EFFECTS OF CORPORATE GOVERNANCE STRUCTURES ON FINANCIAL PERFORMANCE OF LARGE MANUFACTURING FIRMS IN KENYA

BY

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DECLARATION

Student's Declaration

I declare that this dissertation is my original work and has not been previously published or submitted elsewhere for award of a degree. 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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Supervisor's Declaration

I do hereby confirm that I have examined the master's dissertation of

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ABSTRACT

The objective of the study was to establish the effect of corporate governance structures on the financial performance of large manufacturing firms in Kenya. The structures also referred to as structures of corporate governance includes: independent directors, board size, board committees and CEO duality. Study was guided by the following specific objectives: Determine the effect of Independent Directors on a company's financial performance, Determine the effect of board committees on a company financial performance, Determine the impact that a company's board size has on its financial performance, Evaluate how the CEO's dual role as a company's chairman and a CEO affects the financial performance of the company. The research design to be used for this study was descriptive design. The target population of this study was the large manufacturing firms in Kenya which are members of Kenya Association of Manufacturers. The population of this study is therefore 108 large manufacturing firms. A sample size of 54 firms was taken. The study used both primary data and secondary data. Data was collected by use of questionnaire. The questionnaire contained likert scale. Data was analyzed mainly by use of descriptive and inferential statistics. Descriptive statistics included mean and standard deviation. Data was also presented by use of graphs, pie charts and tables. Regression analysis was also used to show the sensitivity of financial performance and ROA to various independent variables. Following the study findings it was possible to conclude that all the four variables the Independent variables had an effect on a company's financial performance. This was supported by majority of the respondents who concluded that independent directors had a mandate to decision making in financial performance. The Independent directors monitor and control activities of executive board of directors to ensure compliance and reduction of opportunistic behaviours as well as safe guarding the assets of the firm. Board committees in the firm ensures that the executive board of directors' decisions are based on current information derived from the board reports and are in the interest of the shareholders. Coordination and communication problems arising from overcrowded boards impede on company's performance and causes shareholders to lose money in the company through allowances and inefficiencies. The post of the CEO should be fulltime and should have no duality Regression results indicated that there was a positive and significant relationship between independent directors, board committees, board size and CEO's dual role as a company's chairman on financial performance and financial performance of manufacturing firms. The study recommended that the firm should have non executive directors who should constitute at least one third of the board of directors. A company should have small boards so as to have more favorable performance, the appropriate board size should be 7 to 8 members and the post of the CEO/chairman should be full-time

Keywords:Corporate governance, financial management, largecorporations

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DEDICATION

I wish to dedicate this study to my family for the unwavering support they accorded me through out my studies

LIST OF TABLES

Table 1: Population stratification according to sector 29
Table 2: Sample size....30
Table 3: Response Rate....34
Table 4: Gender....35
Table 5: Level of education....35
Table 6: Period worked....36
Table 7: Effect of Independent Directors on a company's financial performance....37
Table 8: Impact that a company's board size has on its financial performance....40
Table 9: Independent directors factor analysis Component Matrix....44
Table 10: Board Committees factor analysis Component Matrix....45
Table 11: Board Size factor analysis Component Matrix....46
Table 12: CEO duality factor analysis Component Matrix....47
Table 13: Multivariate Regression Model Fitness....47
Table 14: ANOVA....48

LIST OF FIGURES

Figure 1: Conceptual Framework 26

ACRONYMS AND ABBREVIATIONS

UNIDO-	United Nations Industrial Development Organisation
AGOA –	Africa Growth Opportunity Act
CVOMESA -	Common Market for East and Southern Africa
CEO -	Chief Executive Officer
REMM –	Resources Evaluation and Maximizing Model
ICPAK –	Institute of Certified Public Accountants
OECD -	Organization for Economic Co-operation and Development
CMA-	Capital Markets Authority
CMC-	Cooper Motors Corporation
NSE-	Nairobi Stock Exchange
KRA-	Kenya Revenue Authority
KEN –	International Corporate Governance Network

DEFINITION OF KEY TERMS

Board - Authorized body of people

Corporate Governance –management of organizations to ensure equity, fairness and respect to all the interested parties who relate with the organization either directly or indirectly.

Ethics – normative rules and regulations that divine human behavior and regulate his conduct in regard to moral, profession and social expectations.

Leadership – Influence impacted to followers in following a desired direction defined by a vision and mission..

Stakeholders – includes all individuals or parties who directly or indirectly have interest in an organization.

TABLE OF CONTENTS

ABSTRACT iii
ACKNOWLEDGEMENT iv
DEDICATION v
LIST OF TABLES vi
LIST OF FIGURES vii
ACRONYMS AND ABBREVIATIONS viii
DEFINITION OF KEY TERMS ix

CHAPTER ONE: INTRODUCTION 1
1.1 Background 1
1.2 Statement of the Problem 7
1.3 Objective of the Study 8
1.4 Research Questions 8
1.5 Scope of the study 9
1.6 Limitations of the Study 9
1.7 Significance of the study 9
CHAPTER TWO: LITERATURE REVIEW 11
2.1 Introduction 11
2.2 Theoretical Orientation 11
2.3 Institutional Theory 16
2.4 Empirical Literature Review 18
2.5 Conceptual Framework 25
CHAPTER THREE:RESEARCH METHODOLOGY 28
3.1 Introduction 28
3.2 Research Design 28
3.3 Target Population 28
3.4 Sample Size and Sampling Technique 29
3.5 Instrumentation 30
3.6 Data Collection Procedures 31
3.7 Methods of Data Analysis 32

CHAPTER FOUR : RESULTS AND DISCUSSIONS....34
4.0 Introduction....34
4.1 Response Rate....34
4.2 Quantitative Data Analysis....36
4.3 Effect of Independent Directors on a company's financial performance....36
4.4 Effect of board committees on a company financial performance....38
4.5 Impact that a company's board size has on its financial performance....39
4.6 CEO's dual role as a company's chairman on a company's financial performance....40
4.7 Multivariate Regression....42
4.8 Factor Analysis....43
4.9 Summary Equations....49
CHAPTER FIVE :SUMMARY AND CONCLUSIONS AND RECOMMENDATIONS....50
5.0 Introduction....50
5.1 Summary of Findings....50
REFERENCES....52
APPENDIX I: QUESTIONNAIRE....58

CHAPTER ONE

INTRODUCTION

1.1 Background

Corporate governance is increasingly becoming a major area of study in management of organizations. In a profit corporation, the governance structure or systems are presumed to aid in achieving the goal of profit maximization. If governance role is to aid achievement of organization goals and objectives, then the practice of corporate governance should be similar to organizations because it is goal oriented. Corporate governance provides control mechanisms aimed at regulating the behavior of board of directors towards accountability to the shareholders and other stakeholders (Clarke, 2004).

Good Corporate Governance as a management imperative is based on the assumption that the best management practices adopted by the best managers cannot succeed in an environment characterized by poor corporate governance. Originally the concept was concerned with how a company should be governed so as to achieve corporate objectives and increase wealth of its shareholders. Management focused on how to maximize shareholders value even at expense of other stakeholders. Corporate Governance therefore focused on companies whose shares were listed on stock exchange. However scope has now widened to include private companies non governmental organizations and state owned corporation (Tricker, 2010).

Corporate Governance aims at aligning as nearly as possible the interests of stakeholders to those of corporations (Cadbury, 2000). Corporate Governance is concerned with how companies or legal entities are managed to achieve this alignment. The stakeholders are; shareholders who provide the risk capital, lenders like banks and creditors, customers, employees, the state, the immediate community and society at large. Each stakeholder has

distinct interest in the company; the shareholder is interested in future investment return, lenders and suppliers are interested with timely repayment, employees are interested with employment, good remuneration and job security while the state is interested in legislative compliance and tax collection. The society looks for employment opportunities, social facilities and non degradation of the environment from the company (Jansen, 2001).

1.1.1 Concept of Corporate Governance

Corporate governance is interested with management of various shareholder's interests and accountability of the board of directors to the outcomes arising from their actions and decisions. Stakeholder's interest in the organisation is economic for shareholders, social for society, individual for employees and common for the general public. Holding a balance between the competing interests requires prudent use and application of resources and accountability in their stewardship. The scope of corporate governance is consequently wide, dealing with the internal and external factors to the organisation as well as immediate and stakeholders task.

The period between 1980s and 1990s was characterized by stock market crashes and corporate failures in most parts of the world. Management of corporate was consequently put under scrutiny with a focus to the boards of management. Higher performance and accountability was expected from the board of directors and control mechanisms were instituted to regulate and direct board's actions. This marked the growth, prominence and importance of corporate governance (Francis 2000). Kenya witnessed failure of many corporate in 1980s and 1990s. They include: Kenya National Assurance Company, Kenya Finance Bank, Kenya Cooperative Creameries, Kenya Meat Commission, Kenya Farmers Association, Uchumi Super

Markets and more recently the wrangles at Cooper Motors Corporation (CMC) and East African Portland Cement. These events have in turn necessitated the Kenya government to set up various regulating authorities with the aim of promoting and enhancing governance in both public and private institutions. In 2002, the Institute of Certified Public Accountants of Kenya (ICPAK), the Capital Markets Authority (CMA) and the Nairobi Security Exchange (NSE) launched the Financial Reporting Award (FiRe) which, in addition to financial reporting, encourages corporate governance, corporate social responsibility, and environmental reporting (Ongawe, 2009). Kenya private sector governance trust (KPSGT) was founded in 1999 to promote principles of cooperate governance in Kenya and a sample code of best practice for corporate in corporate governance.

