

American Journal of Finance (AJF)



RELATIONSHIP BETWEEN BOARD COMPOSITION AND FINANCIAL PERFORMANCE OF COMPANIES LISTED AT THE NAIROBI SECURITIES EXCHANGE

Onesmus Ngulumbu and Dr. Josiah Aduda



RELATIONSHIP BETWEEN BOARD COMPOSITION AND FINANCIAL PERFORMANCE OF COMPANIES LISTED AT THE NAIROBI SECURITIES EXCHANGE

^{1*} Onesmus Ngulumbu

Masters Student, University Of Nairobi

*Corresponding Author's email: onesmusngulumbu@yahoo.com

² Dr. Josiah Aduda

Lecturer, University Of Nairobi

Abstract

Purpose: The purpose of this study is to establish the relationship between board composition and financial performance of quoted companies at the Nairobi Securities exchange.

Methodology: This study employed correlational survey design. The population of this research consisted of all the listed companies in the Nairobi Security Exchange. The study used secondary data. Financial performance (ROA) was collected for a period of three years (2010 to 2012). Data was analyzed using Statistical Package for Social Sciences (SPSS) and results were presented in frequency tables and figures. The data was then analyzed in terms of descriptive statistics like frequencies, means and percentages.

Results: The study findings indicated that the overall financial performance of listed companies was determined by the corporate governance practices. Results also revealed that there was an increasing trend in board Size, independent directors (non-executive directors), number of board committees, number of founder directors, gender mix, level of education of directors and age of the directors over the three years. Regression analysis was conducted to empirically determine whether independent variables were a significant determinant of profit before tax. Regression results indicate the goodness of fit for the regression between independent variables and dependent variable is satisfactory. ANOVAs results indicated that the overall model is significant. This implied that the independent variables did a good job at predicting profitability.

Unique contribution to theory, practice and policy: The study recommends that the management should ensure that corporate governance practices are adhered to strictly as they are good determinants of financial performance. It is also recommended that the firm should have non-executive directors who act as “professional referees” to ensure that competition among insiders stimulates actions consistent with shareholder value maximization. On the same note, the study recommends that non-executive directors/ foreign ownership be handled with care for their participation is significant. Non-executive directors/ foreign ownership should be designed to enhance the ability of the firm to protect itself against threats from the environment and align the firm's resources for greater advantage.

Keywords: Corporate governance practices, financial performance and companies listed on the Nairobi Securities Exchange.

1.0 INTRODUCTION

1.1 Background of the Study

Corporate governance is increasingly becoming a major topic in strategic management. In a profit corporation, the governance structure/system is presumed to aid in achieving the goal of profit maximization. If governance's role is to aid in maximizing the objective function, then differences in objectives should lead to differences in governance. The ideal control system, espoused in much of the governance literature, is one where a board of directors, which is accountable to the shareholders, controls the corporation (Adams and Mehran, 2002).

According to Francis (2000) the concept of corporate governance gained global prominence in the 1980s because this period was characterized by stock market crashes in different parts of the world and failure of some corporations due to poor governance practices. Corporate collapse was the predominant driver for change to corporate governance codes (United Nations, 1999). As more corporate entities in different parts of the world collapsed in 1980s, there was a change of attitude with much higher performance expectations being placed on management boards of firms. There was also a growing realization that managers are to run firms while boards are to ensure that firms are run effectively and in the right direction (Adams, 2002). Directors and managers require different sets of skills and managers do not necessarily make good directors. Prevention of corporate failure was not the only reason that led to adoption of the corporate governance ideals. On a positive note, there was a growing acknowledgement that improved corporate governance was crucial for the growth and development of the whole economy of a country (Clarke, 2004; Department of Treasury, 1997).

Performance Measures are quantitative or qualitative ways to characterize and define performance. They provide a tool for organizations to manage progress towards achieving predetermined goals, defining key indicators of organizational performance and Customer satisfaction. Performance Measurement is the process of assessing the progress made (actual) towards achieving the predetermined performance goals (baseline). Guest, Michie, Conway and Sheehan (2003) defined performance as outcomes, end results and achievements (negative or positive) arising out of organizational activities. They argued that it is essential to measure strategic practices in terms of outcomes. These outcomes vary along a continuum of categories such as: financial measures (ROA, ROI, Turnover, PBT); measures of output of goods and services such as number of units produced, number of clients attended to, number of errors in the process, customer satisfaction indexes or; measures of employee satisfaction such as time an employee puts into work - lateness, absence of an employee (Locke & Latham, 1990; Guest et al, 2003).

For corporate governance to be effective, it is important to confirm that independent, non-executive directors are not so independent that they do not understand the business. All directors need to understand how value is added in the business, where it is exposed to risk and what are 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 to enable them appreciate their company's place in the competitive market as well as the economic, social and political context in which the company operates (Tricker, 2010).

The Nairobi securities exchange in Kenya is small and somewhat speculative. The Exchange was established in 1954. The Exchange is sub-Saharan Africa's fourth-largest bourse. A number of brokers are licensed to operate. The NSE, like many other emerging markets, suffers from the lack of liquidity in the market. Foreign investment on the Nairobi Securities Exchange and foreign ownership of companies is by application. Foreign investment in the local subsidiaries of foreign-controlled companies is banned so as to encourage input into Kenyan companies. The Kenyan government has made several reforms aimed at attracting foreign investment via the Nairobi Securities Exchange. The Exchange was opened to foreign investors for the first time in January 1995, but with a maximum limit of 20% shareholding for institutions and 2,5% for individuals. The ceiling on foreign investment has been increased to 40% for institutions and 5% for individuals, but a relatively small percentage of listed companies are available to foreigners.

1.2 Problem Statement

Boards have long been the subject of management research and the attention paid to corporate boards has increased substantially in recent years (Daily *et al.*, 2003), with a particular focus on the board's relationship to firm value (Hermalin & Weisbach, 2003; Linck *et al.*, 2008). The role and responsibilities of a board of directors vary depending on the nature and type of business entity and the laws applying to the entity.

