

**EFFECTS OF BOARD STRUCTURE ON ORGANIZATION
PERFORMANCE: A CASE STUDY OF ALL THE LISTED
ORGANIZATIONS IN THE NAIROBI SECURITIES EXCHANGE**

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**A Research Project presented to the School of Business and Economics, in
Partial Fulfillment for the Requirement for the Award of Master of Business
Administration Degree (Strategic Management option)**

KABARAK UNIVERSITY

NOVEMBER, 2018

DECLARATION

The research project is my original work and to the best of my knowledge it has not been presented for the award of degree in any other university.

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RECOMMENDATION

To the Institute of Postgraduate Studies:

The research project entitled “Effects of Board structure on organization performance: A case study of the listed organizations in the Nairobi Securities Exchange” and written by Lucy Rono is presented to the Institute of Postgraduate Studies of Kabarak University. We have reviewed the research project and recommend it be accepted in partial fulfillment of the requirement for the degree of Master of Business Administration.

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ACKNOWLEDGMENT

My appreciation and acknowledgement goes to the Almighty God for his love and care. I also want to acknowledge a number of people who have greatly impacted my research through their knowledge and experience. My special gratitude goes to my project supervisors Dr. Keta Midida and Dr. Charles Zakayo for the role they have played as my supervisors in guiding me through the entire project. I wish to also appreciate my classmates for their persistent follow up on my project journey a support which pushed me to soldier on despite the challenges.

ABSTRACT

There has been a renewed interest on the role of the boards in the performance of an organization due to various corporate scandals and failures. Corporate governance affects organizations' performance as organizations with better corporate governance guarantee increased shareholder wealth and limit the risk of the investment. The study analyzed the effects of board structure on performance of all the listed organizations on Nairobi Securities Exchange (NSE) in Kenya. The specific objectives were to determine the effects of board size on the organization performance, establish the effects of directors' level of education on the organization performance, and establish the influence of board members' experience on the organization performance and to determine the effects of board gender on the organization performance. The study employed descriptive research design. The target population was all the listed organizations in the Nairobi Securities Exchange for the period of three years from 2014 to 2016. Secondary data sources was used for the study, where annual financial reports of individual listed firms' was extracted and return on asset (ROA) was used as a measure of organizations performance. After data collection, regression analysis was used to estimate the relationship between the variables and the data was analyzed using Statistical Package for Social Sciences (SPSS). The study found that firm performance based on the return on assets in the overall regression model is significant except for education level of directors. This means that the independent variables of board size, experience of the directors and gender of the directors are important predictors of organization performance. The study also revealed a positive correlation between all the four variables and organization performance. The study conclusion make is it clear that board structure diversity is a fundamental corporate governance element. The study recommends that a lot needs to be done to enhance individuals selected as directors in terms of their board size, average period of experience, gender and education level.

KEY WORDS: Board of Directors, corporate governance, listed organization, and organizational performance

TABLE OF CONTENTS

DECLARATION.....	ii
RECOMMENDATION.....	iii
COPYRIGHT.....	iv
ACKNOWLEDGMENT.....	v
ABSTRACT.....	vi
TABLE OF CONTENTS.....	vii
LIST OF TABLES.....	ix
LIST OF FIGURES.....	x
LIST OF ABBREVIATIONS.....	xi
CHAPTER ONE.....	1
INTRODUCTION.....	1
1.1 Background of the Study.....	1
1.1.1 Corporate Governance.....	3
1.1.2 Nairobi Securities Exchange.....	5
1.2 Statement of the Problem.....	6
1.3 Objective of the study.....	8
1.4 Research Hypotheses.....	8
1.5 Significance of the Study.....	8
1.6 Scope of the study.....	9
1.7 Limitations/Delimitations of the Study.....	9
CHAPTER TWO.....	10
LITERATURE REVIEW.....	10
2.1 Introduction.....	10
2.2 Theoretical Review.....	10
2.3 Empirical Review.....	16
2.4 Conceptual Framework.....	29
CHAPTER THREE.....	31
RESEARCH METHODOLOGY.....	31
3.1 Introduction.....	31
3.2 Research Design.....	31
3.3 Target Population.....	31
3.4 Data Collection.....	31