Corporate governance is nowadays a mandatory requirement to all business organizations. Legal framework to legitimize corporate governance is based on the company's Act. Supportive legislations have been made in line with the company Act hence making compliance with the laws mandatory. The higher demand for transparency and accountability has enforced adherence to the established codes of corporate governance as a step towards achieving best practices. Business practice in risk management has embraced corporate governance as a strategic tool of controlling risks to business whereby, the composition, quality and integrity of the board of directors is viewed to be important in ensuring performance and success of organization.

1.1.2 Corporate Governance Structures

Te variables of corporate governance structures are; board committees, non-executive or independent directors, Boards size and the Chief Executive Officer dual function.. The structures

define how power is distributed and exercised in the corporate board and determine the 'best practice". Best practice refers to the ideal standards which corporate should operate in for them to achieve world class status (Turnbul, 1997).

Non-executive directors or the independent directors balance the board of directors in terms of skills, gender, expertise, exposure and networking. Non-executive directors are guided by impartiality and professionalism in their work by virtue of being non shareholding directors. They play a significant role in advicing the board and averting organisation's financial risks. Non- executive directors must therefore have the skills, experience, courage, independence and clearly defined roles in order to provide a proper challenge to the executive management (Tricker, 2010). For corporate governance to be effective, it is important to ensure that independent or non executive directors are not so independent that they do not understand the business of the organisation. All directors need to understand business value addition process, risk exposure and its financial, market and operating strategies. In a nutshell, all directors need to undergo an induction programme regularly so as to keep abreast with changes that occur in business. This shall enable them to understand business process and the dynamics of the environment in which the company operates in (Bhagat, S and Black, B. 2002).

Board committees are created by the board to guide and monitor respective areas of their specialty and to provide the board with synthesized information about the organisation. The committee's aren't standard and are different according to the business of the organization (Dezoot et al 2007). However there are common committees like audit committees that are common to almost all the boards. Board committees ensure provision of adequate board level information which enables the board to produce routine papers and items to be put on the agenda of the board meetings. The committees also provide the board with tactical interest adopted by

business units in mitigating risks, competition and other threats. The information and knowledge provided to the directors is critical in helping them formulate strategies that would propel the company's success by providing a clear strategic direction (Johnson and Scholes, 2008).

CEO dual role arises when the chairman of the company undertakes the duties of CEO. The two positions have different critical roles to play in the organization. Assigning one person the dual roles shall result in conflict of positions interest and inefficiencies associate with part time working.The position of the CEO provides a link between the board, employees and other stake holders. CEO as the implementation agent of the strategies set by the board of directors ensures good governance in all the operations of the organizations by operationalizing the governance rules, policies and strategies formulated by the board. CEO ensures company's compliance to the various rules and requirements set by the state, stock and security markets, professional bodies, corporate governance institutions, international conventions and board expectations. The duty to comply is captured in the company's mission statements which clearly define the relationship between the company and other stakeholders. Compliance ensures sound business practices which are supported by the values adopted by the company.

Chairman of the Board of Directors plays a fundamental leadership role in modern complex corporate structure. The chairman has the responsibility of verifying the organisation structure, board membership and structure and ensuring creation and vibrancy of the board committees. It is important that the chairman work closely with the board and hence be the link between the board and the management. The chairman in addition needs to plan, manage and lead directors' meetings by ensuring ethics in board rooms and that the board is formulating good strategies and managing risk appropriately (Johnson and Scholes, 2008).

1.1.3 Manufacturing Sector in Kenya

Manufacturing sector is a key player in Kenya's economy. The sector provides goods and services, and generates value to agribusiness thorough agri-industries. Vision 2030 envisages an industrialized economy through expansion of the manufacturing sector. The sector has the following major segments; building construction and mining, food and beverage, leather and footware, plastic and rubber. The sector engages the government through the industrial body of Kenya association of manufacturers (KAM). Government strategies for growth in manufacturing sector are continued in medium term sessional papers which defines, policies that guides the government in achieving the medium term industrialization goals. The economic recovery strategy for wealth and employment creation 2003-2007 highlights following as incentives to manufacturing industrial growth; lowering cost of doing business, improvement of security liberalization of economy or free trade, financial market that is responsive to investors, relaxed taxed polices on inputs, promotion of export opportunities, enforcement of antidumping measures, supporting trade arrangements like African Growth and Opportunities Act (AGOA) All the medium term goods or sessional papers support vision 2030.

Despite these incentives, the growth in the manufacturing sector has however been constrained by: low consumer spending; high energy costs; insecurity; increased production costs due to escalating prices of raw materials; high fuel prices; depreciation of the Kenya Shilling against major world currencies which in turn constrains imports of raw materials; endemic corruption which is an additional indirect cost of doing business in the country; poor governance and poor physical infrastructure. The high cost of financial and infrastructural services in Kenya is deterring private sector investment required for growth and shutting out the poor from accessing the services. In the past few years however, due to improved investment

environment, there has emerged few manufactured products from Kenya, such as iron and steel products, pharmaceuticals, cement and essential oils, which have gained significance in the export composition. The growing trend for exports of manufactured products especially targeting regional markets, offers new opportunities for export product diversification and is indicative of the rapid growth in the manufacturing sector in Kenya today,(Sunday Nation December 30, 2012).

1.2 Statement of the Problem

The term governance is multidimensional covering the spheres of operations in a company (Ruin, 2001). Governance is involved in prudent acquisition, distribution and usage of resources, compliance to internal and external regulations, protection of the interest of the stakeholders, and absence of fraud in organization. (Hossain , M, Cohan, S.F and Adams, M.B. 2000). Corporate governance is concentrated at the board level because the board of directors is entrusted with investor's capital which they are required to invest for the benefit and interest of the investors (Kiel and Nicholson, 2003)

Good corporate governance minimizes the possibility of poor organization performance because of its multidimensional nature. However, this view has been a subject of wide discussion and research that has produced contradictory results. Kosnik,, 1987 studied the effect of corporate governance to organization performance and found out that the quality of corporate governance is related to value of a firm. Young, 2003, however did not find direct relationship between corporate governance and organisation performance. Similarly, Prerost, A.K. Rao, R. Peru Hossain, M. 2002) did not find any relationship between Corporate governance and performance of the organization. This inconclusiveness of the past studies forms the gap to that

is to be filled by this study. In filling the study gap, the study evaluates variable of corporate governance in relation to performance of large manufacturing firms in Kenya

1.3 Objective of the Study

1.3.1 *General Objective*

The general objective of this study is to evaluate the effect of corporate governance to the financial performance of large manufacturing firms in Kenya.

1.3.2 *The Specific Objectives*

i) To determine the effect of Independent Directors on a company's financial performance.

ii) To determine the effect of board committees on a company financial performance.

iii) To determine the impact that a company's board size has on its financial performance.

iv) To evaluate how the CEO's dual role as a company's chairman and a CEO affects the financial performance of the company.

1.4 Research Questions

The study attempted to answer the following research questions:

i) What effect does the existence of Independent Directors have on the financial performance of the manufacturing sector in Kenya?

ii) What effect does the existing board committee's have on the financial performance of large manufacturing firms in Kenya?

iii) What impact does the Board size have on the financial performance of large manufacturing firms in Kenya?

iv) What effect does the CEO's duality role have on the financial performance of large manufacturing firms in Kenya?

1.5 Scope of the study

The study targeted large manufacturing firms in Kenya and endeavored to get responses from the Finance Managers, Production Managers and Company secretaries of these firms. The firms cover different industry segments. The small firms with an annual turnover of less than 1 billion are excluded from the study. The study centered on governance structures and its effect on financial performance of the manufacturing sector.

1.6 Limitations of the Study

The study was limited to manufacturing sector and large firms only. Other factors which affect financial performance were not considered. Limitation of time and resources also affected the study. Gathering of data was limited to management of the organization who are generally more involved in governance and establishing governance structures.

1.7 Significance of the study

This study is of practical relevance to all institutions both private and public who uphold the practice of corporate governance in Kenya. It will provide institutions with useful insights of how best to effectively apply governance. It will seek to empower Board of Directors and Chief Executives Officers of private sector organizations with knowledge on corporate governance practices.

The study will also seek to come up with findings that will assist policy makers' gain vital understanding of how corporate governance structures could promote growth of private sector for the nation's economic growth and stability.

In theory, the study will seek to contribute to the body of knowledge, while at the same time, identify further research gaps on corporate governance that other scholars may need to undertake in future.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

The chapter contains literature on the theoretical and empirical framework on the effects of corporate governance structures on financial performance of large manufacturing firms in Kenya. Theoretical orientation reviews the general theories on corporate governance while the empirical framework focuses on variables of corporate governance structures and their effects on the financial performance of large manufacturing firms in Kenya.

2.2 Theoretical Orientation

The major theories of corporate governance are; agency theory, stakeholders theory and institutional theory.

2.2.1 Agency theory

Jensen, (20010 observes that agency in corporate governance arises from principal agent working relationship whereby the principals who are the shareholders delegate to the agents who are the managers the function of managing of their investment. The delegation gives the management legitimate authority to make decisions on how to allocate the shareholders resource in the investment. Berle and means, 1931 in their formulation article "modern corporation and private property" are of the view that the principal agent work of relationship have resulted to separation of ownership and management in corporate. The nature of ownership is such that the shareholders are usually many and diverse in terms of backgrounds, individually separated and geographically dispersed. The annual general meeting (AGM) that brings the shareholders together in a legal forum to question and control the professional managers on how they are

running the company occurs once in a year. The principals therefore have little control on their agents. Separation of ownership and absence of control leads to agency cost whereby the manager's accountability for their actions behavior and outcomes is never in control of the owners of the company. Directors and managers in absence of shareholders control result to opportunistic behavior that is not in the interest of their principals. Such behaviours include award of hefty salaries, extravagance in uncontrolled expenditures, insider dealings, misuse of assets which lead to poor financial performance, absence of or low returns to shareholders and eventual collapse of the corporate.