According to Edwards and Clough (2005), the connection between corporate governance and organizational performance lies in the multi-dimensional nature of (good) governance. Narrowly conceived, corporate governance involves ensuring compliance with legal obligations, and protection for shareholders against fraud or organizational failure. A study conducted in Kenya by Ongore & K'Obonyo (2011) on interrelations among ownership, board and manager characteristics and firm performance in a sample of 54 firms listed at the Nairobi Stock Exchange (NSE). The role of boards was found to be of very little value, mainly due to lack of adherence to board member selection criteria. The results also showed significant positive relationship between managerial discretion and performance. Miring'u & Muoria (2011) analyzed the effects of Corporate Governance on performance of commercial state corporations in Kenya. Using a descriptive study design, the study sampled 30 SCs out of 41 state corporations in Kenya and studied the relationship between financial performance, board composition and size. The study found a positive relationship between Return on Equity (ROE) and board compositions of all State Corporations

The studies cited in the literature mostly concentrate on the developed countries whose strategic approach and Corporate Governance systems are not similar to that of Kenya. In Kenya, the studies done in financial services sector have focused on other companies other than insurance service providers in Kenya. For instance, Choge, (2013); Ongwen, (2010); Nyongesa, (2012); Miring' u and Muoria (2011); and Mang'unyi (2011). None of these studies have focused specifically on the relationship between Corporate Governance and financial performance of listed Companies in Kenya. Many other researchers have examined the relationship between variety of governance mechanisms and firm performance. However, the results are mixed. Some researchers examine only one governance mechanism on performance while others investigate the influence of several mechanisms on performance.

The essence of having a board of directors is meant to ensure that shareholders interest is taken care of and guarded against the possible malfeasance and opportunism by the appointed agents or managers through effective monitoring mechanisms. This is often referred to as the agency problem and has led to the formulation of a number of rules and policies touching on the composition of the board of directors. It is not clear, however, whether these rules have served to advance the shareholders' interest. Recent theoretical and empirical literature on board composition and performance give mixed results on the relationship between these guidelines and firm performance (Finegold, *et al.*, 2007). An approach that emphasizes the performance value of the board is, therefore, necessary and as new practices and structures are introduced and the composition of boards change as a result of reforms or other forces affecting boards, it is important to test whether these have an impact on firm performance. This would help to re-structure or re-align the policies, standards and other frameworks so as to achieve not only effective monitoring but also optimal performance. This study, therefore, seeks to answer this question: what is the effect of corporate governance practices on financial performance of quoted companies at the Nairobi securities exchange.

1.3 Research Objective

The study established the relationship between the corporate governance practices and the firm's financial performance, among companies listed on the Nairobi Securities Exchange.

2.0 LITERATURE REVIEW

2.1 Theoretical Review

2.1.2 Stewardship Theory

A steward is defined by Davis, Schoorman & Donaldson (1997) as one who protects and maximizes shareholders wealth through firm performance, because by so doing, the steward's utility functions are maximized. In this perspective, stewards are company executives and managers working for the shareholders, protects and make profits for the shareholders. Stewardship theory stresses not on the perspective of individualism, but rather on the role of top management being as stewards, integrating their goals as part of the organization. The stewardship perspective suggests that stewards are satisfied and motivated when organizational success is attained. It stresses on the position of employees or executives to act more autonomously so that the shareholders' returns are maximized. Indeed, this can minimize the costs aimed at monitoring and controlling behaviors (Daily et al., 2003). On the other end, Daily et al. (2003) argued that in order to protect their reputations as decision makers in organizations, executives and directors are inclined to operate the firm to maximize financial performance as well as shareholders' profits. In this sense, it is believed that the firm's performance can directly impact perceptions of their individual performance. Moreover, stewardship theory suggests unifying the role of the CEO and the chairman so as to reduce agency costs and to have greater role as stewards in the organization. It was evident that there would be better safeguarding of the interest of the shareholders.

2.2 Empirical Review

BBV Microfinance Foundation (2011) advice that each institution must choose the suitable number of committees for the board's work. Too many committees can result in too many meetings and excessive distribution of work. At the other extreme, too few committees can turn the board meetings in long tedious sessions with too little time to deal with issues sufficiently in depth in order to fulfil the assigned responsibilities efficiently. It further recommends that each committee must be formed by at least two directors and if necessary, a specialist staff to support the specific work carried out by the committee. The most common board committees are audit, nominating and remuneration committees (BBV Microfinance Foundation, 2011b; Cherono, 2008; Hattel, Henriquez, Morgan and D'Onofrio, 2010).

Prior studies have shown that the presence of board committees has a positive effect on a firm performance especially the financial performance as most critical processes and decisions are derived from board subcommittees (Heenetigala, 2011; Roche, 2005; Lefort and Urzua, 2008). Ayuso *et al.* (2007) found that the existence of a committee that is composed of stakeholders or that is dedicated to social performance was strategically important for integrating stakeholder's interest to collective decision making. The studies seem to all agree that as a result of the monitoring function of the board, board committees affect performance.

A study conducted in Kenya by Ongore and K'Obonyo (2011) on interrelations among ownership, board and manager characteristics and firm performance in a sample of 54 firms listed at the Nairobi Stock Exchange (NSE). Using PPMC, Logistic Regression and Stepwise Regression, the paper presents evidence of significant positive relationship between foreign, insider, institutional and diverse ownership forms, and firm performance. However, the relationship between ownership concentration and government, and firm performance was significantly negative. The role of boards was found to be of very little value, mainly due to lack of adherence to board member selection criteria. The results also show significant positive relationship between managerial discretion and performance. Collectively, these results are consistent with pertinent literature with regard to the implications of government, foreign, manager (insider) and institutional ownership forms, but significantly differ concerning the effects of ownership concentration and diverse ownership on firm performance.

