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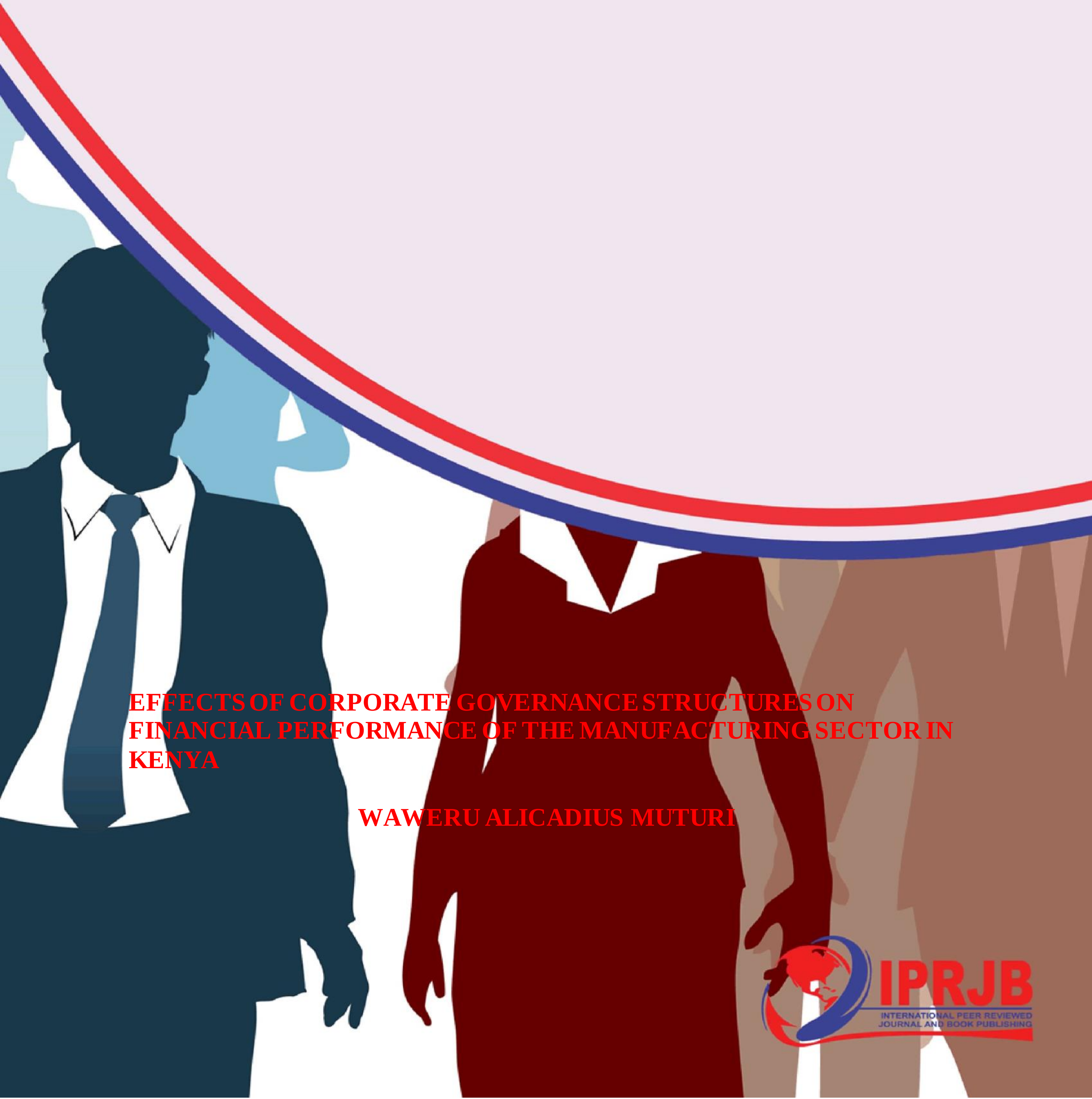

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EFFECTS OF CORPORATE GOVERNANCE STRUCTURES ON FINANCIAL PERFORMANCE OF THE MANUFACTURING SECTOR IN KENYA

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Abstract

Purpose: The purpose of the study was to establish the effect of corporate governance structures on the financial performance of the manufacturing sector in Kenya.