Corporate governance through agency theory provide prescriptions as to how the principals should control the agent to curb managerial opportunism and self interest. The prescriptions provided by agency theory to address manager's opportunistic behavior focuses on how to control and regulate the actions of the board of directors and the Chief Executive officers (CEO). The board is regulated and controlled through non-executive directors or independent directors. The independent directors who are usually non-shareholders brings in professionalism, independence and ethical conduct by ensuring that the board acts in the interest of shareholders (Parker, 1996) This is achieved through questioning boards actions, questioning the CEO and giving input to organizations strategy CEO is appointed by the board to implement strategies formulated by the board. CEO's unethical conduct largely stem from the dual role of being the chairman of the board and CEO of the company. CEO duality concentrates power to one member of the board thereby reducing the boards capacity to effectively question CEO's action. CEO's duality leads to the conflict of interest since the chairman will be questioning his actions at the board meeting.

Managerial capitalism and agency logic are terms used to describe managers uncontrolled authority in managing corporate on behalf of shareholders (Zajac, aw Westphal, 2004). There has been a shift in paradigm from 1980's in the management of corporate whereby agency logic thought on corporate governance has replaced corporate managerial capitalism. Agency theory is also based on a number of assumptions about man (Dalton, D.R., Daily, C.M., Ellstrand, A4E and Johnson, J.C. 1998). The most common belief is that the theory is based in the economic model of man (Bruner, 1996). Economic model of man is based on individual self-maximization, selfish motivation and opportunistic behaviors which are sometimes ruthless whenever advantageous (Gregg. S. 2001). According to the theory, actions that are undertaken according to self-interest and opportunistic behavior are justified if the end product is beneficial to the manager actions (Fama, E and Jensen M (1983).

2.2.2 Stakeholder's theory and corporate governance

Stakeholders theory builds on agency theory by increasing the number of stakeholders in addition to shareholders of an organization. Other stakeholders include the finical institutions, society, internal and external customers, integrated and non integrated suppliers and government agencies. Abrahams, 1951 states the biggest corporate governance challenge to a firm is how to equally manage the competing interests of the diverse stakeholders while maintaining a satisfaction level that is acceptable to each of them. The stakeholders play a vital role in determining the performance and survival of a firm (Freeman 2004). There is interdependence between the organisation and the stakeholders that demand mutual coexistence through taking care of each others interest. In maintaining the mutual coexistence, managers and stakeholders

should act and behave ethically by holding the moral principles. The moral emphasis in stakeholders relationship is referred to as normative approach (Friedman, A and Miles, S. 2006).

Donaldson and Preston, 1995 introduced the instrument and descriptive approaches in stewardship theory. Instrument approach whereby managers view stakeholders to be instruments that shall help them achieve their interests. The interest concept requires managers to meet the interest of stakeholders so that the stakeholders shall be at the disposal of the managers and shall help them achieve performance and growth of the organization. Performance and growth of the organization are assumed to be manager's interest because they ensure improvement of their work and survival in the organization. Description approach to corporate governance is concerned with the perception of roles in the interdependence by managers and stakeholders. A positive perception by managers in their role shall promote corporate governance.

Jansen, (2001) criticizes stakeholder theory for considering one objective. He increases the dimensions of firm's objectives from single valued objective of improving performance to include coordination and sharing of strategic information in the organisation, harmony through interpersonal relationship, and the working environment offered by the firm. He further criticizes the theory as lacking focus of objective by failing to rank stakeholders thereby creating challenge to organisation in an attempt to satisfy all stakeholders simultaneously

2.2.3 Corporate Governance and Stewardship Theory

Stewardship theory is based on managers motivation which arises from the congruence of manager's objectives and performance of the firm. Managers are assumed to have an intrinsic satisfaction when performance of the firm improves. This creates a high need to achieve, drive and initiative. Managers are therefore likely to act as good stewards who respect rules,

procedures and authority and are likely to behave ethnically in order to achieve with performance. The theory focus on the behaivour managers in corporate governance though, variables of; board of directors, CEO duality or leadership and board size. The shareholders appoint the board of directors at the AGM to manage the company on their behalf. This appointment marks the beginning of principal agent relationship. The board of directors have the mandate of managing the company. The board of directors have the mandate of managing the company to the best interest of the company by ensuring continued profitability or good performance, effective management of the company's assets including their security, good corporate governance and growth. The company in return give the management the independence required to achieve the mandate in addition to associated improvements. The arrangement is based on trust that there is a win-win situation between the principal and the agent. However, the board of directors more often than not have abused this trust by advancing their interest to the detriment of shareholders. At other times, the board lacks the required professional skill to undertake the agency expectations. Non executive or independent directors are appointed to the board to ensure that activities of the board of directors are for the interest of the shareholders. Non-executive directors operate through the various board committees in which they have the specialized skills or profession.

Chief executive officer (CEO) is appointed to efficiently and strategically manage the day to day operations of the company on behalf of the board of directors. He is directly answerable to the board of director and is accountable for the company's operational profitability, compliance and successful implementation of the strategies formulated by the board of directors. Conflict of position and loss of accountability arises when the CEO has the dual role as the chairman of the company (Jensen, 2001). The CEO duality is associated with situations where

there is divided attention between operations and board matters, lack of independence since the CEO supervises his work as the chairman and there is dominance in the board by the chairmanship. Good corporate governance requires separation of powers between (EO and Chairman of the board.

Stewardship theory advocates for a lean board of directors. The size of the board of directors has efficiency, financial and strategic costs. Large boards are difficult to coordinate and are costly to shareholders interms of salaries and allowances (Jansen, (2001). Strategically, there is a divergent of interests which may led to indecision and paralysis by analysis as each member digs in for details. What constitutes a big or small board is subjective to many factors including the industrial practice, divergent interest to be accommodated and shares distribution structure ((Laing and War, 1999).

2.3 Institutional Theory

Institutions operate through rules and procedures that form part of governing. The rules and procedures dictates the behavior of the employees and how they relate to the internal and external environments. The rules and procedures are designed to be in line with the organization's culture, future aspirations or the vision and management beliefs and operation styles. The rules and procedures are never static and are bound to change from time to time to reflect situational circumstances. Changing of rules to fit the situations and the desired behavior is referred to as institutionalization (Sange *et.al* 2008) Creative changing of rules results to sustainability when the new rules stand the test of time and adapt to changing situations by picking up the arising opportunities from the environment. Creative change and sustainability are entrenched into the organization through structural design aimed at supporting strategies through appropriate strategy-structure fit. Governance institutionalization in manufacturing firms

involves organization design, rules establishment and operationalising of governance structures to achieve the desired goals of trust, accountability, efficiency and effectiveness or simply structures to support good governance of private universities.

Institutional perspective of governance is borrowed from the discipline of organization theory. The concepts of institutional environment is viewed to be critical in establishment of structures, rules and procedures because organizations are viewed to be open systems whose internal environment interacts with the external environment to bring the desired changes (Pfeffer, 1983) Institution theory and organization theory are interpreted to be aligned to internal and external environment respectively. Institutional or internal environment is a distinct environment attributable to a single organization (Scott, 1987b). Rules, procedure and structures are designed to reflect the institutions which they operate in. They are said to be isomorphic to the culture and thinking of the organization. The implication is that different organisation will have different institutional established rules and regulations when it comes to governance. Organisation or external environment play an influencing role in isomorphism of rules, policies and regulations by introducing rationality and reality (Meyer and Rowan, 1977). Isomorphism in manufacturing sector is a result of either coercive pressures, normative process or filtering process (DiMaggio and Powel, 1983) External forces such as KRA create coercive pressures. Alternatively, an organization may apply ideologies borrowed from other organizations perceived to be successive and hence generate coercive pressure. Normative pressure occurs when there is exchange of knowledge based on similarity of backgrounds e.g. when when organizations are involved in staff exchange programs. The exchange is meant to compare processes between institutions and is used as a learning process. Flirty process is exchange of personnel and equivalent procedures and largely occurs to organization in the same industry.

2.4 Empirical Literature Review

2.4.1 Effect of Independent Directors on a company's financial performance

The term independent directors arise from the professional and neutral position of this class of directors. The executive directors appointed by shareholders at the AGM are a part of the shareholding who pursue narrow personal interest and broad interest for the benefit of the organisation (Carcello, J.V. Neal, T.L. Palmrose, Zoe-Vonna, Scholz, S. 2006). The executive directors are poor in enforcing compliances with various regulations set by government agencies, professional bodies and moral or ethical considerations. The non compliance results to poor governance and loss of confidence in the board. Non executive or independent directors are appointed to the board of directors to instill confidence to the board and reduce mistrust between the shareholders and the board of directors. The independent directors who are neither affiliated to management or shareholding are persons; equipped with various professional skills, renowned successful business and industrial men, have integrity and honour, selfless and driven by the need to be associated with corporate success and are bold or courageous to pinpoint the board shortcomings. The board is therefore a composition of executive directors appointed at AGM and non executive or independent directors appointed by the board. A balanced board should be constituted by at least a third of independent directors or diverse skills or expertise (Brickley, J.A. Coles,J.L. and Terry R.L. (1994).