Empirical evidence on the effect of the board size on performance is mixed. Manderlier *et al.* (2009) found that board size has a positive impact on operational efficiency, suggesting that a large number of directors positively influence the rationalization of operational costs. On the contrary, Bermig (2010) demonstrated that smaller boards are more effective in monitoring management and thus associated with better performance. He found a significant negative effect on the board size and earnings management suggesting that smaller boards are more efficient in monitoring. But benefits of this have to be compared with disadvantages when other dimensions of the firm performance are taken into account. Wu *et al.* (2009) also found that firm performance is negative and significant in relation to board size.

To fulfil their responsibility of oversight, of internal control and financial reporting, the audit committee must have the necessary expertise primarily on accounting and financial predictions according to Yang & al (2005) and Carcello & *et al.* (2006). Indeed, the study by Choi & al (2004) classifies the expertise of members belonging to audit committees in five categories

namely: • The financial expertise. The accountancy. • The expertise of university professors or former. • The expertise of employees. • Expertise in law. The study by Bedard et al. (2004) states that there are three aspects to the expertise of the members of audit committees namely: financial expertise, the expertise of government and finally the specific expertise in of the firm. Similarly, Dezoortet *et al* (2001) have found that the amount of experience of audit committee members as well as their knowledge of auditing is positively associated with the likelihood that members support the listener in the discussion of the managerial firm. Braiotta (2009) provides that members of the audit committee must have some skills in accounting and related fields.

3.0 RESEARCH METHODOLOGY

This study employed correlational survey design. The population of this research consisted of all the listed companies in the Nairobi Security Exchange. The study used secondary data. Financial performance (ROA) was collected for a period of three years (2010 to 2012). Data was analyzed using Statistical Package for Social Sciences (SPSS) and results were presented in frequency tables and figures. The data was then analyzed in terms of descriptive statistics like frequencies, means and percentages.

4.0 RESULTS AND DISCUSSIONS

4.1 Descriptive Results

This section presents the descriptive results. The results are presented by the trend analysis.

4.1.1 Profit before Tax

The study sought to establish the profitability of all listed firms in NSE across a period of three years.

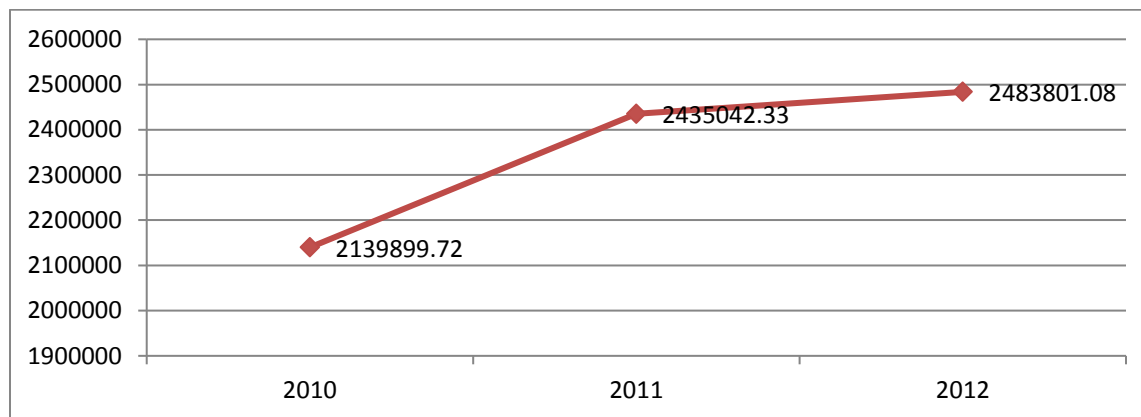


Figure 1: Profit before Tax

Results in Figure 1 shows that the average mean of profit before tax increased gradually from 2139899.72 million in 2010 to 2435042.23 in 2011 and a slight increase to 2483801.08 in 2012. The findings imply that the profitability of firms increased across the years, most probably due to good governance practices.

4.1.2 Board Size

The study sought to establish the effect of board size on firm's profitability

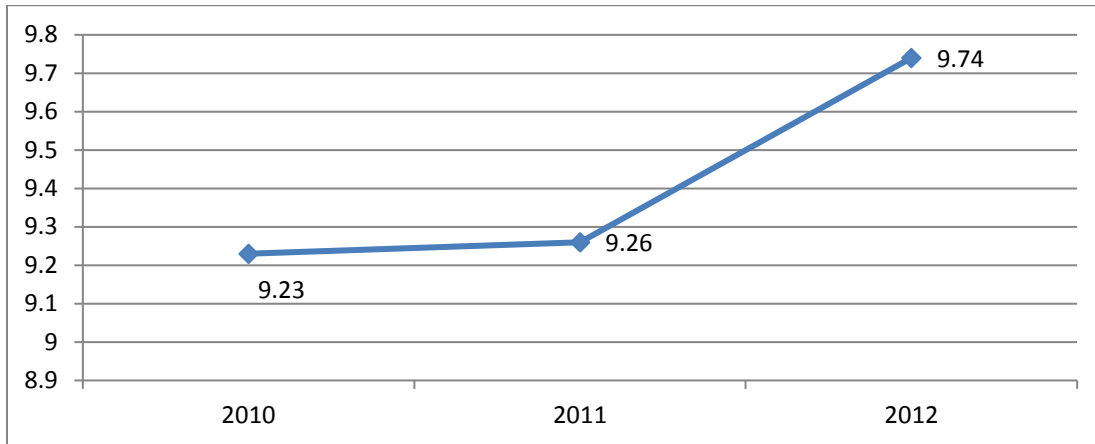


Figure 2: Board Size

Results in Figure 2 shows that number of board size increased as the years passed. Results indicate that the number of board size increased from 9.23 to 9.26 in 2011 and a gradual increase to a peak of 9.74 in 2012. The findings imply that as the firms grew the number of board members also increased hence more experience and more competence.