3.5 Data Analysis	32
3.6 Data Presentation	33
3.7 Ethical Consideration.....	33
CHAPTER FOUR.....	34
RESEARCH FINDINGS, PRESENTAION AND ANALYSIS	34
4.1 Introduction.....	34
4.2 Response Rate	34
4.3 Descriptive Statistics.....	34
4.4 Correlation Analysis.....	43
4.5 Regression Results	44
4.6 Interpretation of Findings	47
CHAPTER FIVE	49
SUMMARY, CONCLUSIONS AND RECOMMENDATIONS	49
5.1 Introduction.....	49
5.2 Summary of the Findings.....	49
5.3 Conclusion	49
5.4 Recommendations.....	50
5.5 Suggestions for Further Research	52
REFERENCES.....	53
APPENDICES	58
Appendix I: Listed Organizations in the NSE.....	58
Appendix II: Raw Data	61
Appendix III: Letter of Introduction	64

LIST OF TABLES

Table 4. 1: Descriptive statistics	35
Table 4. 2: Correlations Analysis.....	44
Table 4. 3: Regression Model Parameters	45
Table 4. 4: Analysis of Variance of the Regression.....	45
Table 4. 5: Significance of Independent Variables	45

LIST OF FIGURES

Figure 2. 1: Conceptual Framework	30
Figure 4. 1: Size of board members in 2014.....	37
Figure 4. 2: Size of board members in 2015.....	37
Figure 4. 3: Level of education of board members in 2014.....	39
Figure 4. 4: Experience of board members in 2014.....	40
Figure 4. 5: Experience of board members in 2015.....	41
Figure 4. 6: Gender of board members in 2014.....	43
Figure 4. 7: Gender of board members in 2015	43

LIST OF ABBREVIATIONS

BOD	Board of Directors
CEO	Chief Executive Officer
CMA	Capital Market Authority
NSE	Nairobi Securities Exchange
ROA	Return on Assets
ROIC	Return on Invested Capital
ROE	Return on Equity
ROS	Return on Sales
SPSS	Statistical Package for Social Sciences

CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

The present-day business environment is categorized by uncertainty and risk, making it increasingly difficult to predict tangible and intangible factors which influence organizations performance (Bettis & Hitt, 1995; Kuratko & Morris, 2003). Customers are becoming more demanding, necessitating increased focus on managerial professionalism and quality of service delivery (Lai & Cheng, 2003). In response to the external pressures, firms resort to different strategic responses such as restructuring, downsizing, business process re-engineering, benchmarking, total quality management, management by objectives etc., to improve and sustain their competitive positions and enhance stakeholder and customer satisfaction (Mangenelli & Klein, 1994; Jacka & Keller, 2002).

Board composition has been a topic of discussion for a very long time with emphasis being placed on how to compose a board of directors in order to maximize the shareholders' wealth. Early research has mainly focused on the board of directors composing of outside (independent) and inside (executive) directors. There has been a different view from researchers on the number of inside or outside directors that ought to be on a board. The board structure should at least have three directors from outside the board (Cadbury Report 1992).

The heart of any board lies in its composition. A Board with a balance of different educational skills and experience will have profound and richer discussions and bring proper expertise to as many of the challenges organizations faces (Cadbury Report 1992). Board composition in corporate governance has been identified to be critical in organization performance especially in emerging and changing economies (Bhagat and Black, 2000). However, at varying levels of organization interactions, market institutional conditions that reduce informational imperfections and facilitate effective monitoring of managements impact on the efficiency of corporate performance. Board composition has assumed the center stage for enhanced organizational performance. What then is board composition? Board composition can be defined as the combination of executive directors (including the chief executive officer), diversity (firm size, level of experience, gender, educational or functional backgrounds, etc.) of

board members, and CEO duality (Hutchinson, 2002; Young, 2003; Weisbach, 2008). Corporate governance is concerned with the relationship between the internal governance mechanisms of corporations and society's conception of the scope of corporate accountability (Ayogo, 2005). It has also been defined by Park and Shin (2003) to include 'the structures, processes, cultures and systems that cause the successful operation of organizations.

In a vibrant environment, boards become very significant for smooth functioning of organizations. Boards are expected to perform different functions, for example, monitoring of management to mitigate organization costs (Eisenhardt, 1989; Shleifer & Vishny, 1997; Roberts, McNulty & Stiles, 2005), hiring and firing of management (Hermalin & Weisbach, 1998), provide and monitor use of resources (Hillman, Cannella & Paetzold, 2000; Hendry & Kiel, 2004), grooming chief executive officer (CEO) (Vancil, 1987) and providing strategic direction for the organization (Tricker, 1984; Van der Walt & Ingley, 2001, Kemp, 2006). Boards also have a responsibility to initiate organizational change and facilitate processes that support the organizational mission and vision (Hill, Green & Eckel, 2001; Bart & Bontis, 2003). Further, the boards seek to protect the shareholder's interest in an increasingly competitive environment while maintaining managerial professionalism and accountability in search of organization's performance (Ingley & Van der Walt, 2001; Hillman & Dalziel, 2003; Hendry & Kiel, 2004; McIntyre, Murphy & Mitchell, 2007).