The impact of non – executive directors to the financial performance of a company is achieved thorough monitoring to ensure various compliances, providing leadership and advice, providing timely and accurate information to the board, setting up of corporate strategies and acting as independent referees (Brickley et al, 1994). Independent directors operate through the

various board committees. Various board committees are set up to accommodate strategic and operational objects of the company. Monitoring and supervisory role is effected when independent directors question or guide the reports from the organizations operations which are presented to the committees which they head (Fama and Jensen, 1983). The non executive directors present committee reports to the board of directors meetings. Committee reports caution advisory on the best practices to be adopted including questioning of CEO's on his performance. Non executive directors are credited in the development of strategies whereby the advice the board on the options available and guide in selecting the best strategy (Bhafat et al, 2002).

The link between the board committee and management helps in information flow and sharing. This is an initial step towards enhancing information flow and sharing. Weisbach, (1988) has however observed that high involvement of independent directors results to informational cost in terms of allowances and reports. Such cost is defrayed by involving executive directors in more than one board committee or limit the number of board committee (Crossan 2007). Studies on relationship between organization performance and role of independent directors have produced mixed results. Krishna (2006) argues that there is no evidence to confirm any relationship between the independent board and the maximization of firm value or performance. Boards opt to hire a new (EO instead of reorganizing the independent directors when the performance of the company deteriorates. This is interpreted to mean that the role of independent directors in performance of company is indirect. Studies by Anderson, R. C 7 Reeb, D.M. (2004), however indicate a positive relationship between performance and role of independent directors. Their conclusion is based on the argument that optimal level of monitoring contributes immensely to a firm performance. Mishrac, Randoy, T

and Jensen 2001 have observed a negative relationship while Villalonga et al, 2006 have observed a non significant relationship.

2.4.2 Effect of board committees on a company financial performance

The board operates through various committees which are designed to be in line with the business strategy and the organization structure. There are no clear guidelines on the number and composition of committees that a board should create. However common board committees include: audit, finance, procurement, Human Resources and environment committees. The board committees once formed are headed by board member with the relevant knowledge and skills that pertains to the operational functions involved in the committee. The board committee main role is to act as an interface between the board and organisations operations. Through the committees, the board monitors the implementation of the company's strategy and is in a position to question the CEO from an information point of view (Chaganti et al, 1985). Through the committees the board ensures effective monitoring and control and the best practices are implemented in the various departments or operations of the organization.

The finance committee monitors to ensure that the books and financial statements of the company are prepared to conform the international established standards set by professional bodies like IFAC. Procurement committee ensures compliance to ethic codes and regulations governing supplies management especially tendering and disposal of assets. Human resources committee ensures productivity of employees, staff development and compensation are upto market standard. Environmental committee ensures that the organization desist from polluting the involvement and give back to the society through corporate social responsibility (CSR). The

board committees help in ensuring compliances, promotes the image of the organization and ensures best practices by the organization in its operations.

Audit committee is the central board committee in governance. It is directly linked to the internal audit function which has an independent role in monitoring and evaluating the operations of the organization. The committee is usually headed by an independent director who ideally should be an auditor or have wide knowledge in accounting and financial management (Yag et al 2009) Financial accounting and auditing expertise is useful in ensuring compliance to finance and auditing standards as well as in making investment decisions. Expertise government is also needed in the committee for legal compliances. The head of the committee shall also understand business operations and be able to link them to the expected best practices (Bedard J. Chtorous M.I. Courteru L. 2004). An informed and experienced audit committee is more likely to dude the organization in an interactive manner.

Audit committee influence on the performance of the organisation is primarily on compliance. Having set the internal controls and accounting system, the organisation needs to ensure internal compliance through internal audit department and the audit committee. Arthur Andersen (1994) point out that compliance is directly linked to performance of the organisation because it ensures cost reduction in procurement, disclosure of financial information in the financial statements, reduction of fraudulent activities, safeguarding of assets, external compliances to government regulations especially taxes, environmental compliance and transparency in the business process. Compliance ensures absence of fines and litigations which are avoidable costs that affect the bottom line of the organisation (Price Waterhouse, 1993).

2.4.3 Impact that a company's board size has on its financial performance.

What constitutes a small or big board is as controversial as the relationship between board size and company performance. Industrial practice have been found to largely influence the number of members to a board with banks being noted to have large board size compared to other sectors (Adams and Mehran, 2003). A generally accepted norm is that the board should have an odd number to avoid a stale mate incase of a vote (Haniffe et al, 2006). A board size of or 9 members is largely assumed to be appropriate (Lipton and Horsch, 1992).

Large boards are noted to offer diversity of skills, knowledge, networking, exposure and experiences and are said to be more objective (Eisebert al, 1998). However, coordination, communication and decision making problems increasingly impede the diversity gains and associated inefficiencies. When determining the board size or accommodating a marginal board member. Small board size are nowadays preferred because of organizational and technological changes (Hermalin and Weisbach, 2003). Internet facility has enable more information flow and teleconferencing thus enabling small boards to gain effectiveness.

Relationship between board size and organization is a subject of continuing research. Kumudini and Anona, 2010 observe a positive relationship between board size and organisation performance. Their study was based on whether large boards promote good corporate governance that leads to higher profitability and improved share price performance. Haniffa, R. and Hudaib, M. 2006, however provided an inconclusive report on their studies. Using market return parameter their study found that large boards impact negatively to performance especially in monitoring performance. However they found a positive impact when using accounting parameters especially on networking, experience and expertise. Link, J. Netter, J & Yang, T.

(2008) suggests that small board sizes do not necessarily lead to improved performance of organization.

2.4.4 CEO's dual role as a company's chairman on a company's financial performance

CEO duality arises when the chairman to the board of a company undertakes the CEO role of implementing organisation's strategies in addition to the board duties. The dual role conflicts with several basic governance principal and roles designed to promote accountability and integrity. These includes; internal check systems where upper hierarchies checks the work of lower hierarchies principle monitoring and evaluation role, advisory role, independent of internal entities and promote empire building (Part et al 2003). The CEO's performance is evaluated or checked by the board under the guidance of the claim of the board. The chairman of the board will then be "marking his own examination papers" in situations and instances where his other role is that of CEO. The CEO who is appointed by the board of directors to implement the board strategies and oversee day to day running of the organisation relies heavily on the board advise and is kept on his toes through boards' evaluation. This would not be possible where there is CEO duality. Power would be concentrated to one individual leading to domineering and empire building there by leading to operational overlaps between the CEO's office and that of the board of directors (Dahya, J. McConne, J.J and Travlos, N.G. (2002).

There is however a school of thought which is of the view that CEO duality is beneficial to the organization. This school entrenches the reasoning that the following benefits shall arise from CEO's duality, undivided leadership, unity of command, reduction of conflict and confusion and harmony (Rechner and Datton 1991). The similar command at the board and management ensures similarity of focus, enthusiasm in implementation of strategies at CEO

level which arises from ownership during strategy development at board level. Conflict, confusion and acrimony arising between strategy developers and implementers are bound to reduce and there shall be harmony between senior management and the board of directors.

Relationship between CEO duality and organization performance studies have given conflicting reports. Major analysis have been done on post Cadbury report of 2000 when separation of the two roles was instituted as a variable of corporate governance. Brickley et al 1997 found a negative relationship when the two roles are split. Dedan (2002) found no significance or abnormal returns upon the splitting of the two roles. However, Sanda, A.U, Mukaila, A.S. and Garba T. 2005) found a positive performance when the functions of CEO and the chairman of the board are separated. Coles and Hesterly, (2008) have observed improved performance on Company's with dual CEO role. Reduced financial distress is also likely to arise where there CEO is also the Chairman of board.

A third dimension on splitting CEO and chairman role have been introduced by Dahya, et al. 2005. His argument is that performance of the organization is not always the driving force behind the split. Other considerations includes; organization complexity where there is need to reduce senior level positions, need for management to maintaining control and need to reduce senior level positions, need for management to maintain control and reputation where chairman is reputable. This approach or view is referred to as institution and social exchange reciprocity while the view on split for performance improvement is referred to as rewards and solutions approach.

2.5. Conceptual Framework

The conceptual framework here below highlights the main variables for the study and their linkages to the financial performance of company's in relation to the application and implementation of corporate governance initiatives.

Barrett, 2002 view the scope of corporate governance encompasses an organizations, structures, culture, policies and strategies, to ensure that all stakeholders interest are met. The objective is to enhance organizational performance through development of strategies and conformance through compliance with set legal requirement, codes of corporate governance, operational standards and to enhance accountability and integrity.

These variables are considered as intervening variables and will be analyzed in relation to how they influence the financial performance of a company. The financial performance or profitability of a company will be considered as the dependent variable and its indicators will include the Return on Assets. The independent variables will be the corporate governance structures which will includes: non-executive or independent directors, board committees, and board size and the duality of the CEO. This is summarized in the following conceptual framework.