Methodology: The research design used a descriptive design. The target population of this study was the large manufacturing firms in Kenya which were members of Kenya Association of Manufacturers. The population was 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. Analysis was done by descriptive statistics using Statistical Package for Social Sciences version 21.0. 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, ROA to various independent variables.

Results: Following the study findings it was possible to conclude that all the Independent variables had an effect on a company's financial performance. This was supported by majority who concluded that independent directors had a mandate to decision making in financial performance, the Independent directors effectively monitor and control firm activities by reducing opportunistic managerial behaviors and expropriation of firm resources board committees. Enhance effective monitoring in financial performance, the board committees in our firm ensures that executive directors make decisions that are in the best interests of shareholders. Coordination and communication problems impede company performance when the number of directors' increases, overcrowded boards causes shareholders to lose money in the company, the post of the chairman is part-time and the main responsibility is to ensure that the board works effectively. 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 a company's financial performance and financial performance of manufacturing firms.

Unique contribution to theory, practice and policy: The study recommended that the firm should have nonexecutive directors who act as "professional referees" to ensure that competition among insiders stimulates actions consistent with shareholder value maximization, 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: *Board, OECD Principles, The International Corporate Governance Network (ICGN), Stakeholders*

1.1 INTRODUCTION

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 (Clarke, 2004).

"Good Corporate Governance – 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. It is one term that means different things to different people. Originally the concept was concerned with how a company should be governed so as to achieve corporate objectives and increase wealth of its shareholders with particular focus on companies whose shares are listed on a stock exchange. In such instance, the management's attention would be maximizing shareholders value even if this was at the expense of other stakeholders. However, the catchments area has now been widened to include not only public listed companies but also private companies and state- owned enterprises (Tricker, 2010).

Corporate Governance is concerned with how companies or legal entities are managed. The management has direct effect on the stakeholders. The stakeholders: are shareholders who provide the risk capital, lenders like banks and creditors (suppliers), customers, employees, the state, the immediate community and society at large. Each stakeholder has distinct interest in the company; the shareholder is interested in a future return, lenders and suppliers are concerned with timely repayment, employees are concerned with employment, good remuneration and job security while the state is interested in tax collection. The society looks to employment opportunities, social facilities and non-degradation of the environment as asserted by Sir Adrian Cadbury in 'Global Corporate Governance Forum', World Bank, (2000). Corporate governance systems have evolved over centuries often in response to corporate failure or systemic crises. The first well- documented failure of governance was the South Sea Bubble in 1700s which revolutionized business laws and practices in England. Similarly, of the securities law in the United States was put in place following the stock market crash of 1929.Other crises such as the secondary banking crises of the 1970s in the UK and the US savings and loans debacle of the 1980s had something to do with governance.

Other studies have established strong links between the performance of corporations and the governance practices of their boards (Gregg, 2001; Hilmer, 1998; Kiel & Nicholson, 2002; OECD, 1998). Moreover, a study carried out in the United States by Gompers, Ishii and Metrick (2003) found a strong correlation between good corporate governance practices and superior shareholder performance. The study also revealed that two-thirds of investors were prepared to pay more for shares of companies that had good corporate governance practices. Nevertheless, Cutting and Kouzim (2000) did not find any significant relationship between the performance of firms and the governance practices of their boards.

According to Tricker (2010), corporate governance is a complex multi-faceted subject matter involving not only legislation and regulation but also what is known as 'best practice', which is a matter of corporate culture, mind-set and education. Corporate governance is concerned with the way that power is exercised over corporate entities. All corporate entities need governing, be they listed companies, wholly owned subsidiaries, family dominated companies, joint ventures, notfor-profit entities and any other.

It is also important that as best practice, the non-executive directors must have the skills, experience and courage to provide a proper challenge to the executive management. There is also need for ethics in the boardroom; self-regulation in the form of personal ethics and social connectedness and in this case the concept of stewardship is essential. As a best practice it would be important to review the role and contribution of non-executive directors as their role is significant in averting organizational financial risks. They therefore need to be as independent as possible, with clear roles and time commitment, (Tricker, 2010).

For corporate governance to be effective, it is important to confirm that independent, nonexecutive 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 (Ibid).