4.1.3 Independent Directors

The study sought to establish the effect of independent directors (non-executive directors on firms' performance.

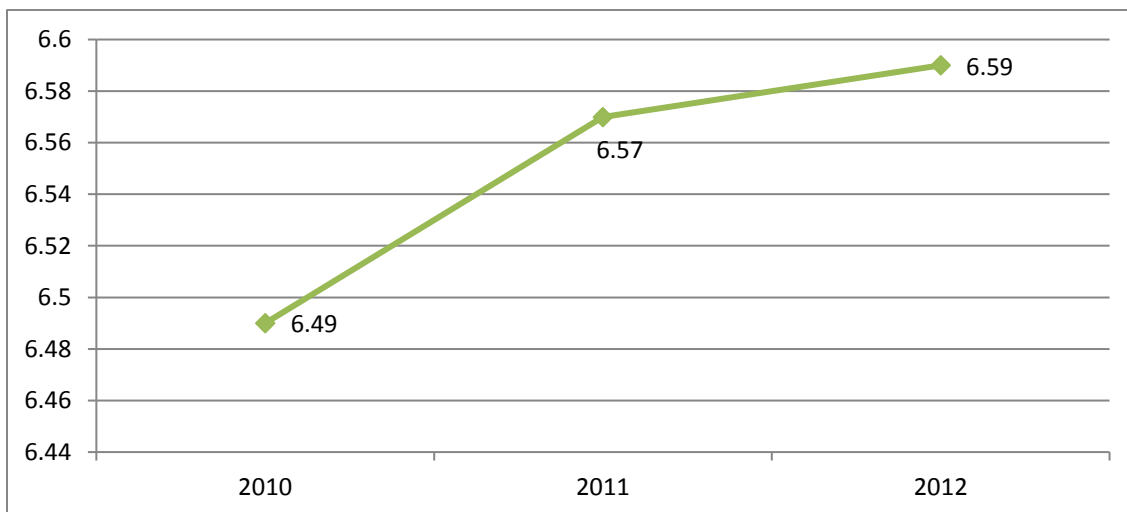


Figure 3: Independent Directors

Figure 3 shows that the number of independent directors increased or grew across the years. The average mean for non-executive directors was 6.49 in the year 2010, while the year 2011 had a mean of 6.57 and a slight increase to 6.59 in the year 2012. The findings imply that there is

consistent increase or growth in number of non-executive directors. This further means that as the companies grow the number of non-executive directors also tend to increase.

4.1.4 Board Committees

The study sought to establish the effect of board committees on the financial performance of listed firms at NSE.

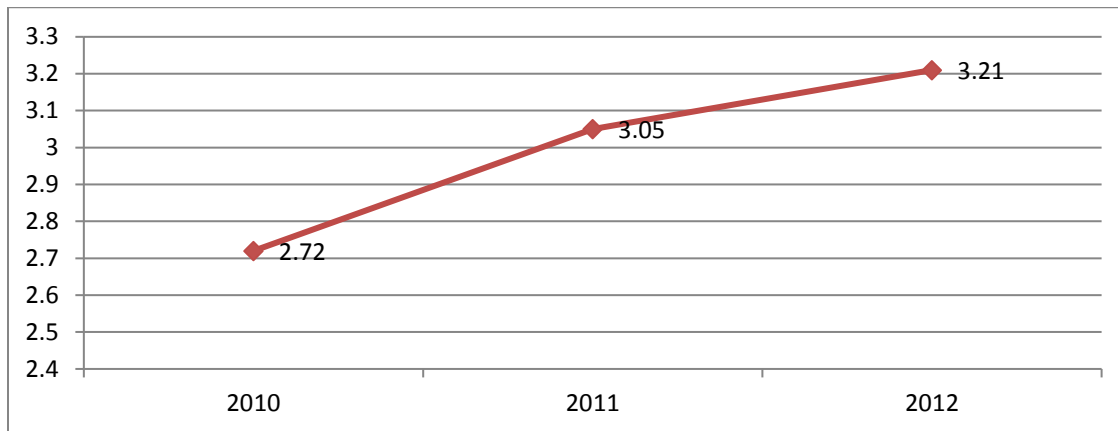


Figure 4: Board Committees

Results in Figure 4 indicate that the number of board committees grew with time as there is a slight increase from 2.72 in the year 2010 to 3.05 in the year 2011 and in 2012 it increased to reach a peak of 3.21 board committees. The findings imply that as the financial performance of listed companies improved the number of board committees also increased.

4.1.5 Founder Directors

The study sought to find out the influence of founder directors on the financial performance of listed companies at NSE.

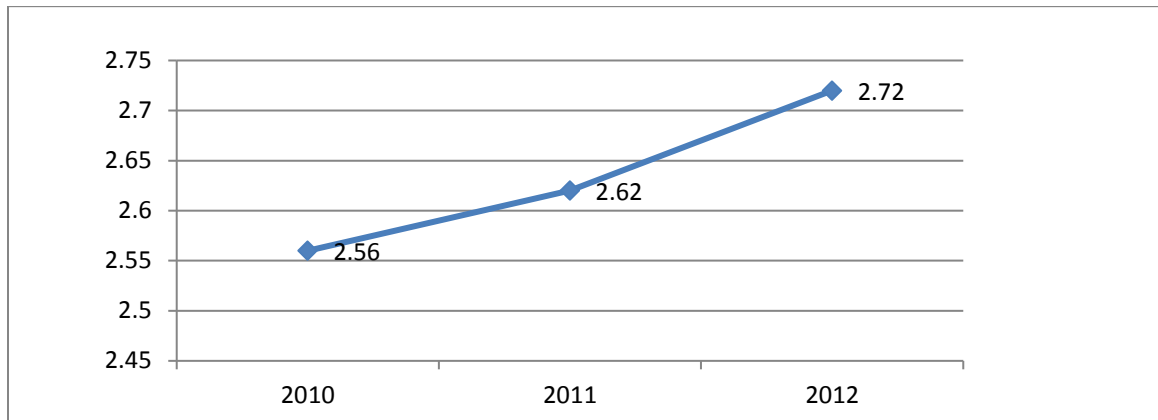


Figure 5: Founder Directors

Figure 5 shows that the number of founder directors increased from 2.56 in 2010 to 2.72 in the year 2012. These findings imply that as the companies grew there were major shareholders who were dissolved as owners hence the increase overtime.