Figure 1: Conceptual Framework

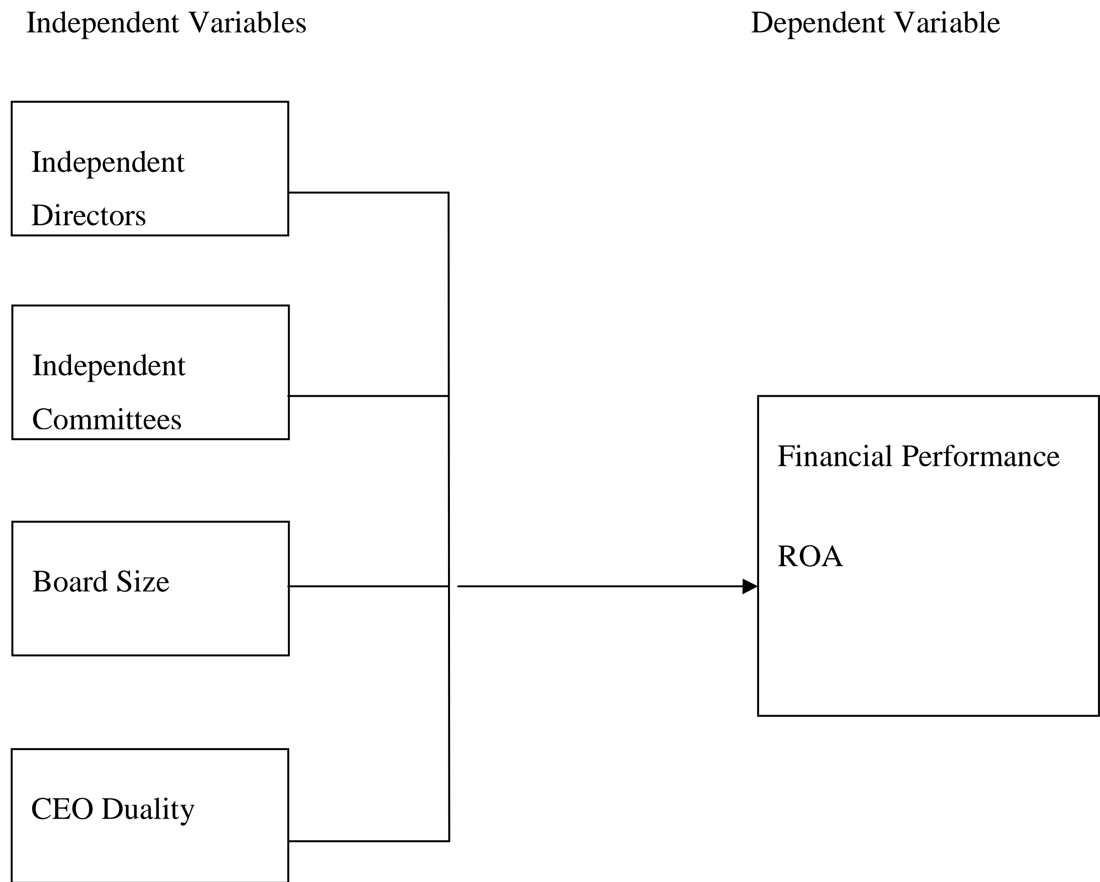

Figure 2.1: Conceptual Framework

Source: Researcher (2013)

The company's financial performance will be highly dependent on the corporate governance measures in place. If the measures in place are in conformance to the best practices, then the company will perform well but if the corporate governance measures in place are not in conformance to the best practices then the performance of the company will be dismal.

Equally, it would be important that the corporate governance measures that a company has in place for example the independent directors, independent committees, a lean board size and

separation of CEO's roles from the Chairman should enhance the effectiveness and hence the company's financial performance.

The implementation and application of corporate governance measures is critical to company's performance. If the implementation of the measures is done in a more participatory manner, there are chances of a company's performance improving and if the implementation and application is done in a disorganized manner, then the chances are high that the company's performance will be dismal.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter involved research design, population and target population, and research methodology used. Data collection methods as well as the instruments have been considered before applying the questionnaire to the respondents. The data collected is finally analysed and produced in statistical form that is suitable to the study.

3.2 Research Design

This study was conducted through a descriptive survey study. The design was considered suitable as it allowed a methodical choice of samples and a rigorous analysis of data. According to Kothari (2004), a descriptive study is undertaken in order to describe the general characteristics of the study population and be able to describe the characteristics of the variable of interest in a situation. The research was carried out through descriptive survey design that involved gathering of facts, opinions and views of the employees in the organization about the corporate governance practices.

3.3 Target Population

A population is the total collection of elements about which a researcher wishes to make some inferences, (Cooper et al 2000). The target (accessible population) is the large manufacturing firms in Kenya and listed at the appendix. These are 108. The researcher selected manufacturing firms because it is one sector that has always been the first to be worst affected whenever there was an economic downturn. It was therefore important to ascertain if the firms in

this sector had embraced corporate governance practices that could cushion them in the event of a downturn.

TABLE 1

Population stratification according to sector Table 3.2: Sample size

Sector	Number
Building, Construction & Mining	3
Chemical & Allied	12
Energy, Electrical And Electronics	7
Food & Beverage	27
Motor Vehicle & Accessories	4
Paper & Board	13
Pharmaceuticals & Medical Equipment	4
Plastic & Rubber	12
Leather & Footwear	2
Metal & Allied	11
Textiles & Apparels	10
Timber, Wood & Furniture	3
Total	108

3.4 Sample Size and Sampling Technique

Mugenda and Mugenda (2003) recommend that 10 percent or more of the population is representative of the population. Therefore, the 10% of 108 firms would yield 10 firms. However, 10 firms are too few. It is for this reason that the study considered 50% of the population. This yielded 54 firms. Stratified sampling was used to identify the 54 firms.

TABLE 2

Sample size

Sector	Number	Sample Size	50% Sample
Building, Construction & Mining	3	1	50%
Chemical & Allied	12	6	50%
Energy, Electrical And Electronics	7	4	50%
Food & Beverage	27	13	50%
Motor Vehicle & Accessories	4	2	50%
Paper & Board	13	7	50%
Pharmaceuticals & Medical Equipment	4	2	50%
Plastic & Rubber	12	6	50%
Leather & Footwear	2	1	50%
Metal & Allied	11	6	50%
Textiles & Apparels	10	5	50%
Timber, Wood & Furniture	3	1	50%
Total	108	54	50%

3.5 Instrumentation

The study used both primary data and secondary data.

Primary data is data that you collect yourself using such methods as direct observation or through questionnaires which allows one to focus on details of importance and to see a system in real rather than theoretical use. Primary data can also be sourced from surveys; written surveys allow for collection of considerable quantities of detailed data.

Primary data is data collected through the questionnaire about corporate governance practices. Secondary data constitutes the financial performance of the multinational manufacturing firms for a period of 5 years.

The study used a questionnaire as the preferred data collection tool. Structured questions were therefore used in an effort to conserve time and money as well as to facilitate an easier analysis as they were in immediate usable form; while the unstructured questions were used so as to encourage the respondent to give an in-depth and felt response. The questionnaire had both open ended and close ended questions.

3.5.1 Measures of Performance

The study used Return on Assets (ROA), to measure firm performance. This measure of firm performance had been used extensively in research in corporate governance (Laffont and Triole, 1991; Xu and Wang, 1997; Heracleous, 2001).

3.6 Data Collection Procedures

Questionnaires were administered to the respondents on a scheduled basis. Respondents were guided through the questionnaire to avoid high error rates. The questions administered were relevant to the research questions and were standardized so as to ensure validity and reliability; the questionnaires were administered to the Finance Managers, Production Managers and Company Secretaries who were selected for this particular research. One questionnaire was administered to each of the 54 firms. The questionnaires were dropped to the selected managers and were collected after two days from the date of delivery. This was done by a research assistant who was also given an assurance to the effect that all the responses received were treated in confidence and strictly used for the purpose of this research and nothing else. Also secondary data was collected from the respective companies' annual reports for a five year period ranging from 2007 to 2011.

3.6.1 Reliability and Validity

A pilot test was conducted in order to test for reliability and validity of the data collection instrument (questionnaire). Validity was enhanced by engaging the supervisor and industry experts on whether the questionnaire was accurately measuring governance practices. Reliability of the questionnaire was achieved by subjecting the questionnaire to four employees a cronbach alpha calculated.

3.7 Methods of Data Analysis

Data analysis was conducted using descriptive and inferential statistics. The specific descriptive statistics used were mean scores and frequencies. The particular inferential statistics used was regression analysis.

Multiple regression analysis was used to establish the effect of the independent variables on the dependent variables.

$Y = \alpha + \beta_1X_1 + \beta_2X_2 + \beta_3X_3 + \beta_4X_4 + \mu$

Where;

Y = **P**rofitability (ROA)

X_1 = Independent Directors

X_2 = Board Committees

X_3 = Board Size

X_4 = CEO Duality

In the model, α = the constant term while the coefficient $\beta_i i = 1….6$ was used to measure the sensitivity of the dependent variable (Y) to unit change in the predictor variables. μ is the

error term which captures the unexplained variations in the model. In its complete form, the model will be;

$ROA = \alpha + \beta_1$ Independent Directors + β_2 Board Committees + β_3 Board Size + β_4 Ceo Duality + μ

The strength of the independent variables was tested at a p value of 0.05. This implies that independent variable with a p value of less than 0.05 was declared to have a significant effect on the financial performance (ROA).

The R squared (coefficient of determination) was checked to reveal the goodness of fit of the model. The analysis of variance (ANOVA) was checked to reveal the overall model significance. In particular, the calculated f statistic was compared with the tabulated f statistic. A critical p value of 0.05 was also used to determine whether the overall model is significant or not. The individual regression coefficients were checked to see whether the independent variables (Independent Directors, board committees, company's board size, CEO's dual role) significantly affected financial performance. A critical p value of 0.05 was also used to determine whether the individual variables were significant or not.

CHAPTER FOUR

RESULTS AND DISCUSSIONS

4.0 Introduction

This chapter analyzed the data and presented the results using tables. The demographic results were presented first, followed by quantitative results, mean scores and finally regression results.

4.1 Response Rate

A successful response rate of 93 % (50 respondents out of possible 54) was obtained. The high response rate was achieved because of the follow up calls that were made in an effort to enhance the successful response rate.

TABLE 3

Response Rate

	Response	**% Response**
Successful	50	93%
Unsuccessful	4	7%
Total	54	100%

4.1.2: Gender

The study attempted to establish the gender composition of the respondents in the manufacturing sector. Results in table 4.2 revealed that majority (78%) were male while (22%) of the respondents were female. The findings indicate that the gender compositions of respondents in this sector were more skewed to males.