The board's relationship with the executive management should be sound as the director's need information to understand the business situation but without interfering in management decisions. The boards should have a board – level information system that is able to produce routine papers for items on the agenda, they also need the knowledge about the business, risks it faces, the challenges it meets and problems that managers have. The information provided to the directors is critical in helping them formulate strategies that would propel the company's success by providing a clear strategic direction. Equally, Tricker, (2010), asserts that recognition of governance risk is the boards responsibility as they are supposed to be aware of their own strengths and weaknesses. This can be attained by adopting code which calls for regular board level performance evaluations as a principle or recommendation.

1.2 Problem Statement

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. It is widely acclaimed that good corporate governance enhances a firm's performance (Hossain *et al*, 2000). Although several enhancements have been undergone over the years, boards can be still considered, in some aspects, as black boxes (Huse, 2009). On account of this, exploratory research has been conducted recently to support the hypothesis that the performance of firms can improve via means of the adoption of specific boards' structures and corporate governance measures.

Kenya has experienced turbulent times with regard to its corporate governance practices in the last two-and-a-half decades, resulting in generally low corporate profits across the economy (Anyang'Nyong'o, 2005). Understood in this way, good governance minimizes the possibility of poor organizational performance. Hence the motivation for the researcher to evaluate the corporate governance structures in the manufacturing sector in relation to their financial performance. In Kenya today, the adoption of corporate governance in the manufacturing sector is needed more than ever before, as the growing trend of manufactured products offers new opportunities that requires prudent leadership that will inspire the companies to compete effectively in product diversification through value addition, product adaptation, styling, improved packaging and product branding which will ultimately lead to better returns/greater profitability.

Presently, the empirical results on this issue are not strictly convergent. At a general level, some recent studies suggest that the corporate governance overall quality counts in increasing the value of firms (La Porta et al., 2002). On the contrary, understanding the real impact of single corporate governance variables on the performance of companies still needs further refinement . Even studies based on the integrative models encompassing board involvement, incorporating different theoretical perspectives and various board attributes such as board size, board composition and number of non-executive directors on the board provides inconclusive results, suggesting that corporate governance has, at least an indirect effect on the company performance (Maasen 1998). Therefore, in spite of the generally accepted notion that effective corporate governance enhances firm performance, other studies have reported negative relationship between corporate governance and firm performance, studies by Bathala et al, (1995); Hutchinson, 2002) did not find any relationship (Park et al, 2003; Prevost *et al.* 2002; Singh et al, 2003; Young, 2003). The inconclusiveness of past results forms the study gap. It is for this study gap that this study wishes to evaluate the corporate governance structures in place in relation to the financial performance of the manufacturing sector in Kenya

1.3 Study Objectives

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

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

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

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

2.0 LITERATURE REVIEW

2.2 Theoretical Orientation

2.2.1 Institutional Theory

The basic concepts and premises of the institutional theory approach provide useful guidelines for analyzing organization-environment relationships with an emphasis on the social rules, expectations, norms, and values as the sources of pressure on organizations. This theory is built on the concept of legitimacy rather than efficiency or effectiveness as the primary organizational goal (Doug and Scott, 2004). The environment is conceptualized as the ―organizational field, represented by institutions that may include regulatory structures, governmental agencies, courts, professionals, professional norms, interest groups, public opinion, laws, rules, and social values. Institutional theory assumes that an organization conforms to its environment. There are, however, some fundamental aspects of organizational environments and activities not fully addressed by institutional theory that make the approach problematic for fully understanding credit reference bureaus and their environment: the organization being dependent on external resources and the organization's ability to adapt to or even change its environment (Doug and Scott, 2004).

Researcher such as Meyer and Rowan (1991), DiMaggio and Powell (1983) are some of the institutional theorists who assert that the institutional environment can strongly influence the development of formal structures in an organization, often more profoundly than market pressures. Innovative structures that improve technical efficiency in early-adopting organizations are legitimized in the environment. Ultimately these innovations reach a level of legitimization where failure to adopt them is seen as "irrational and negligent" (or they become legal mandates). At this point new and existing organizations will adopt the structural form even if the form doesn't improve efficiency.