On the other hand, events concerning high-profile corporate failures such as Enron in the US have put back on the policy agenda and intensified debate on the efficacy of board composition as a means of increasing corporate financial performance (Kitur 2012). Geneen (2008) in a study found that among the board of directors of fortune 500 companies, 95% are not doing what they are legally, morally, and ethically supposed to do. It is criticized that (1) the board is a rubber stamp, (2) the board is dominated by CEO, and (3) the board is plagued with the conflicts of interests (Weidenbaum, 1986). Failure to manage their businesses in a professional manner and serious governance malpractices have seen some stock brokers experience significant financial difficulties forcing the Capital Markets Authority to place them under receivership/statutory management (CMA Report, 2009). The placement of Uchumi under receivership in 2006 and eventual delisting from the Nairobi Securities Exchange (NSE) is just but an example. The collapsing of Uchumi was blamed on the

board of directors who were accused of ignoring governance structures and engaging in malpractices. When a new board of directors was appointed to the board of Uchumi the company witnessed improvement on financial performance and has been listed again at the NSE.

The role of board is, therefore, quite overwhelming as it seeks to discharge diverse and challenging responsibilities. The board should not only prevent negative management practices that may lead to corporate failures or scandals but also ensure that firms act on opportunities that enhance the value to all stakeholders. To understand the role of board, it should be recognized that boards consists of a team of individuals, who combine their competencies and capabilities that collectively represent the pool of social capital for their firm that is contributed towards executing the governance function (Carpenter & Westphal, 2001).

As a strategic resource, the board is responsible to develop and select creative options in advancement of the firm. From organizational perspective, the board can be reckoned as a team brought together to work towards achieving organizational goals (Langton & Robbins, 2007). Being placed in a hierarchy above the chief executive and other managers, the board plays a strategic role in the firm's decision making. Composition of board and the competencies it possesses are important organizational resources (Ljungquist 2007). Such resources become a source of competitive advantage for firms and help them achieve superior performance (Prahalad & Hamel, 1990; Barney 1991; Hamel & Prahalad, 1994; Hunt, 2000). Team composition and characteristics are therefore important precursors to effective group decision making and firm performance.

Scholars have used many different theoretical perspectives to evaluate the effect of board characteristics on firm performance. However, a common aim of different theories has been to establish a link between various board characteristics and firm performance (Kiel & Nicholson, 2003). This study identified and examined the board characteristics that make it effective and contribute towards firm performance.

1.1.1 Corporate Governance

The Securities and Exchange Board of India Committee (1992) on Corporate Governance defines corporate governance as the "acceptance by management of the inalienable rights of shareholders as the true owners of the corporation and of their

own role as trustees on behalf of the shareholders. It is about commitment to values, about ethical business conduct and about making a distinction between personal & corporate funds in the management of a company. Corporate governance policies have an important role to play in achieving broader economic objectives with respect to investor confidence, capital formation and allocation (Rashid, De Zoysa, Lodh, & Rudkin, 2010). According to Mayer (2007), the quality of corporate governance affects the cost for corporations to access capital for growth and the confidence with which those that provide capital directly or indirectly can participate and share in their value creation on fair and equitable terms. Together, the body of corporate governance rules and practices therefore provides a framework that helps to bridge the gap between household savings and investment in the real economy. As a consequence, good corporate governance will reassure shareholders and other stakeholders that their rights are protected and make it possible for corporations to decrease the cost of capital and to facilitate their access to the capital market.

Good corporate governance plays a vital role in the success and value of a company. When executed effectively, a company with a good corporate governance system generally outperforms other companies, attracts investors, and adds value and robust competition in the market. Effective corporate governance requires a sound legal, regulatory and institutional framework that market participants can rely on when they establish their private contractual relations. This corporate governance framework typically comprises elements of legislation, regulation, self-regulatory arrangements, voluntary commitments and business practices that are the result of a country's specific circumstances, history and tradition. The desirable mixes between legislation, regulation, self-regulation, and voluntary standards will therefore vary from country to country. The legislative and regulatory elements of the corporate governance framework can usefully be complemented by soft law elements based on the "comply or explain" principle such as corporate governance codes in order to allow for flexibility and address specificities of individual companies. What works well in one company, for one investor or a particular stakeholder may not necessarily be generally applicable to corporations, investors and stakeholders that operate in another context and under different circumstances. As new experiences accrue and business circumstances change, the different provisions of the corporate governance framework

should be reviewed and, when necessary, adjusted (Eisenhardt, 2009; Shleifer & Vishny, 1997; Roberts & Stiles, 2005).