TABLE 4

Gender

	Frequency	Percent
male	39	78.0
female	11	22.0
Total	**50**	**100.0**

4.1.3: Level of education

The study attempted to establish the level of education of the respondents. Results in figure 4.3 revealed that majority (36%) had university qualifications. while 26% had colleges qualifications. also 26% had post graduate qualifications. only 12% who had secondary qualifications. This indicates that the respondents highly educated and this may have led to the good financial performance of this sector .The education level may have also impacted on the quality of the study responses.

TABLE 5

Level of education

	Frequency	Percent
secondary level	6	12.0
college level	13	26.0
university level	18	36.0
post graduate level	13	26.0
Total	**50**	**100.0**

4.1.4: Period worked

Table 4.4 shows that 44% of the respondents had worked in this sector for a period of between 1to 4years followed by 26% who had worked for a period of less than 1 year. There

were 20% respondents who had worked for 5 to 9 years and only (10%) of the respondent who had worked 10 and above years.

TABLE 6

Period worked

	Frequency	Percent
less than 1year	13	26.0
1-4years	22	44.0
5-9years	10	20.0
10 and above	5	10.0
Total	**50**	**100.0**

4.2 Quantitative Data Analysis

The study presented the quantitative data results. Specifically, this was done in line with the objectives of the study.

4.3 Effect of Independent Directors on a company's financial performance

The study sought to establish the effect of Independent Directors on a company's financial performance In table 4.5 indicated that majority of the respondent 50% agreed with the statement that Independent directors are found to impact a range of board decisions, such as the firing of non-performing CEOs.70% of the respondent agreed with the statement that Independent Directors are effective at resistance to greenmail payments.76% of the respondents strongly agreed with the statement that Independent Directors are effective at negotiation of tender offers.60% of the respondent strongly agreed that the composition of the board of their firm is a balance of executive and non-executive directors (with at least one third independent and non-executive directors) of diverse skills or expertise.50% of the respondent strongly agreed with the statement that Independent directors effectively monitor and control firm activities by reducing opportunistic managerial behaviors and expropriation of firm resources while 60%

strongly agreed with the statement that their firm has non executive directors who act as "professional referees" to ensure that competition among insiders stimulates actions consistent with shareholder value maximization. The mean score of 4.3 on a 5 point scale shows that majority of the respondents agreed that independent directors have a considerable effect on financial performance of large manufacturing firms in Kenya and monitoring role is important in corporate governance.

TABLE 7

Effect of Independent Directors on a company's financial performance

statements	strongly disagree	disagree	neither agree nor disagree	agree	strongly agree	means
Independent directors influence the board decisions and the strategies made by the board.	6.0%	2.0%	4.0%	50.0%	38.0%	4.1
Independent Directors are effective at resistance to greenmail payments	6.0%	.0%	4.0%	70.0%	20.0%	4.0
Independent Directors are effective at negotiation of tender offers	4.0%	4.0%	.0%	16.0%	76.0%	4.6
The board of directors in our firm is composed of executive and non executive directors with an non executive directors forming one third of the board	.0%	4.0%	2.0%	34.0%	60.0%	4.5
Independent directors effectively monitor and reduce managers self interest and ensure proper use of firm's resources.	2.0%	2.0%	4.0%	42.0%	50.0%	4.4
Our firm has non executive directors who act to ensure that the activities of the company are consistent with shareholders' interest	4.0%	6.0%	4.0%	26.0%	60.0%	4.3
Means						**4.3**

4.4 Effect of board committees on a company financial performance

The study sought to establish the effect of Independent Directors on a company's financial performance In table 4.6 indicated that majority of the respondent 58% agreed with the statement that their company has independent board committees in place to enhance effective monitoring.76% of the respondent agreed with the statement that their company has board committees which consist of independent non-executives directors 58% of the respondents agreed with the statement that The board committees in our firm ensures that executive directors make decisions that are in the best interests of shareholders.66% of the respondent agreed that their company has in place monitoring committees (audit, nomination, and compensation committees.56% of the respondent agreed with the statement that Board Committees lead to better organization performance while 70 % strongly agreed with the statement that their company has an independent audit committee which is convenes a number of meetings per year. The mean score of 4.2 on a 5 point scale shows that majority of the respondents agreed that board committees affect financial performance of large manufacturing firms in Kenya.

TABLE 8:

Effect of board committees on a company financial performance

Statement	strongly disagree	disagree	neither agree nor disagree	agree	strongly agree	means
Our company has independent board committees in place to enhance effective monitoring	6.0%	2.0%	4.0%	30.0%	58.0%	4.3
Our company has board committees which are headed by non executive directors	4.0%	2.0%	4.0%	76.0%	14.0%	3.9
The board committees in our firm monitors the activities of executive directors to ensure that the acts are consistent with shareholders interests	2.0%	4.0%	2.0%	34.0%	58.0%	4.4
Our company has in place monitoring committees of finance, procurement, human resources, environment and audit	2.0%	2.0%	.0%	66.0%	30.0%	4.2
The board committees have led to better organization performance	2.0%	2.0%	8.0%	56.0%	32.0%	4.1
The audit committee is in place at our company and meets regularly to ensure compliance with governance policies, legal and other professional requirements.	2.0%	2.0%	2.0%	70.0%	24.0%	4.1
means						**4.2**

4.5 Impact that a company's board size has on its financial performance.

The study sought to establish the effect of Independent Directors on a company's financial performance In table 4.7 indicated that majority of the respondent 60% agreed with the statement that The organization believes that small boards have more favorable performance.62% of the respondent agreed with the statement that Coordination and communication problems impede company performance when the number of directors increases.70% of the respondents agreed with the statement that decision-making problems impede company performance when the number of directors increases.52% of the respondent agreed that The appropriate board size should be 7 to 8 members .66% of the respondent agreed

with the statement that overcrowded boards causes shareholders to lose money while 52 % strongly agreed with the statement that When boards consist of too many members agency problems may increase, as some directors may tag along as free-riders. The mean score of 4.2 on a 5 point scale shows that majority of the respondents agreed that board size have a great impact to the financial performance of large manufacturing firms in Kenya and there is negative relationship between board size and performance of organization.

TABLE 9

Impact that a company's board size has on its financial performance.

statement	strongly disagree	disagree	neither agree nor disagree	agree	strongly agree	means
The organization believes that small boards have more favorable performance	6.0%	4.0%	4.0%	60.0%	26.0%	4.0
Coordination and communication problems are associated with large board size.	2.0%	6.0%	4.0%	26.0%	62.0%	4.0
Small board size have no decision making problems which impede on company's performance.	.0%	2.0%	6.0%	22.0%	70.0%	5.0
The appropriate board size should be 7 or 9 members	4.0%	10.0%	2.0%	32.0%	52.0%	4.0
Overcrowded boards causes shareholders to lose money	4.0%	8.0%	2.0%	66.0%	20.0%	4.0
Large board size have inefficiency costs like increase of directors' allowances.	8.0%	6.0%	6.0%	28.0%	52.0%	4.0
means						**4.2**

4.6 CEO's dual role as a company's chairman on a company's financial performance

The study sought to establish the effect of Independent Directors on a company's financial performance In table 4.8 indicated that majority of the respondent 74% agreed with the statement that The CEO's role in our firm is separated from the chairman role.66% of the

respondent agreed with the statement that In our firm, the position of CEO is a full-time post and is responsible for the day-to-day running of the company.62% of the respondents agreed with the statement that the role of CEO is setting and implementing, corporate strategy.78% of the respondent agreed that In our company, the post of the chairman is part-time and the main responsibility is to ensure that the board works effectively.56% of the respondent agreed with the statement that in our firm, the main role of the chairman involves monitoring and evaluating the performance of the executive directors, including the CEO while 56 % strongly agreed with the statement that In our firm there is clarity of roles between the CEO and the Chair which enhances the firm's value. The mean score of 4.1 on a 5 point scale shows that majority of the respondents agreed that CEO's dual role affect the financial performance of large manufacturing firms in Kenya.

TABLE 10

CEO's dual role as a company's chairman on a company's financial performance

statement	strongly disagree	disagree	neither agree nor disagree	agree	strongly agree	means
The CEO's role in our firm is separated from the chairman role	4.0%	8.0%	6.0%	74.0%	8.0%	4.0
In our firm, the CEO is responsible for day to day management of the firm and does not coordinate the board	2.0%	10.0%	2.0%	66.0%	20.0%	4.0
The role of CEO is to ensure implementation of corporate strategies which are set by the board of directors	6.0%	8.0%	4.0%	20.0%	62.0%	4.0
In our company, the chairman of the board is works on part time basis as the CEO of the firm.	.0%	2.0%	6.0%	14.0%	78.0%	5.0
In our firm, the main role of the chairman is to coordinate the board members and evaluate the performance of the CEO.	4.0%	4.0%	4.0%	56.0%	32.0%	4.0
In our firm there is clarity of roles between the CEO and the Chair which enhances the firm's value	4.0%	4.0%	4.0%	56.0%	32.0%	4.0
means						**4.1**

4.7 Multivariate Regression

In order to establish the statistical significance of the independent variables on the dependent variable (profitability/ROA) .regression analysis was employed. The regression equation took the following form.

$Y = \alpha + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \mu$

Where;

Y = **P**rofitability (ROA)

X_1 = Independent Directors

X_2 = Board Committees

X_3 = Board Size

X_4 = Ceo Duality

In the model, α = the constant term while the coefficient $\beta_i i = 1....6$ was used to measure the sensitivity of the dependent variable (Y) to unit change in the predictor variables. μ is the error term which captures the unexplained variations in the model. In its complete form, the model will be;

Table 4.8 shows that the coefficient of determination also called the R square is 67.3%. This means that the combined effect of the predictor variables (Independent Directors, Board Committees, Board Size and CEOs Duality) explains 67.3% of the variations in financial performance. The correlation coefficient of 64.3% indicates that the combined effect of the predictor variables has a strong and positive correlation with financial performance.