2.2.2 Stakeholder's Theory

The traditional definition of a stakeholder is "any group or individual who can affect or is affected by the achievement of the organization's objectives" (Freeman 1984). The general idea of the Stakeholder concept is a redefinition of the organization. In general the concept is about what the organization should be and how it should be conceptualized. Friedman (2006) states that the organization itself should be thought of as grouping of stakeholders and the purpose of the organization should be to manage their interests, needs and viewpoints. This stakeholder management is thought to be fulfilled by the managers of a firm. The managers should on the one hand manage the corporation for the benefit of its stakeholders in order to ensure their rights and the participation in decision making and on the other hand the management must act as the stockholder's agent to ensure the survival of the firm to safeguard the long term stakes of each group.

The definition of a stakeholder, the purpose and the character of the organization and the role of managers are very unclear and contested in literature and has changed over the years. Even the "father of the stakeholder concept" changed his definition over the time. In one of his latest definitions Freeman (2004) defines stakeholders as "those groups who are vital to the survival and success of the corporation". In one of his latest publications Freeman (2004) adds a new principle, which reflects a new trend in stakeholder theory. In this principle in his opinion the consideration of the perspective of the stakeholders themselves and their activities is also very important to be taken into the management of companies. (Freeman 2004).

All the mentioned thoughts and principles of the stakeholder concept are known as normative stakeholder theory in literature. Normative Stakeholder theory contains theories of how managers or stakeholders should act and should view the purpose of organization, based on some ethical principle (Friedman 2006). Another approach to the stakeholder concept is the so called descriptive stakeholder theory. This theory is concerned with how managers and stakeholders actually behave and how they view their actions and roles. The instrumental stakeholder theory deals with how managers should act if they want to flavor and work for their own interests. In some literature the own interest is conceived as the interests of the organization, which is usually to maximize profit or to maximize shareholder value. This means if managers treat stakeholders in line with the stakeholder concept the organization will be more successful in the long run. Donaldson and Preston (1995) have made this three-way categorization of approaches to the stakeholder concept kind of famous.

2.3 Empirical Literature

2.3.1 Effect OF Independent Directors ON A COMPANY'S FINANCIAL PERFORMANCE

Empirically, independent directors are found to impact a range of board decisions, such as the firing of non-performing CEOs (Weisbach, 1988) resistance to greenmail payments (Kosnik, 1987) and the negotiation of tender offers (Byrd & Hickman, 1992). The role of independent directors on the board of directors is to effectively monitor and control firm activities in reducing opportunistic managerial behaviors and expropriation of firm resources (Fama & Jensen, 1983;Brickley *et al.*, 1994). However, independent directors face difficulties in discharging their duties as they are not directly affiliated with the management (Weisbach, 1988). There is evidence to show that independent directors are valued for their ability to advise, to solidify business and personal relationships, and to send a signal that the company is doing well rather than for their ability to monitor (Mace,1986; Herman, 1981).

It has also long been argued in the finance literature that boards with a majority of independent directors are more effective in monitoring management (Bhagat et al, 2002) and are more likely to replace poorly performing CEOs (Weisbach, 1988). According to Krishna (2006), there is no evidence to confirm any relationship between the independent board and the maximization of firm value or performance. More independent boards are also more likely to opt for a clean slate when company performance deteriorates significantly, and to hire a replacement CEO from outside the firm rather than promote an internal candidate, (Huson, 2001).

However, previous empirical studies offer non-conclusive results on the effect of independent directors on firm performance. There is some evidence of a positive relationship (e.g., Anderson and Reeb, 2004; Chen and Hsu, 2009; Chen and Jaggi, 2000), a negative relationship (e.g., Agrawal et al., 1996; Mishra et al., 2001) and a non-significant relationship (e.g., Hermalin et al, 1991; Villalonga and Amit, 2006).There is also a non-conclusive empirical research on the value of independent directors as members of boards of directors (Filatotchev at al., 2005; Ford, 1988; Jones et al., 2008; Schulze et al., 2001). However, available theory is scanty on the determinants of optimal composition Weisbatch, (2002) but from a theoretical perspective the optimal configuration of a board of directors is reached when the marginal benefit of all board roles equals their marginal cost.

