the study results indicated that coffee

societies had an average of 8 directors in board. On performance of coffee factories the study shown that the coffee factories produced an average of 2387237 kilograms of parchment coffee ready for auction.

Table 4.2: Descriptive Statistics for Performance

		Gender Transformed	Tenure Transformed	Transformed Board	Output
N	Valid	150	150	150	150
	Missing	0	0	0	0
Mean		1.5533	1.6267	8.13	2387237
Std. Deviation		.73764	.65073	1.02	2134216
Skewness		.932	.555	-.770	1.797
Std. Error of Skewness		.198	.198	.198	.198
Kurtosis		-.554	-.650	-.736	2.453
Std. Error of Kurtosis		.394	.394	.394	.394
Minimum		1.00	1.00	6.00	251658.00
Maximum		3.00	3.00	9.00	10526885.00

4.2.2 Gender Diversity

The study sought to analyze the gender diversity in boards of deposit taking coffee societies. The results of distribution of respondents based on gender were as presented in Table 4.3 below. From the results it was established that 59.3% (89) of boards had no woman in board, 26.0 % (39) had one woman in board, and 14.7 % (22) had two women. This study implies that coffee society's boards are yet to meet the gender requirement rule of third women in boards.

Table 4.3: Gender Diversity

Variable	Frequency	Per cent	Valid %	Cumulative %
Zero woman in Board	89	59.3	59.3	59.3
One woman in Board	39	26.0	26.0	85.3
Two Women in Board	22	14.7	14.7	100.0
Total	150	100.0	100.0	

4.2.3 Board Size

The study sought to find out the Size of board members in coffee factories. The result in Table 4.4 shows that majority of coffee societies had board size of 9 (50.7%), followed by sizes of 8 and 7 at 20.7% and 20.0% respectively. Few societies had a board size of 6 at (8.7%). These results attest most coffee societies have large boards to represent farmers' interest.

Table 4.4: Board Size of Coffee Societies

Size	Frequency	Percept	Valid %	Cumulative %
6.00	13	8.7	8.7	8.7
7.00	30	20.0	20.0	28.7
8.00	31	20.7	20.7	49.3
9.00	76	50.7	50.7	100.0
Total	150	100.0	100.0	

4.2.4 Board Tenure

Table 4.5 shows the average tenure of directors in the study. Majority of board members had tenure between 1-5 years at 46.7% while 44.0 % and 9.3% had of tenure 6-9 years and 10-16 years respectively. These results indicate compliancy with the SASRA regulations which prescribes the maximum years for directorship to two terms of 3 years each.

Table 4.5: Director Tenure

Tenure	Frequency	Percent	Valid Percent	Cumulative Percent
1-5 Years	70	46.7	46.7	46.7
6-9 years	66	44.0	44.0	90.7
10-16 Years	14	9.3	9.3	100.0
Total	150	100.0	100.0	

4.3 Effects of Corporate Governance on Coffee Processing Factories

The study adopted regression analysis in examining the effect corporate governance on coffee processing factories in Kenya. A test of assumption of regression was carried in terms of normality tests, multicollinearity test and linearity test. A steam and leaf output in Appendix II, show that data set was normally distributed.

Test for multicollinearity for the independent variables was carried out through variance inflation factor with results presented below. From the table below it was evident that variance inflation factor were all less than 4. This indicates the absence of multicollinearity thereby allowing for further regression.

Table 4.7 Variance Inflation Factor

Variables	VIF
Board Size	1.01
Gender Diversity	1.
Board Tenure	1.01

The data was subjected to a linearity test using Pearson correlation analysis. The results in Table 4.6 show that two of the independent variables had a significant correlation with the output variable. Hence the data did not suffer from a linearity problem.

Table 4.6: Correlation Analysis

		Tenure Transformed	Transformed Board	Gender Transformed	Output
Tenure Transformed	Pearson Correlation	1	-.066	.000	.149
	Sig. (2-tailed)		.422	.998	.069
	N	150	150	150	150
Transformed Board	Pearson Correlation	-.066	1	-.045	.199*
	Sig. (2-tailed)	.422		.583	.014
	N	150	150	150	150
Gender Transformed	Pearson Correlation	.000	-.045	1	-.198*
	Sig. (2-tailed)	.998	.583		.015
	N	150	150	150	150
Output	Pearson Correlation	.149	.199*	-.198*	1
	Sig. (2-tailed)	.069	.014	.015	
	N	150	150	150	150
*. Correlation is significant at the 0.05 level (2-tailed).					