4.8 Factor Analysis

Table 4.9 shows that all statements on independent directors and financial performance attracted a component coefficient matrix of more than 0.5. This implies that all the statements were retained for analysis because they were rotating around the management structure variable. The statement that the Independent directors are found to impact a range of board decisions, such as the firing of non-performing CEOs had a coefficient of 0.937. Independent Directors are effective at resistance to greenmail payments attracted a coefficient of 0.936. Independent Directors are effective at negotiation of tender offers had a coefficient of 0.926.Independent directors effectively monitor and control firm activities by reducing opportunistic managerial behaviors and expropriation of firm resources attracted a coefficient of 0.74. Our firm has non executive directors who act as "professional referees" to ensure that competition among insiders

stimulates actions consistent with shareholder value maximization had a coefficient of 0.714 and finally the composition of the board of our firm is a balance of executive and non-executive directors (with at least one third independent and non-executive directors) of diverse skills or expertise attained a coefficient of 0.66. All this statements had high factor loadings which implied that the independent directors were a reliable construct.

TABLE 11

Independent directors factor analysis Component Matrix

Statement	Component
Independent directors are found to impact a range of board decisions, such as the firing of non-performing CEOs	0.937
Independent Directors are effective at resistance to greenmail payments	0.936
Independent Directors are effective at negotiation of tender offers	0.926
Independent directors effectively monitor and control firm activities by reducing opportunistic managerial behaviors and expropriation of firm resources	0.74
Our firm has non executive directors who act as “professional referees” to ensure that competition among insiders stimulates actions consistent with shareholder value maximization.	0.714
The composition of the board of our firm is a balance of executive and non-executive directors (with at least one third independent and non-executive directors) of diverse skills or expertise	0.66

Table 4.10 shows that all statements on board committees and financial performance attracted a component matrix of more than 0.5. This implies that all the statements were retained for analysis because they were rotating around the variable. The statement that Our Company has independent board committees in place to enhance effective monitoring had a coefficient of 0.757. The board committees in our firm ensures that executive directors make decisions that are in the best interests of shareholders had 0.668. Our company has board committees which consist of independent non-executives directors attracted a coefficient of 0.628 and that our Company

has in place monitoring committees (audit, nomination, and compensation committees) had 0.655. The statements that our Company has in place monitoring committees (audit, nomination, and compensation committees) and Board Committees lead to better organization performance attracted coefficients of 0.612 and 0.769 respectively. All this statements had high factor loadings whish implied that the board committee was a reliable construct.

TABLE 12

Board Committees factor analysis Component Matrix

Statement	Component
Our company has independent board committees in place to enhance effective monitoring.	0.757
The board committees in our firm ensures that executive directors make decisions that are in the best interests of shareholders	0.668
Our company has board committees which consist of independent non-executives directors.	0.628
Our company has an independent audit committee which is convenes a number of meetings per year	0.655
Our company has in place monitoring committees (audit, nomination, and compensation committees).	0.612
Board Committees lead to better organization performance	0.769

Table 4.11 shows that all statements on size of the organization and financial performance attracted a component matrix of more than 0.5. This implies that all the statements were retained for analysis because they were rotating around the variable. The statement that Coordination and communication problems impede company performance when the number of directors' increases had a coefficient of 0.97. The organization believes that small boards have more favorable performance had a coefficient of 0.943. Decision-making problems impede company performance when the number of director's increases attracted a coefficient of 0.939 and that when boards consist of too many members agency problems may increase, as some directors may tag along as free-riders had a coefficient of 0.699. The statements that

overcrowded boards' cause's shareholders to lose money and The appropriate board size should be 7 to 8 members attracted coefficients of 0.654 and 0.701 respectively. All this statements had high factor loadings which implied that the board size was a reliable construct.

TABLE 13

Board Size factor analysis Component Matrix

Statement	Component
Coordination and communication problems impede company performance when the number of directors increases	0.97
The organization believes that small boards have more favorable performance	0.943
decision-making problems impede company performance when the number of directors increases	0.939
When boards consist of too many members agency problems may increase, as some directors may tag along as free-riders	0.699
overcrowded boards causes shareholders to lose money	0.654
The appropriate board size should be 7 to 8 members	0.701

Table 4.12 shows that all statements on CEO duality of the organization and financial performance attracted a component matrix of more than 0.5. This implies that all the statements were retained for analysis because they were rotating around the variable. The statement that In our firm, the position of CEO is a full-time post and is responsible for the day-to-day running of the company had a coefficient of 0.971. The role of CEO is setting and implementing, corporate strategy had a coefficient of 0.947. The CEO's role in our firm is separated from the chairman's role attracted a coefficient of 0.917 and that in our firm, the main role of the chairman involves monitoring and evaluating the performance of the executive directors, including the CEO had a coefficient of 0.629. The statements that in our firm, the main role of the chairman involves monitoring and evaluating the performance of the executive directors, including the CEO and In our company, the post of the chairman is part-time and the main responsibility is to ensure that

the board works effectively attracted coefficients of 0.792 and 0.903 respectively. All this statements had high factor loadings whish implied that the CEO duality was a reliable construct.

TABLE 4.14:

CEO duality factor analysis Component Matrix

Statement	**Component**
In our firm, the position of CEO is a full-time post and is responsible for the day-to-day running of the company	0.971
The role of CEO is setting and implementing, corporate strategy	0.947
The CEO's role in our firm is separated from the chairman's role	0.917
In our firm there is clarity of roles between the CEO and the Chair which enhances the firm's value.	0.629
In our firm, the main role of the chairman involves monitoring and evaluating the performance of the executive directors, including the CEO.	0.792
In our company, the post of the chairman is part-time and the main responsibility is to ensure that the board works effectively.	0.903

Table 4.9

Multivariate Regression Model Fitness

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.820[a]	.673	.643	1.30652

Analysis of variance (ANOVA) on Table 4.9 shows that the combine effect of Independent Directors, Board Committees, Board Size and CEOs Duality was statistically significant in explaining changes in financial performance. This is demonstrated by a p value of 0.000 which is less that the acceptance critical value of 0.05.

Table 4.15

ANOVA

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	157.762	4	39.441	23.105	.000[a]
	Residual	76.815	45	1.707		
	Total	234.577	49			

Table 4.9 displays the regression coefficients of the independent variables. The results reveal that Independent Directors and board committees are positively and statistically significant in explaining the financial performance. In addition, board size and CEOs dual role were positive and statistically significant in influencing financial performance. The findings imply that all the independent variables were strong determinants of financial performance of the manufacturing sector in Kenya.

The results indicate that; an increase in the effectiveness of Independent Directors by one unit leads to an increase in ROA by 1.201units; an increase in the effectiveness of board committees by one unit leads to an increase in ROA by 0.130units; an increase in the effectiveness of board size by one unit leads to an increase in ROA by 1.289 units; an increase in the effectiveness of CEOs dual role by one unit leads to an increase in ROA by 1.451units.

Variable	**Beta**	**Std. Error**	**t**	**Sig.**
(Constant)	-13.757	2.332	-5.898	.000
Independent Directors	1.201	.535	2.244	.030
Board Committees	.130	.017	7.893	.000
Board Size	1.289	.604	2.135	.038
CEOs dual role	1.451	.476	3.051	.004

4.9 Summary Equations

The summary equation was;

ROA= -13.757+ 1.201 Independent Directors +0 .130 board committees +1.289 board size+ 1.451 CEOs dual role

CHAPTER FIVE

SUMMARY AND CONCLUSIONS AND RECOMMENDATIONS

5.0. Introduction

The chapter addressed the summary of the findings, the conclusions and the recommendations. This was done in line with the objectives/research questions of the study.

5.1. Summary of Findings

The study found that majority of the respondents agree that governance structures have considerable effect in financial performance of large manufacturing firms Kenya. Most of the respondents were male with education level of University Education and above. The working period had a high frequency on 1-4 years indicating the highest probable duration of stay by managers in corporate. The structure of governance includes the variables of independent directors, board committees, board size and CEO's duality. Financial performance is measured on return on assets (ROA).

The findings show that independent directors will incorporate governance in corporate governance includes monitoring the performance of CEO's and monitoring the behavior of the directors which may not be in the interest of the shareholders or the organization. Most of the respondents indicated that their organizations have independent directors. The study established the inverse relationship between board size and performance of the organization. Large board size are associated with inefficiencies of coordination, decision making and are costly to the shareholders. The study found out that board committees are effective in monitoring activities of directors, provide necessary information to the board. The effectiveness of the committees largely depends on their level of independence and should therefore be headed and

operationalized by non executive directors. The study established the need to separate the functions of CEO and the chairman. The dual role of CEO shall create dominance in the board.

5.2. Conclusion

Most large firms in manufacturing section have corporate governance structures which are operational. Their involvement in the governance vary with different firms and hence the application can not be generalized. However, the presence of the governance structures indicate the importance which the manufacturing firms attach to governance.

5.3 Recommendations

Financial performance of large manufacturing firms in Kenya is largely affected by the structure of corporate grievance. The structure variables independence of board, board committees, board size and dual role of CEO should be institutionalized in organizations. Manufacturing firms should establish strong rules, regulations and provide to support the governance structures in order to improve their financial performance. Key areas that should be observed includes ensuring separation of CEO’s role and that of chairman and observing the board size. Organisations should ensure that independent directors are professionals in the committees which they head and should be frequently involved in monitoring role or be “hands on” if committees are to offer quality information to the board.