4.1.6 Gender Mix

The study sought to establish the effect of gender mix on the financial performance of listed companies at NSE.

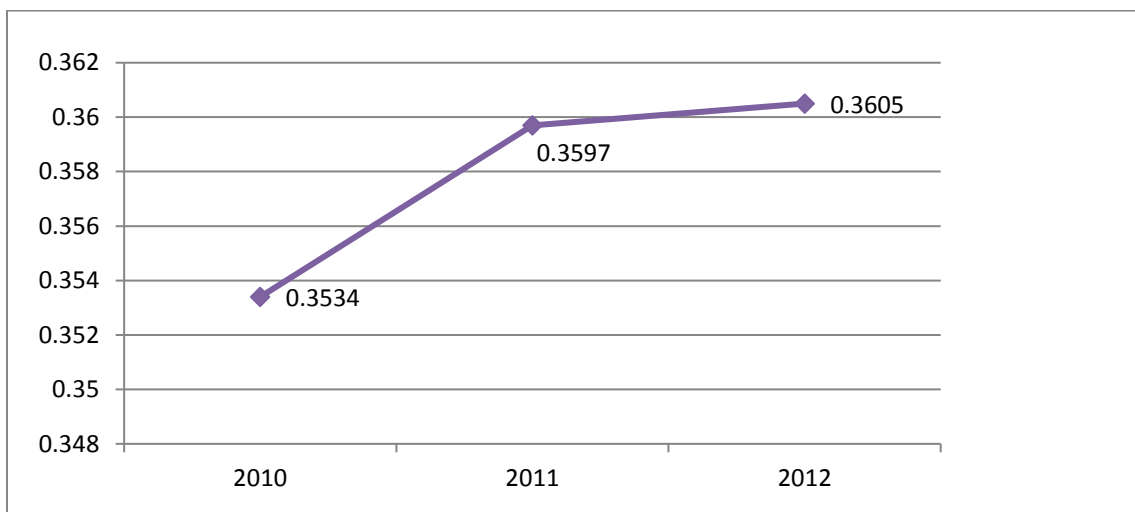


Figure 6: Gender Mix

Results in Figure 6 indicate that there was a gradual increase in the growth of gender mix from 1:0.3534 in the year 2010 to 1:0.3605 in the year 2012. The findings imply that there is well

distribution of both genders (male and female) in the board of directors. This shows that the companies are putting in consideration the gender equality bill that was proposed in the constitution.

4.1.7 Level of Education

The study sought to establish whether level of education of board of directors has any effect on financial performance of listed companies at NSE.

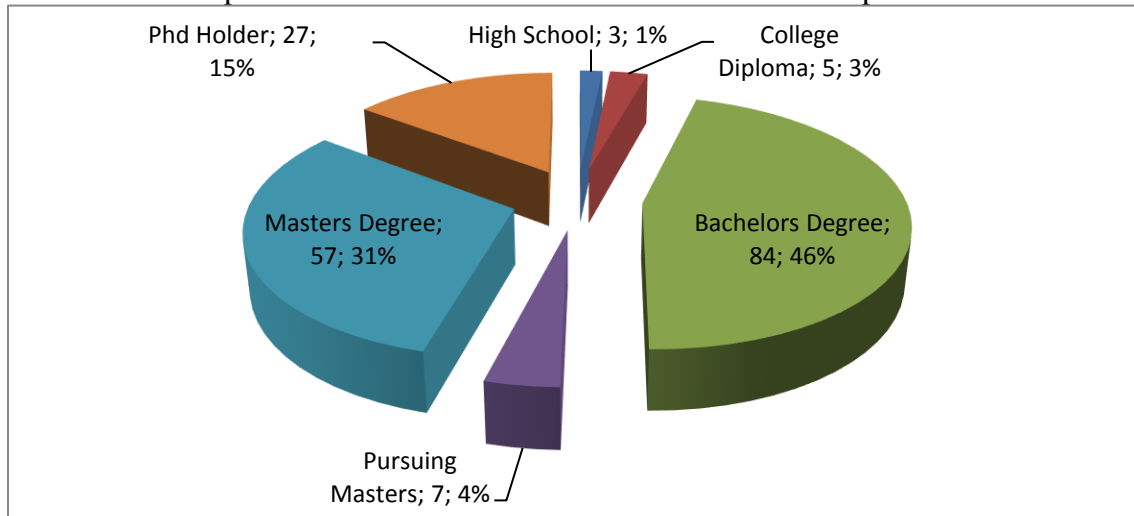


Figure 7: Level of Education

Results in Figure 7 indicate that the directors had high level of education and were still pursuing further education. Results indicate that most of the directors had attained master's degree and as the years passed the directors were pursuing masters.

4.1.8 Age of Directors

The study sought to establish the effect of age of directors on the financial performance of listed companies at NSE.