An analysis was performed on the relationship between the corporate governance and performance of coffee factories. The study used multiple linear relationships between the

corporate governance practices and performance of coffee factories. Assuming a linear relationship between the independent and dependent variable, the estimated regression model was presented as follows;

$$Y = \alpha + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \epsilon$$

The estimators were defined as; β_0 is the estimate of the intercept showing the performance in the absence of the factors and ϵ was the error term related with this equation, β_1 was the beta coefficient of board diversity (X_1), β_2 was the beta coefficient of director of tenure (X_2) and β_3 was the beta coefficient of board size (X_3). Based on this model, the following hypothesis was tested;

H_{01} : There is no significant relationship between board diversity and performance of coffee factories in Kirinyaga County

H_{02} : There is no significant relationship between director of tenure and performance of coffee factories in Kirinyaga County

H_{03} : There is no significant relationship between board size and performance of coffee factories in Kirinyaga County

The level of effectiveness of corporate governance practices on the performance of coffee factories in Kirinyaga county was explained by the use of the coefficient of determination as highlighted by the R square (R^2) in Table 4.7. The model provided an $R^2 = 0.102$, the model explained 10.2% of the variations, hence provided a weak fit.

Table 4.7: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.319 ^a	.102	.083	2043347

a. Predictors: (Constant), Gender Transformed, Tenure Transformed, Transformed Board

Following a linear regression analysis, the ANOVA output in Table 4.9 was presented. From this table, the model was significant (p-value = 0.001) at 0.05 level in explaining the relationship between the corporate governance practices and performance of coffee factories.

Table 4.8: ANOVA

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	690875	3	230291	5.516	.001 ^b
	Residual	6095892	146	41752		
	Total	6786768	149			

b. Predictors: (Constant), Gender Transformed, Tenure Transformed, Transformed Board

An interpretation of the coefficients in Table 4.8 shows that gender diversity had a significant coefficient with p-value = 0.017 and hence the null hypothesis (H_{01}) was rejected at 0.05 level, meaning that there was a significant relationship between gender diversity and performance of coffee factories in Kirinyaga County. Board diversity had a significant coefficient with p-value = 0.011 and hence the null hypothesis (H_{02}) was rejected at 0.05 level, indicating that Board diversity had a significant effect on firm performance. It was also noted that board tenure was had a significant coefficient with a p-value of 0.041 and hence the null hypothesis (H_{03}) was rejected at 0.05 level and therefore board tenure significantly affected the firm performance.

Table 4. 9: Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	-1051353.578	1495183.564		-.703	.483
	Board Tenure	531409.727	257810.445	.162	2.061	.041
	Board Diversity	421073.261	164476.177	.201	2.560	.011
	Gender	-547573.987	227168.711	-.189	-2.410	.017

a. Dependent Variable: OUTPUT

From the coefficients table the following fitted model was derived.

$$Y = -1051353.578 - 0.201X_1 + 0.162 X_2 + -0.189X_3 \dots\dots\dots (ii)$$

In Table 4.8, the model had a coefficient of determination (R^2) = 0.102, indicating that 10.2% of the variation in performance of coffee factories was explained by the model leaving 89.8 % of the variations in performance as unexplained. Model one therefore provided a weak fit. The study results indicated a low change in R. From the regression model if all the factors were held constant then a unit change in corporate governance factors result in a (-1051353.578) change in performance of coffee factories.

Table 4.8 presents the regression results of the study that have been regressed with the independent variables. The regression coefficient of Gender was negative and significant in predicting the performance of coffee factories. This implies that women representation in board offers societies more conflicts that in turn results in performance of coffee factories.

The regression coefficient of average tenure of directors was positive and significant in predicting the performance of coffee factories in Kirinyaga. The regression coefficient of board size was significant in the study. This could be explained by diverse opinion and experience that comes with bigger boards thus impacting positively on the performance of coffee factories.

CHAPTER FIVE

SUMMARY OF FINDINGS, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

The study sought to find the effect of corporate governance on performance of selected coffee factories in Kirinyaga County. The objective was accomplished by assessing the effect of duration of director's tenure, board diversity (gender) and the board size on performance of coffee factories.

5.2 Summary of Findings and Discussion

The study sought to know the effect of director's tenure, board size and board diversity (age, expertise, gender) on performance of coffee factories in Kenya. The study revealed a positive and significant relationship between the directors' tenure and performance represented by a p-value of 0.047. This could probably indicate the heterogeneity of board which may ensure a greater influx of new ideas for dealing with previously unforeseen threats or new opportunities thereby improving financial performance. In addition, increase in tenure can be associated with increase in experience of handling business challenges and opportunities which when tapped can enhance the financial performance. These findings are similar to Ochei (2013) and Okafor (2012) results that showed a positive relationship between director tenure and the firms.