The study is applicable to large manufacturing firms and its applicability is largely to the industry segments that were sampled. Future research may be strengthened by using a sample composed of more diverse industry segments and which should include the small firms in manufacturing sector.

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APPENDIX I: QUESTIONNAIRE

PART 1: GENERAL /DEMOGRAPHIC DATA

1. Gender
    a) Male ☐
    b) Female ☐
2. Highest level of education
    a) Secondary level ☐
    b) College level ☐
4. University level ☐
    d) Post graduate level ☐
3. For how long have you served the in the same capacity?
    a) Less than 1 year ( )
    b) 1 – 4 ( )
    c) 5 – 9 ( )
    d) 10 and above ( )

Section B: Effect of Independent Directors on a company's financial performance

This section aims at determining Effect of Independent Directors on a company's financial performance. Please indicate your agreement or otherwise with the following statements using the likert scale.The Likert Scale ranges from 1-5 as follows 1-Strongly Disagree,2-Disagree, 3-Neither Agree nor Disagree, 4-Agree, 5-Strongly Agree.

Statement	1	2	3	4	5
Independent directors influence the board decisions and the strategies made by the board.					
Independent Directors are effective at resistance to greenmail payments					
Independent Directors are effective at negotiation of tender offers					

The board of directors in our firm is composed of executive and non executive directors with an non executive directors forming one third of the board					
Independent directors effectively monitor and reduce managers self interest and ensure proper use of firm's resources.					
Our firm has non executive directors who act to ensure that the activities of the company are consistent with shareholders' interest					

Section C: Effect of board committees on a company financial performance

This section aims at determining Effect of board committees on a company financial performance. Please indicate your agreement or otherwise with the following statements using the likert scale. The Likert Scale ranges from 1-5 as follows 1-Strongly Disagree,2-Disagree, 3-Neither Agree nor Disagree, 4-Agree, 5-Strongly Agree.

Statement	1	2	3	4	5
Our company has independent board committees in place to enhance effective monitoring					
Our company has board committees which are headed by non executive directors					
The board committees in our firm monitors the activities of executive directors to ensure that the acts are consistent with shareholders interests					
Our company has in place monitoring committees of finance, procurement, human resources, environment and audit					
The board committees have led to better organization performance					
The audit committee is in place at our company and meets regularly to ensure compliance with governance policies, legal and other professional requirements.					

Section D: Impact that a company's board size has on its financial performance.

This section aims at determining Impact that a company's board size has on its financial performance.. Please indicate your agreement or otherwise with the following statements using the Likert scale. The Likert Scale ranges from 1-5 as follows 1-Strongly Disagree,2-Disagree, 3-Neither Agree nor Disagree, 4-Agree, 5-Strongly Agree.

Statement	1	2	3	4	5
The organization believes that small boards have more favorable performance					
Coordination and communication problems are associated with large board size.					
Small board size have no decision making problems which impede on company's performance.					
The appropriate board size should be 7 or 9 members					
Overcrowded boards causes shareholders to lose money					
Large board size have inefficiency costs like increase of directors' allowances.					

Section D: CEO's dual role as a company's chairman on a company's financial performance

This section aims at determining CEO's dual role as a company's chairman on a company's financial performance. Please indicate your agreement or otherwise with the following statements using the likert scale. The Likert Scale ranges from 1-5 as follows 1-Strongly Disagree,2-Disagree, 3-Neither Agree nor Disagree, 4-Agree, 5-Strongly Agree.

Statement	1	2	3	4	5
The CEO's role in our firm is separated from the chairman role					

In our firm, the CEO is responsible for day to day management of the firm and does not coordinate the board					
The role of CEO is to ensure implementation of corporate strategies which are set by the board of directors					
In our company, the chairman of the board is works on part time basis as the CEO of the firm.					
In our firm, the main role of the chairman is to coordinate the board members and evaluate the performance of the CEO.					
In our firm there is clarity of roles between the CEO and the Chair which enhances the firm's value					

SECONDARY DATA

Section D: **FINANCIAL PEFOMANCE**

	When there were no governance structures	When there were governance structures
ROA (PBT/Total Assets)		

THANK YOU VERY MUCH FOR YOUR TIME

Appendix II: List of Target Manufacturing Firms

Serial No.	Name of Company	Serial No.	Name of Company
A	**BUILDING, CONSTRUCTION & MINING=3**	31	British American Tobacco Kenya Ltd
1	Athi River Mining Ltd	32	Brookside Dairy Ltd
2	Bamburi Cement Ltd	33	Coca Cola East Africa Ltd
3	East Africa Portland Cement Co. Ltd	34	Cadbury Kenya Ltd
B	**CHEMICAL & ALLIED=12**	35	Eastern Produce (K) Ltd.(Kakuzi Ltd).
4	Bayer East Africa Ltd	36	East African Breweries Ltd
5	BOC Kenya Ltd	37	Eastern Produce Kenya Ltd (+ Kakuzi Ltd)
6	Chemicals and Solvents (E.A) Ltd	38	London Distillers Co. Ltd.
7	Colgate Palmolive (E.A.) Ltd	39	Jambo Biscuits (k) Ltd
8	Crown Berger Kenya Ltd	40	Kapa Oil Refineries Ltd
9	Cooper K-Brands Ltd	41	Kenchic Ltd
10	Osho chemicals industries ltd	42	Corn Products Kenya Ltd.
11	Crown Paints Co. Ltd.	43	Kenya Tea Development Agency
12	Vitafoam Co. Ltd.	44	Kenya Wine Agencies Ltd
13	Orbit Chemicals Ltd.	45	Koba Waters Ltd
14	Inter-Consumer Products Ltd.	46	Manji Food Industries Ltd
15	Johnson Diversey East Africa ltd	47	Mastermind Tobacco (k) Ltd
C	**ENERGY, ELECTRICAL AND ELECTRONICS=7**	48	Nairobi Bottlers Ltd
16	PCTL Co. Ltd.	49	Nairobi Flour Mills Ltd
17	East African Cables Ltd	**E**	**LEATHER & FOOTWEAR=2**
18	Optimum Lubricants Ltd.	50	Bata Shoe Co. (K) Ltd
19	Holman Brothers (E.A) Ltd.	51	East Africa Tanners (k) Ltd
20	Kenya Shell Ltd	**F**	**METAL & ALLIED=11**
21	Oilibya (K) Ltd.	52	Reliable Engineering Co. Ltd.
22	Manufactures & Suppliers (k) Ltd	53	East African Foundry Works (k) Ltd
D	**FOOD & BEVERAGE=27**	54	Kens Metal Industries Ltd.
23	Patco Industries Ltd	55	Friendship Container Manufacturers Ltd
24	Nestle Foods Kenya Ltd	56	Pipe Manufacturers Ltd
25	Proctor & Allan (E.A) Ltd.	57	Impala Glass Industries Ltd
26	Unga Group Ltd	58	Mabati Rolling Mills Ltd
27	Pembe Flour Mills Ltd	59	Nails & Steel Products Ltd
28	Aquamist Ltd	60	Orbit Engineering Ltd
29	Premier Flour Mills Co. Ltd	61	Steel makers Ltd
30	Eldoret Grains Ltd.	62	Steelwool (Africa) Ltd

Serial No.	Name of Company	Serial No.	Name of Company
G	**MOTOR VEHICLE & ACCESSORIES=4**	90	Kingsway Tyres & Automart Ltd
63	Associated Battery Manufacturers (E.A) Ltd	91	Plastics & Rubber Industries Ltd
64	General Motors East Africa Ltd	92	Packaging Industries Ltd.
65	Auto Spring Manufacturers Ltd	93	King Plastic Industries Ltd
66	Toyota East Africa Ltd	93	Kenpoly Manufacturers Ltd
H	**PAPER & BOARD=13**	95	Kentainers Ltd
67	Carton Manufacturers Ltd	**K**	**TEXTILES & APPARELS=10**
68	East Africa Packaging Industries Ltd	96	Ken-Knit (Kenya) Ltd
69	Cartubox Industires (E.A) Ltd	97	Africa Apparels EPZ LTD
70	Colour Print Ltd	98	Alltex EPZ Ltd
71	United Bag Manufacturers Ltd	99	Spin Knit Limited
72	Kartasi Industries Ltd	100	Thika Cloth Mills Ltd
73	Nation Media Group Ltd.	101	Midco Textiles (EA) Ltd
74	The Standard Ltd.	102	Riziki Manufacturers Ltd
75	Tetra Pak Ltd	103	Le-Stud Ltd
76	Modern Lithographic Co. Ltd.	104	Straightline Enterprises Ltd
77	Printpak Multi Packaging Ltd.	105	Spinners & Spinners Ltd.
78	Bag and Envelop Converters Ltd.	**L**	**TIMBER, WOOD & FURNITURE=3**
79	Bags and Bailers Manufactures (K) Ltd.	106	Economic Housing Group Ltd
I	**PHARMACEUTICALS & MEDICAL EQUIPMENT=4**	107	Furniture International Ltd
80	Beta Healthcare International Ltd	108	Timsales Ltd.
81	Cosmos Ltd		
82	Glaxo Smithkline Kenya Ltd		
83	Pharmaceutical Manufacturing Co. (k) Ltd		
J	**PLASTIC & RUBBER=12**		
84	Polythene Industries Ltd		
85	Sameer Africa Ltd		
86	General Plastics Ltd		
87	Haco Industries Kenya Ltd		
88	Nairobi Plastics Ltd		
89	Roto Tanks Ltd		