(Mangenelli & Klein, 1994; Jack & Keller, 2002) found out that countries seeking to implement the Principles should monitor their corporate governance framework, including regulatory and listing requirements and business practices, with the objective of maintaining and strengthening its contribution to market integrity and economic performance. As part of this, it is important to take into account the interactions and complementarity between different elements of the corporate governance framework and its overall ability to promote ethical, responsible and transparent corporate governance practices.

Such analysis should be viewed as an important tool in the process of developing an effective corporate governance framework. To this end, effective and continuous consultation with the public is an essential element. In some jurisdictions, this may need to be complemented by initiatives to inform companies and their stakeholders about the benefits of implementing sound corporate governance practices. Moreover, in developing a corporate governance framework in each jurisdiction, national legislators and regulators should duly consider the need for, and the results from, effective international dialogue and co-operation. If these conditions are met, the corporate governance framework is more likely to avoid over-regulation, support the exercise of entrepreneurship and limit the risks of damaging conflicts of interest in both the private sector and in public institutions.

1.1.2 Nairobi Securities Exchange

The Nairobi Securities Exchange (NSE) began in the early 1920s while Kenya was considered a colony under British control. It was an informal market place for local stocks and shares. After Kenyan independence from Britain, the stock exchange continued to grow and become a major financial institution. In July 2011, the Nairobi Stock Exchange Limited changed its name to the Nairobi Securities Exchange Limited. The change of name was a reflection of the 2010 – 2014 strategic plan of the Nairobi Securities Exchange to evolve into a full service securities exchange which supports trading, clearing and settlement of equities, debt, derivatives and other associated instruments (NSE report 2014)

Companies listed at the NSE in Kenya plays an important role in adding value and providing forward and backward linkages. Over the years, the companies have been supported by a vibrant domestic demand as well as the regional markets (Ongoso 2014). The Nairobi Security Exchange listing rules (2014) highlights some of the requirements for a company to be listed. Some of the requirements are: a listed company must be a public company limited by share and registered under the company Act, financial statement of the company must be reliable and available, directors and senior management of the company should competent, and shares to be listed shall be freely transferable and not subject to any restrictions on marketability or any preemptive rights.

1.2 Statement of the Problem

Businesses around the world require development and growth in order to attract funding from investors. Before they invest in a particular business, investors normally make sure that the business in question is financially secure, stable and possesses the ability to produce profits in the long run (Mallin, 2007). In instances where the organization structure is not as promising; it will not be as attractive to investors as it hopes to be. This failure to attract enough capital normally leads to negative consequences for the business in particular and for the economy in general. Therefore, board of directors is charged with oversight of management on behalf of shareholders, in order to protect the interests of shareholders. The board of directors must therefore assume an effective oversight function hence performance of the organization (Ayogo, 2005). Board's performance monitoring duties is influenced by the effectiveness of the board, which in turn may be influenced by such factors as, training and development of the directors, director's ability to interpret and implement strategic goals and objectives of the organization among others. Other studies have examined the effect of board composition on the performance of organizations. Although these studies have been conducted in other fields and countries, they make important contribution as they show how board composition can benefit or harm organization performance (Kitur, 2013).

Hermalin & Weisbach (1991) studied the effect of board composition on the financial performance of listed companies in the United States. Another related study was conducted by Sanda, (2005) who examined corporate governance mechanisms and the

financial performance of organizations in Nigeria. Their sample consisted of all companies listed on the Nigerian stock exchange.

Locally, Naibo, (2006) studied effects of corporate governance structures and practices in insurance underwriting sector in Kenya. Her study sought to identify the existing corporate governance structure in the insurance sector and benchmark the existing corporate structure against best practice. The results of the study showed that 83.3% of the respondent companies have taken steps to develop the required structure and adopted best corporate governance practices Ademba, (2006) studied effects of corporate governance system in savings and credit co-operatives (SACCO'S) front office savings entities (FOSA), and Muriithi, (2004) also studied the relationship between corporate governance mechanisms and performance of firms quoted on the NSE. He found out that an average board size of Kenyan listed firm is 8 and non-executives hold a significantly larger percentage of board seats (76%), 0.13% of the sample population had C.E.O. duality, the five largest shareholders in Kenyan listed firms account for 70% of the outstanding shares on average while Institutional investors, individual investors, investors, financial institutions, and the state control 51%, 22%, 26%, 10% and 3.4% of shares respectively.