2.3.2 Effect of Board Committees On A Company Financial Performance

The board is the supreme decision-making unit in the company. The board of directors, therefore, has responsibility to safeguard and maximize shareholders wealth, oversee firm performance, and assess managerial efficiency. Fama and Jensen (1983) pointed out four actions of initiation, ratification, implementation and monitoring, undertaken by board in the decision making processes. Therefore, the main role of the board is seen as the ratification and monitoring of decisions, overseeing the actions of managers/executives. However, Chaganti *et al*., (1985) indicated that corporate board plays control function and services function. Whenever the board fails in one function or in both, firm performance would become deficient.

To fulfill 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 & 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 & 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, Dezoort & 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 (1999) provides that members of the audit committee must have some skills in accounting and related fields.

Likewise Price Waterhouse (1993) and Arthur Andersen (1994) indicate that the expertise of the members of the Audit Committee in the field of accounting and finance is a key element of the effectiveness of this committee. Similarly Dezoort & al (2002) require that audit committees consist of at least three independent members whose one of them has a high level of expertise in accounting and finance.

2.3.3 Impact That A Company's Board Size Has On Its Financial Performance.

Jensen (1993) argues that "Keeping boards small can improve their performance. When boards get beyond seven or eight people they are less likely to function effectively and easier for CEO to control." Similarly Lipton and Lorsch (1992) stated "When a board has more than ten members it becomes more difficult for them all to express their ideas and opinions." and add that the U.S. corporate boards are overcrowded which causes shareholders to lose money, employees to lose their jobs and the corporation to lose its competitive market position. Lipton and Lorsch (1992) argue for smaller boards and recommend that board size should be limited to seven or eight members. The disadvantages of large boards lean on the idea that tasks like communication, coordination and decision making is much harder and costlier among large group of people than in smaller groups. Jensen (1993) argued that the preference for smaller board size stems from technological and organizational change which ultimately leads to cost cutting and downsizing. Hermalin and Weisbach (2003) argued the possibility that larger boards can be less effective than small boards. When boards consist of too many members agency problems may increase, as some directors may tag along as free-riders.

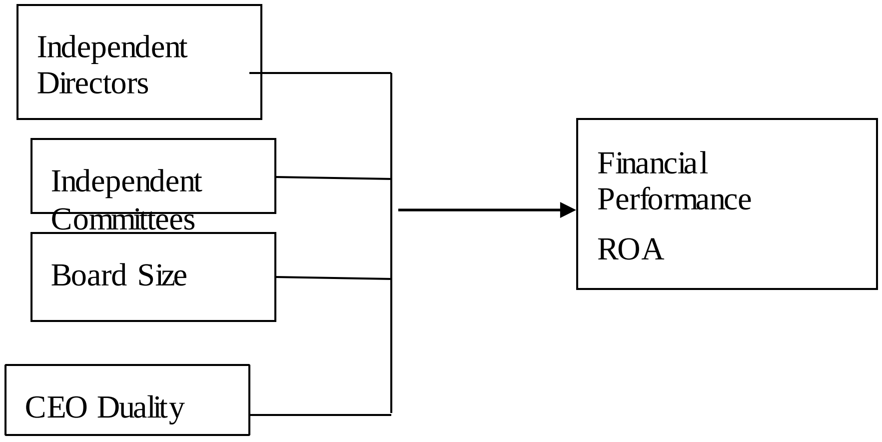
Governance structure incorporating largest board size creates better opportunities and more resources, thus enhancing the financing performance. Kumudini and Anona (2010), examined the relationship between Corporate Governance practices and firm performances. Study confirmed the positive relationship between governance practices (separate leadership, board composition and firm performance). Further it indicated that firms have implemented corporate governance strategies which have resulted in higher profitability and share price performance.

2.3.4 CEO's Dual Role as A Company's Chairman On a Company's Financial Performance

Under CEO-chairman duality, the CEO of a company plays the dual role of chairman of the board of directors. There are two schools of thought on CEO- chairman duality. Several researchers argue that CEO-chairman duality is detrimental to companies as the same person will be marking his "own examination papers" Separation of duties will lead to: (i) avoidance of CEO entrenchment; (ii) increase of board monitoring effectiveness; (iii) availability of board chairman to advise the CEO, and (iv) establishment of independence between board of directors and corporate management (Baysinger and Hoskisson, 1990; Fama and Jensen, 1983; Rechner and Dalton, 1991).