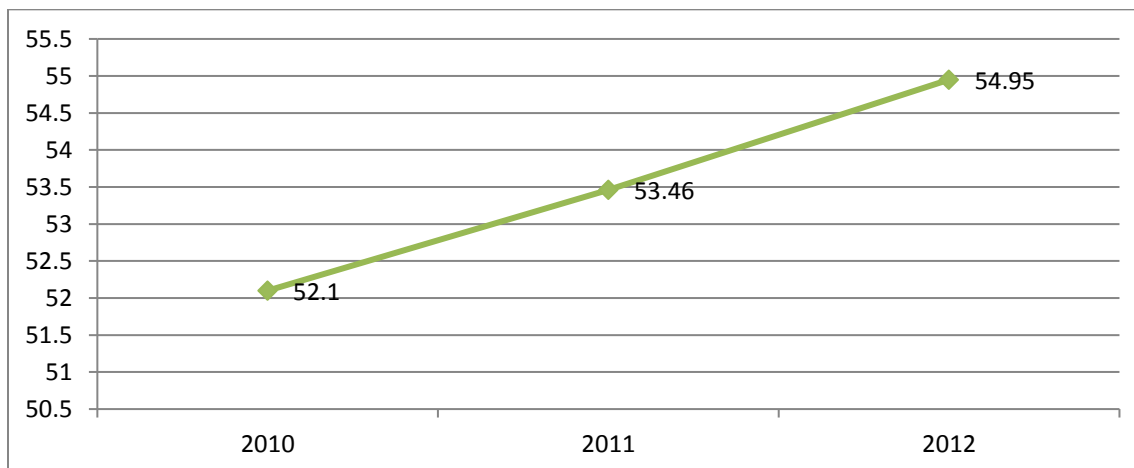


Figure 8: Age of Directors

Results in Figure8 indicate that there was consistent increase on the ages of the directors as the years passed. The findings are consistent with nature as each and every person adds a year every turn of calendar. This has further implication on profitability of firms because the older the directors become the higher the profitability due to experience and exposure to managing corporate companies.

4.2 Inferential Statistics

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

$$Y = \alpha + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \beta_5 X_5 + \beta_6 X_6 + \beta_7 X_7 + \epsilon$$

Where;

Y = Profit before tax

X₁ = Board Size (number of board members)

X₂ = Independent Directors (non-executive directors)

X₃ = number of board Committees

X₄ = number of founder directors

X₅ = Gender mix

X₆ = Level of education of directors

X₇ = Age of the directors

ε = error term

In the model α is the constant term while the coefficient β_1 to β_7 are used to measure the sensitivity of the dependent variable (Y) to unit change in the explanatory variable (X₁, X₂, X₃, X₄, X₅, X₆, X₇). ϵ is the error term which captures the unexplained variations in the model.

Table 1: Regression Model Fitness

Indicator	Coefficient
R	0.866
R Square	0.75
Std. Error of the Estimate	2546256

A table 1 show that the coefficient of determination also called the R square is 75%. This means that the combined effect of the predictor variables (Board Size, Independent Directors (non-executive directors), number of board Committees, number of founder directors, Gender mix,

Level of education of directors and age of the directors) explains 75% of the variations in financial performance of listed companies at NSE. The correlation coefficient of 86.6% indicates that the combined effect of the predictor variables have a strong and positive correlation with financial performance. This also meant that a change in the drivers of financial performance has a strong and a positive effect on firm's profitability.

The ANOVA results were as follows.

Table 2: Analysis of Variance (ANOVA)

Indicator	Sum of Squares	df	Mean Square	F	Sig.
Regression	3.4E+15	7	4.9E+14	74.859	0.000
Residual	1.1E+15	175	6.5E+12		
Total	4.5E+15	182			

Analysis of variance (ANOVA) on Table 2 shows that the combined effect of Board Size, Independent Directors (non-executive directors), number of board Committees, number of founder directors, Gender mix, Level of education of directors and age of the directors was statistically significant in explaining changes in financial performance (profitability). This is demonstrated by a p value of 0.000 which is less than the acceptance critical value of 0.05.

Table 3 displays the regression coefficients of the independent variables. The results reveal that independent directors, gender mix and level of education are statistically significant in explaining profitability of listed firms. However board size, board committee, founder directors and age of directors were not statistically significant in explaining profitability but they were positively related with financial performance of listed firms.

Table 3 presents the regression coefficients results.

Table 3: Regression Coefficients

Variable	B	Std. Error	t	Sig.
Constant	-3E+07	8447531	-3.864	0.000
Board Size	224013	166394	1.346	0.18
Independent Directors	2136074	203206	10.512	0.000
Board Committee	84678.5	421247	0.201	0.841
Founder Directors	-536976	581786	-0.923	0.357
Gender Mix	-3E+07	8068104	-4.311	0.000
Level of Education	1142849	357125	3.20	0.002
Age of Directors	199012	142363	1.398	0.164

4.3 Summary and Interpretation of Findings

This section summarizes the results of the study. The study findings indicate that the number of board size increased from 9.23 to 9.26 in 2011 and a gradual increase to a peak of 9.74 in 2012. The findings imply that as the firms grew the number of board members also increased hence more experience and more competence. Regression results indicated that there was a positive and insignificant relationship between board size and financial performance of listed firms at NSE. This was evidence by a regression coefficient of 224013 (p value = 0.18). The relationship was insignificant at 0.05 critical value since the reported p value 0.18 was more than that the critical value of 0.05. The findings agree with those in Manderliet al.(2009) found that board size has a positive impact on operational efficiency, suggesting that a large number of directors positively influence the rationalization of operational costs. On the contrary, Bermig (2010) demonstrated that smaller boards are more effective in monitoring management and thus associated with better performance. He found a significant negative effect on the board size and earnings management suggesting that smaller boards are more efficient in monitoring. But benefits of this have to be compared with disadvantages when other dimensions of the firm performance are taken into account. The findings disagreed with those in Wu et al (2009) who found that firm performance is negative and significant in relation to board size.

Results revealed that the number of independent directors increased or grew across the years. The average mean for non-executive directors was 6.49 in the year 2010, while the year 2011 had a mean of 6.57 and a slight increase to 6.59 in the year 2012. The findings imply that there is consistent increase or growth in number of non-executive directors. This further means that as the companies grow the number of non-executive directors also tend to increase. Regression results indicated that there was a positive and significant relationship between number of independent directors and financial performance of listed firms at NSE. This was evidence by a regression coefficient of 2136074 (p value = 0.000). The relationship was significant at 0.05 critical value since the reported p value 0.18 was less than the critical value of 0.05. The findings agree with those in Dahya et al. (2002) who investigated the relationship between top management turnover (a measure of board effectiveness) and firm value (a measure of management effectiveness), Bhagat and Black, (2002) who studied the appointment of non-executive directors and their role in monitoring company management, on behalf of shareholders and Ferguson, Lennox and Taylor, (2005) who did a research on whether there is a positive relationship between the number of non-executive directors and corporate financial performance, generally showing that there is. The authors concluded that there was a positive and significant relationship between independent directors and financial performance.