Concerning the board size, the study revealed that there was significant relationship between board size and performance as indicated by a p-value of 0.038. These findings implying that board's size do not generate higher performance. This suggests that board size offers the coffee societies opportunity to have divergent expertise through the board members that can result to improved performance. These findings were contrary to the findings of Mululu (2005) who established that board size increases the performance of their firms. According to Mululu (2005) board size effectiveness depends on the level of expertise and experience that different board members bring to a firm. Additional board members can also help improve a firm monitoring and auditing ability through increased performance reviews thus improving a firm performance. Additionally, Evans et al., (2002) and Hsu and Petchsakulwong's (2010) also revealed that

increase in board size can result to increase in the frequency of meetings that can provide more solutions to problems concerning firms.

On the third objective the study sought to establish the effect of board diversity on performance of coffee factories. The study further sought to establish the effect of gender and performance. From the regression output, results indicated a negative relationship between gender and return performance of coffee factories indicated by a p-value of 0.006. By recruiting more female directors, firm may accrue benefits or forfeits that can impact on their performance through linking with their stakeholders. As discussed by Brammer et al. (2007), greater equality of representation relates to direct and indirect benefits that may potentially arise from closely reflecting the demographic characteristics of key stakeholder groups such as customers, employees and investors. However, they further argue that gender diversity can only impact on performance of firm positively when moderated by other variables such as age and education of board members. This was affirmed in the study by Ararat et al., (2010) that established that increased female representation in board with members having relatively low education does not necessarily translate to positive performance. These findings contradict the findings of Erhardt, Webel and shrader (2003), Letting', Aosa and Machuki (2012), Rovers (2010), Post and Byron (2014). The findings implies that the more the number of women on a board, the better the performance of a firm. This did not arise in the current study.

Corporate governance practices were confirmed to affect the performance of coffee factories as shown by an R squared value of 10.2%. However, the effect of corporate governance was found to be small. A situation that Taracha (2014) attribute to the indirect effect of corporate governance on the performance of coffee processing factories. These results concur with the results of Nyaga(2014) who established that corporate governance practices affect performance of coffee factories , albeit a minimal effect.

5.3 Conclusion

The study concludes that social heterogeneity (gender) of boards of directors have negative significant effect on performance of coffee factories. Thus the study urges for the need to place less emphasis on gender equality among coffee societies. The study results conclude that increased board diversity can reduce the performance of coffee factories. Argrawal&Knoeber (2001) argue that board diversity, specifically women inclusion can brings both positive and negative effect on firm performance.

The study also concludes that board size does influence the performance of coffee factories in a positive way. The findings conclude that there is need for measures to be put in place to increase the board size of coffee factories to have more representation of farmers. These results not support the agency theory, which suggests that corporate boards that have high board size have increased capacity to pass to have measures and strategies for monitoring and reviewing the performance of firms.

The study findings indicated that the board of directors with high average tenure is also significantly related to performance of coffee factories. The researcher's conjecture to explain this finding is that the high tenure of BODs in coffee factories may increase synergy and a working bond between the board members thereby enabling them to forge a common front in advancement of the firm's agenda.

5.4 Recommendations

The study showed a strong positive linear relationship between the characteristics of corporate governance under study and performance. Therefore, the study recommends that the coffee societies should increase the tenure of directors and reduce the diversity of their boards since this can result in improved performance of coffee societies. The study recommends for the need of government and all stakeholders to reduce gender diversity by developing policies that can reduce conflicts associated with coffee societies. The study recommends that ministry of cooperative societies should improve policies to help in enhancing occupational heterogeneity of board members, education in particular. This can provide a positive moderation on the effect of

gender diversity on coffee factory performance. The study recommends that coffee societies need to increase on board size for it enhances representation of farmers thus leading to positive effect on the performance of coffee factories.

5.5 Recommendations for Further Research

The study recommends the need for more studies that will focus on coffee societies by including more variables in the study to test different aspects of board diversity. There is need also for more studies that will delve into other corporate governance practices in coffee industry and performance.

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APPENDIX I

LETTER OF INTRODUCTION

Dear Respondent, This questionnaire endeavor's to establish '*Effect of corporate governance practices on performance of coffee factories in Kirinyaga County*'. It has been designed to enable the student to carry out research on the topic above. The study is purely academic work in partial fulfillment of the requirements for the award of the degree of master of business administration (corporate governance), KCA university

Your assistance will be greatly appreciated and your feedback will be handled with utmost confidentiality.

APPENDIX II

DATA COLLECTION FORM FOR EACH FACTORY

Variables	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Number of women and men in board										
Number of board members										
Board Tenure										
Output level of Factories										

Thank you for your time and co-operation. The information you have provided will be treated with utmost confidentiality.

THE END