On the other hand, other researchers believe that since the CEO and chairman are the same person, the company will: (i) achieve strong, unambiguous leadership; (ii) achieve internal efficiencies through unity of command; (iii) eliminate potential for conflict between CEO and board chair, and (iv) avoid confusion of having two public spokespersons addressing firm stakeholders (Davis, Schoorman and Donaldson, 1997; Donaldson and Davis, 1991). Consistent with these arguments, Cannella and Lubatkin (1993) report a positive link between a dual leadership structure and financial performance, Brickley, Coles, and Jarrell (1997) find a negative market reaction upon the announcement of splitting roles, and Dedman and Lin (2002) find no evidence of significant abnormal returns upon the announcement of splitting roles in the post-Cadbury period, and Simpson and Gleason (1999) report that companies that combine the roles the CEO and chairman are less likely to be financially distressed. A closer look at the empirical evidence reveals that the relationship between CEO-chairman duality and company performance is mixed and inconclusive.

2.4 Conceptual Framework Conceptual Framework Independent Variables Dependent Variable



Source Author 2012

Figure 2.1: Conceptual Framework

Source: Researcher (2013)

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3.0 RESEARCH METHODOLOGY

This study was conducted through a descriptive survey study. The target population was 108 manufacturing firms. Stratified sampling was used to identify the 54 firms. The study used both primary data and secondary 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 questionnaire had both open ended and close ended questions. The study used Return on Assets (ROA), to measure firm performance. Data analysis was conducted using descriptive and inferential statistics

4.0 RESULTS AND DISCUSSIONS 4.1: The 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 1: Response Rate

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

4.2 DEMOGRAPHICS

4.2.1 Level of Education

The study attempted to establish the level of education of the respondents. Results in figure 2 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 2: 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**

4.2.2. Period Worked

Table 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 3: 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**

4.3 Quantitative Data Analysis

4.3.1 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 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 with the statement about independent directors on a company's financial performance.

TABLE 4: Effect of Independent Directors On a Company's Financial Performance

Statements	Strongly Disagree	Disagree	Neither Agree Nor Disagree	Agree	Strongly Agree	Means
Independent directors are found to impact a range of board decisions, such as the firing of non-performing CEOs	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

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Independent Directors are effective at negotiation of tender offers	4.0%	4.0%	.0%	16.0%	76.0%	4.6
The composition of the board of our firm is a balance of executive and non-executive directors (with at least one third independent and nonexecutive directors) of diverse skills or expertise.	.0%	4.0%	2.0%	34.0%	60.0%	4.5
Independent directors effectively monitor and control firm activities by reducing opportunistic managerial behaviors and expropriation of firm resources	2.0%	2.0%	4.0%	42.0%	50.0%	4.4
Our firm has non-executive directors who act as "professional referees" to ensure that competition among insiders stimulates actions consistent with shareholder value maximization	4.0%	6.0%	4.0%	26.0%	60.0%	4.3
Means						4.3

4.3.2 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 5 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 with the statement about effect of board committees on a company financial performance.

The findings agree with those of Choi & al (2004) which asserted that to fulfill 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 & 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, and Expertise in law. The study by Bedard & 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, Dezoort & 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 (1999) provides that members of the audit committee must have some skills in accounting and related fields.

TABLE 5: 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 consist of independent non-executives directors	4.0%	2.0%	4.0%	76.0%	14.0%	3.9
The board committees in our firm ensures that executive directors make decisions that are in the best interests of shareholders	2.0%	4.0%	2.0%	34.0%	58.0%	4.4
Our company has in place monitoring committees (audit, nomination, and compensation committees).	2.0%	2.0%	.0%	66.0%	30.0%	4.2
Board Committees lead to better organization performance	2.0%	2.0%	8.0%	56.0%	32.0%	4.1
Our company has an independent audit committee which is convenes a number of meetings per year	2.0%	2.0%	2.0%	70.0%	24.0%	4.1
Means						**4.2**

4.3.3 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 6 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 with the statement about Impact that a company's board size has on its financial performance.