Results indicated that the number of board committees grew with time as there is a slight increase from 2.72 in the year 2010 to 3.05 in the year 2011 and in 2012 it increased to reach a peak of 3.21 board committees. The findings imply that as the financial performance of listed companies improved the number of board committee also increased. Regression results indicated that there was a positive and insignificant relationship between board committee and financial performance of listed firms at NSE. This was evidence by a regression coefficient of 84678.5 (p value = 0.841). The relationship was insignificant at 0.05 critical value since the reported p value 0.841 was more than that the critical value of 0.05. The findings disagree with those in (Heenetigala, 2011; Roche, 2005; Lefort and Urzua, 2008). Ayuso et al.(2007) found that the

existence of a committee that is composed of stakeholders or that is dedicated to social performance was strategically important for integrating stakeholder's interest to collective decision making. The studies seem to all agree that as a result of the monitoring function of the board, board committees affect performance.

The study findings also showed that the number of founder directors increased from 2.56 in 2010 to 2.72 in the year 2012. These findings imply that as the companies grew there were major shareholders who were dissolved as owners hence the increase overtime. Regression results indicated that there was a negative and insignificant relationship between founder directors and financial performance of listed firms at NSE. This was evidence by a regression coefficient of -536976 (p value = 0.357). The relationship was insignificant at 0.05 critical value since the reported p value 0.18 was more than that the critical value of 0.05. The findings agree with those in Ongore and K'Obonyo (2011) who asserted that the relationship between ownership concentration and government, and firm performance was significantly negative. The role of boards was found to be of very little value, mainly due to lack of adherence to board member selection criteria. The results also showed significant positive relationship between managerial discretion and performance. Collectively, these results are consistent with pertinent literature with regard to the implications of government, foreign, manager (insider) and institutional ownership forms, but significantly differ concerning the effects of ownership concentration and diverse ownership on firm performance.

In addition results indicated that there was a gradual increase in the growth of gender mix from 0.3534 in the year 2010 to 0.3605 in the year 2012. The findings imply that there is well distribution of both genders (male and female) in the board of directors. This shows that the companies are putting in consideration the gender equality bill that was proposed in the constitution. Regression results indicated that there was a negative and significant relationship between gender mix and financial performance of listed firms at NSE. This was evidence by a regression coefficient of $-3E+07$ (p value = 0.000). The relationship was significant at 0.05 critical value since the reported p value 0.000 was less that the critical value of 0.05.

Results indicated that the directors had high level of education and were still pursuing further education. Results indicate that most of the directors had attained master's degree and as the years passed the directors were pursuing doctoral. Regression results indicated that there was a positive and significant relationship between level of education and financial performance of listed firms at NSE. This was evidence by a regression coefficient of 1142849 (p value = 0.002). The relationship was significant at 0.05 critical value since the reported p value 0.002 was less that the critical value of 0.05.

Finally results indicated that there was consistent increase on the ages of the directors as the years passed. The findings are consistent with nature as each and every person adds a year every turn of calendar. This has further implication on profitability of firms because the older the directors become the higher the profitability due to experience and exposure to managing corporate companies. Regression results indicated that there was a positive and insignificant relationship between age of directors and financial performance of listed firms at NSE. This was evidence by a regression coefficient of 199012 (p value = 0.164). The relationship was insignificant at 0.05 critical value since the reported p value 0.164 was more than that the critical value of 0.05.

Overall, the study findings indicated that the overall financial performance of listed companies was determined by the corporate governance practices. This was evidenced by an R squared of 75% and p value (0.000). The findings agree with those in Mang'unyi (2011) who carried out a study to explore the ownership structure and Corporate Governance and its effects on performance of firms. His study focused on selected banks in Kenya. His study revealed that there was significant different between Corporate Governance and financial performance of banks. The study recommended that corporate entities should promote Corporate Governance to send positive signals to potential investors and those regulatory agencies including the government should promote and socialize Corporate Governance and its relationship to firm performance across industries.

The findings also concur with those in Miring'u and Muoria (2011) who analyzed the effects of Corporate Governance on performance of commercial state corporations in Kenya. Using a descriptive study design, the study sampled 30 SCs out of 41 state corporations in Kenya and studied the relationship between financial performance, board composition and size. The study found a positive relationship between Return on Equity (ROE) and board compositions of all State Corporations.

5.0 CONCLUSIONS AND RECOMMENDATIONS

5.1 Conclusions

From the study, it was possible to conclude that there was an increasing trend in profit before tax over the three years. Results also led to conclusion there was an increasing trend in board Size, independent directors (non-executive directors), number of board committees, number of founder directors, gender mix, level of education of directors and age of the directors over the three years.

Results led to a conclusion that there was a positive and insignificant relationship between board size, board committee and age of directors and financial performance of listed firms at NSE.

Results led to a conclusion that there was a positive and significant relationship between number of independent directors and level of education and financial performance of listed firms at NSE

Results led to a conclusion that there was a negative and insignificant relationship between founder directors and financial performance and there was a negative and significant relationship between gender mix and financial performance of listed firms at NSE.

Regression analysis was conducted to empirically determine whether independent variables were a significant determinant of profit before tax. Regression results indicate the goodness of fit for the regression between independent variables and dependent variable is satisfactory. ANOVAs results indicated that the overall model is significant. This implied that the independent variables did a good job at predicting profitability.