The findings agree with those of Jensen (1993) which argues that "Keeping boards small can improve their performance. When boards get beyond seven or eight people they are less likely to function effectively and easier for CEO to control." Similarly Lipton and Lorsch (1992) stated "When a board has more than ten members it becomes more difficult for them all to express their ideas and opinions." and add that the U.S. corporate boards are overcrowded which causes shareholders to lose money, employees to lose their jobs and the corporation to lose its competitive market position. Lipton and Lorsch (1992) argue for smaller boards and recommend that board size should be limited to seven or eight members. The disadvantages of large boards lean on the idea that tasks like communication, coordination and decision making is much harder and costlier among large group of people than in smaller groups. Jensen (1993) argued that the preference for smaller board size stems from technological and organizational change which ultimately leads to cost cutting and downsizing. Hermalin and Weisbach (2003) argued the possibility that larger boards can be less effective than small boards. When boards consist of too many members agency problems may increase, as some directors may tag along as free-riders. Lipton and Lorch (1992) recommended limiting the number of directors on a board to seven or eight, as numbers beyond that it would be difficult for the CEO to control. However, Linck et al (2008) provides evidence that smaller boards are not necessarily better than larger boards.

TABLE 6: 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 impede company performance when the number of directors increases	2.0%	6.0%	4.0%	26.0%	62.0%	4.0

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decision-making problems impede company performance when the number of directors increases	.0%	2.0%	6.0%	22.0%	70.0%	5.0
The appropriate board size should be 7 to 8 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
When boards consist of too many members agency problems may increase, as some directors may tag along as free-riders	8.0%	6.0%	6.0%	28.0%	52.0%	4.0
Means						**4.2**

4.3.4 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 7 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 with the statement about CEO's dual role as a company's chairman on a company's financial performance.

The findings agree with those of Dalton & Kesner (1987), agency theorists, who noted that the practice of duality is objectionable because it represents a very real threat to board independence (Dalton & Kesner, 1987), making it less likely that aggressive monitoring of corporate decisionmaking will occur (Shivdasani & Yermack, 1999).There is evidence suggesting that a firm's market value declines under duality (Carter, Simkins, & Simpson, 2003) although this problem may be minimized when the board is dominated by outside directors (Chowdhury & Wang, 2009). In fact, in the early 1980s institutional investors began to call for corporate governance changes that included separating the CEO and COB positions (Westphal & Khanna, 2003). The call has remained largely unheeded, perhaps because companies find it difficult to break out of a cycle that institutionalizes powerful and autocratic CEOs (Sheppard, 1994). Powerful CEOs tend to constrain boards' input to strategic decision-making (Ruigrok, Peck, & Keller, 2006). Even the stock market has demonstrated its discomfort with duality as it reacts differently when firms that adopt a poison pill have an independent board chair (Coles & Hesterly, 2000).

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ISSN 2519-9099 (online)
Vol.1, Issue 1 No.2, pp 25-44, 2016 www.iprjb.org

Table 7: 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 position of CEO is a full-time post and is responsible for the day-to-day running of the company	2.0%	10.0%	2.0%	66.0%	20.0%	4.0
The role of CEO is setting and implementing, corporate strategy	6.0%	8.0%	4.0%	20.0%	62.0%	4.0
In our company, the post of the chairman is parttime and the main responsibility is to ensure that the board works effectively	.0%	2.0%	6.0%	14.0%	78.0%	5.0
In our firm, the main role of the chairman involves monitoring and evaluating the performance of the executive directors, including 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**

4.4 Multivariate Regression

Table 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.

Journal of Human Resource and Leadership
ISSN 2519-9099 (online)
Vol.1, Issue 1 No.2, pp 25-44, 2016
www.iprjb.org

Table 1: 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 8 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 2: ANOVA

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

Table.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 1.289units; an increase in the effectiveness of CEOs dual role by one unit leads to an increase in ROA by 1.451units.

Table 10

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

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

Journal of Human Resource and Leadership
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5.0 DISCUSSION CONCLUSIONS AND RECOMMENDATIONS

5.1 Discussion & Summary of Findings

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

Results indicated that majority agreed with the statement that Independent directors are found to impact a range of board decisions, such as the firing of non-performing CEOs, The findings also indicated that majority agreed with the statement that Independent Directors are effective at resistance to greenmail payments, Study results show that, a majority agreed with the statement that Independent Directors are effective at negotiation of tender offers the composition of the board of their firm is a balance of executive and non-executive directors, Results also reveal that majority 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 findings were supported by a majority who agreed with the statement that Independent directors effectively monitor and control firm activities by reducing opportunistic managerial behaviors and expropriation of firm resources (with at least one third independent and non-executive directors) of diverse skills or expertise.