5.2 Recommendations

The study recommends that the management should ensure that corporate governance practices are adhered to strictly as they are good determinants of financial performance. It is also recommended that the firm should have non-executive directors who act as “professional referees” to ensure that competition among insiders stimulates actions consistent with

shareholder value maximization. On the same note, the study recommends that non-executive directors/ foreign ownership be handled with care for their participation is significant. Non-executive directors/ foreign ownership should be designed to enhance the ability of the firm to protect itself against threats from the environment and align the firm's resources for greater advantage.

REFERENCES

Adams, R. & Mehran H. (2002). *Board structure, banking firm performance, and the bank holding company organizational form*, Working Paper, Federal Reserve Bank. Mexico

Ayuso, S.& Argandona, A. (2007). *Responsible Corporate Governance: Towards a stakeholder board of Directors?* Navarra: IESE Business School -Univeristy of Navarra.

BBV Microfinance Foundation. (2011b). *Guide for Adoption of good Governance principles in Microfinance Institutions*. Madrid: BBV Microfiance Foundation.

Bédard J., Chtourou S.M., Courteau L. (2004). The effect of audit committee expertise, independance, and activity on aggressive earnings management. *Auditing, A Journal of Practice and Theory* 23 (2), pp. 13-35, 2004.

Bermig, A. (2010). *Who is the Better Monitor? The impact of female board of Directors, Board Composition, and Board Size on Earning Management*. . Paderborr: Universtiy of Padeborr.

Carcello, J V., Neal, T L., Palmrose, Zoe-Vonna, Scholz, S.(2006). CEO Involvement in Selecting Board Members and Audit Committee Effectiveness", [Online] Available: <http://www.ssrn.com/abstract=887512>.

Cherono, C. (2008). *Governance Trainer's Manual for Financial Services Associations*. Nairobi:K-RepFedha Services Company Limited.

Choge, A. K. (2013). Effects of corporate governance on the financial performance of companies listed in the Nairobi Securities Exchange. Unpublished Thesis Kenyatta University.

Choi, K. S., Cho, W. H., Lee, S. H., Lee, H. J., Kim, C.K.. (2004). The Relationships among Quality, Value, Satisfaction and Behavioral Intention in Health Care Provider Choice: A SouthKorean Study, *Journal of Business Research*, 57(8),pp. 913–921, 2004.

Daily, C, Johnson, J, Ellstrand, A, and Dalton, D. (2003). Compensation committee composition as a determinant of CEO compensation, *Academy of Management Journal*, Vol. 41 No.2, pp.209-20.

Daily, C.M., et al. (2003). Corporate Governance: Decades of Dialogue and Data. *Academy of Management Review*, 28(3), 371-382

Davis, J. H., Schoorman, F. D., and Donaldson, L. (1997). Toward a Stewardship Theory of Management. *The Academy of Management Review*, 20-47.

DeZoort F. T., Salterio, S. (2001). The effects of corporate governance experience and audit knowledge on audit committee members' judgments", *Auditing: A Journal of Practice & Theory* no.20 (September), pp. 31-47, 2001.

Finegold, D., Benson, G. S., and Hecht, D. (2007). Corporate Boards and Company Performance: review of research in light of recent reforms. *Corporate Governance: An International Review*, 865-878.

Guest, D.E., Michie, J., Conway, N. and Sheehan, M. (2003). Human resource management and corporate performance in the UK. *British Journal of Industrial Relations*. 41(2): 291-314.

Hattel, K., Henriquez, J., Morgan, J. and D'Onofrio, S. (2010). *Effective Governance: A toolkit for Microfinance Association Boards*. Washington DC: The SEEP Network

Heenetigala, K. (2011). *Corporate Governance Practices and Firm Performance of Listed Companies in Sri Lanka (Doctorals Thesis)*. Melbourne: Victoria University.

Hermalin, B.E., Weisbach, M.S. (2003). Board of directors as an endogenously determined institution: a survey of the economic literature, *Economic Policy Review*, Vol. 9 No.1, Lefort, F. and Urzua, F. (2008). Board Independence, Firm Performance and Ownership Concentration: Evidence from Chile. *Journal Of Business Research*, 5(11): pp615 -622.

Linck, J., Netter, J., and Yang, T. (2008). The effects and unintended consequences of the Sarbanes- Oxley Act on the supply and demand for directors. *Review of Financial Studies*(forthcoming), published online August 28.

Manderlier, A., Bacq, S., Giacomini, O. and Janssen, F. (2009). *The Impact of South Asian Microfinance Institutions' Corporate Governance Mechanisms on their Social and Financial performance: An Exploratory Study*. Louvain: Centre for Research in Entrepreneurial Change & Innovation Strategies.

Mang'anyi, E. (2011). Ownership structure and Corporate Governance and its effects on performance: A case of selected Banks in Kenya. *International Journal of Business Administration*. 2(3)

Miring'u, A. & Muoria, E. (2011). An analysis of the effect of Corporate Governance on performance of Commercial State Corporations in Kenya. *International Journal of Business and Public Management*,1(1)

Nyongesa, S. J. (2012). Effect of corporate governance practices on financial performance among commercial banks in Kenya: A case of Kenya Commercial Bank: Unpublished Thesis Kenyatta University.

Ongore, V.& K'Obonyo, P. (2011). Effects of selected Corporate Governance Characteristics on Firm Performance; Empirical Evidence from Kenya. *International Journal of Economics and Financial Issues*, 1(3), 99-122

Ong'wen, B. O.(2012).Corporate governance and financial performance of companies quoted in the Nairobi Stock Exchange. Unpublished Thesis University of Nairobi.

Wu, M.-C., Lin, H.-C., Lin, I.-C. and Lai, C.-F. (2009). *The effects of Corporate Governance on the Firm Performance*. Changua: National Changua University of Eductaion.

Yang, J. S., Krishnan, J. (2005). Audit Committees and Quarterly Earnings Management", *International Journal of Auditing* 9, pp. 201-209, 2005.