Results indicate that there is a significant relationship between Independent Directors and financial performance. This was supported by a regression co _ffient (b1=1.201, p value 0.030)

5.1.2 Effect of board committees on a company financial performance

One of the objectives of the study was to assess the effect of board committees on a company financial performance. The findings were supported by a majority of respondent who indicated that their company has independent board committees in place to enhance effective monitoring, Results also reveal that a majority agreed with the statement that their company has board committees which consist of independent non-executives directors, The study results also show that a majority agreed with the statement that the board committees in their firm ensures that executive directors make decisions that are in the best interests of shareholders, findings were also supported by a majority of respondent who indicated that company has in place monitoring committees (audit, nomination, and compensation committees. The study also found that a majority agreed with the statement that their company has an independent audit committee which is convenes a number of meetings per year Results also reveal that a majority agreed with the statement that Board Committees lead to better organization performance.

Results indicate that there is a significant relationship between Board Committees and financial performance. This was supported by a regression coefficient of (b1=0 .130, p value 0.000).

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

One of the objectives of the study was to assess the Impact that a company's board size has on its financial performance. The findings were supported by a majority of respondent who agreed with the statement that the organization believes that small boards have more favorable performance, The study also found that a majority agreed with the statement that Coordination and communication problems impede company performance when the number of directors increases, The results also reveal that a majority agreed with the statement that decision-making problems impede company performance when the number of directors increase, Results also reveal that a majority 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 study results also show that a majority agreed with the statement that overcrowded boards causes shareholders to lose money, The study results also show that a majority agreed with the statement that the appropriate board size should be 7 to 8 members

Results indicate that there is a significant relationship between company's board size and financial performance. This was supported by a regression coefficient of (b1=1.289, p value 0.038)

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

One of the objectives of the study was to assess the Impact that a company's board size has on its financial performance. The findings were supported by a majority of respondent who agreed with the statement that the CEO's role in our firm is separated from the chairman role, in their firm, the position of CEO is a full-time post and is responsible for the day-to-day running of the company, the role of CEO is setting and implementing, corporate strategy, In their company, the post of the chairman is part-time and the main responsibility is to ensure that the board works effectively, In their firm, the main role of the chairman involves monitoring and evaluating the performance of the executive directors, including the CEO and In their firm there is clarity of roles between the CEO and the Chair which enhances the firm's value.
Results indicate that there is a significant relationship between CEO's dual role as a company's chairman on a company's and financial performance. This was supported by a regression coefficient of (b1=1.451, p value 0.004)

5.2: Conclusions

Based on the objectives and the findings of the study the following conclusion can be made.

The study concluded that there is a significant relationship between Independent Directors and financial performance. Therefore, the more the proportion of independent directors, the better the expected financial performance. It was concluded that Independent directors reduce the conflict of interest and inject professionalism into the board.

Study findings led to the conclusion that there is a significant relationship between Board Committees and financial performance. Therefore, firms with established board committees are more likely to perform better than those that do not. It was concluded that having audit committees, and other committees assist the board to conduct its oversight role.

It was concluded that board size has a positive and significant relationship with financial performance. The larger the boards size, the better the expected financial performance. It was concluded that large boards have more diversity and may have more experienced members. This may mean that large boards have an advantage over small boards.

It was concluded that CEO duality has a positive relationship with financial performance. Boards with a chairman who is separate from the CEO perform better than those that do not. Therefore, CEO duality separates the management from the Board and injects segregation of duties.

5.3 Recommendations

The study makes the following recommendations based on the objectives of the study;

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.
It is recommended that organizations should institute the board committees. Specifically, the board should constitute the audit committee complete with directors who are highly qualified in financial and accounting issues. Other board committees should be the remuneration committees, credit committee, investment committee, and finance committees.

It was recommended that board sizes should be enhanced as this allows for the proper mix of directors. A large board increases the chance of directors having relevant experience and networks. The experience and networks of directors may improve the financial performance of an organization.

It is recommended that the post of CEO and chairman should be separated. For instance, the CEO should be fulltime employee while the chairman should not serve as a full time management employee. The chairman roes should be to act a convener of board meetings and also for public relations purposes

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