In spite of all these alternative studies that have been carried out, a gap in the literature relating examining the effect of board composition on organizational performance of firms listed in Nairobi Securities Exchange exist because there are still no conclusive results that have been arrived at. The above studies examined effects of board structures on either corporate governance mechanisms or relationship between corporate governance mechanisms and organization performance. They did not simultaneously look at effects of board compositions such as size, experience, gender and level of education of directors may significantly influence organization performance. This study therefore intends to fill this gap by establishing the effects of these four board structures on organization performance.

1.3 Objective of the study

1.3.1 General Objective of the Study

The general objective of this study was to investigate the effect of board structure on organizations performance a case study of the listed organizations on Nairobi Securities Exchange.

1.3.2 Specific Objectives

This study sought to achieve the following specific objectives:

- i. To determine the effect of board size on the organization performance.
- ii. To establish the effect of level of education of directors on the organization performance.
- iii. To establish the effect of experience of the directors on the organization performance.
- iv. To determine the effect of gender of the directors on the organization performance.

1.4 Research Hypotheses

In order to investigate the effect of board structure on organization performance, the following hypothesis will be tested:

H₀₁: There is no significant effect of board size on organization performance.

H₀₂: There is no significant effect of level of education of directors on organization performance.

H₀₃: There is no significant effect of experience of the directors on organization performance.

H₀₄ There is no significant effect of gender of the directors on organization performance.

1.5 Significance of the Study

The findings of this study seeks to assist shareholders and consultants when designing the corporate board's structure. The findings will help them understand and appreciate the relationship between board characteristics and firm performance and hence work

toward strategic organizational goals. The findings of this study will also enable future researchers and academicians to identify gaps which have never been covered by the previous researchers.

1.6 Scope of the study

The research study effect of board structure on organizations performance was limited to only the listed organizations on NSE in Kenya for the period of three years from 2014 to 2016.

1.7 Limitations/Delimitations of the Study

Since the main purpose of this study was to identify the relationship between board composition and organizational performance of NSE listed companies in Kenya, NSE considered some information sensitive and confidential and thus obtain information was a challenge. The researcher had to convince them that the purpose of information is for academic research only and may not be used for any other intentions. An introductory letter to the respondents address the issue of secrecy and the researcher availed her time to the respondents for further clarification on any issue.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This section looks at the various evidence regarding board structure and its effect on the firms' performance. It first discuss the theoretical literature specifically discussing the theories the study is based on. Secondly, it discusses the detail component of Board composition and lastly it highlights the empirical literature on the board composition.

2.2 Theoretical Review

Theories are formulated to explain, predict, and understand phenomena and, in many cases, to challenge and extend existing knowledge within the limits of critical bounding assumptions (Swanson, 2013). The role and impact of boards has been studied by scholars of different disciples such as law, economics, finance, sociology, strategic management and organization theory (Kiel & Nicholson, 2003). Some scholars have also paid attention to other issues such as ownership (e.g., Kapopoulos & Lazeretou, 2007), CEO turnover and compensation (Lausten, 2002) in affecting firm performance. Numerous theories have been proposed in relation to the Board of director's best practice, none more popular than the shareholder and stakeholder theories. However, the present extant literature has primarily focused on the characteristics of the boards in affecting firm performance (Fama & Jensen, 1983; Davis, Schoorman & Donaldson, 1997; Muth & Donaldson, 1998; Daily, Dalton, & Canella, 2003). The following theories guided the relationship between board structure and firm's performance.

2.2.1 Agency Theory

The agency theory assumes that owners of an organization (principals) and those that manage the organization (agents) have different interests. Hence owners will face the problem that managers are likely to act according to their own interests rather than the owners' interests (Fama & Jensen 1983). In this regard, boards are required to monitor managers on behalf of the owners. In performing this role, members are expected to be independent and monitor the actions of managers as agents of the owners to ensure they are acting in accordance with the owners' interests (Jensen & Meckling 1976).

The theory suggests that board composition is important for effectively monitoring top management. Boards have to be diverse in terms of skills, experience, and gender balance. This creates a balance on boards and leads to effective monitoring and subsequently to the successful performance of the organization (Hussein & Kiwia, 2009).

Agency theory is the most well-known theory used in corporate governance (Shleifer and Vishny 1997; Ellstrand and Johnson 1998). Its origin is connected to Berle and Means (1932) thesis of 'The Modern Corporation and private Property'. Most research done on corporate governance uses this theoretical approach (Aguilera, Filatotchev, Gospel, and Jackson 2008). In this theory we have managers serving as agents, the shareholders as principals and the directors who act on behalf of the shareholders. The main aim of the agents is maximizing the shareholders wealth. In the past there have been some conflicts between the shareholders' and their agents. This has been due to self-interests where both the principals and agents tend to have different priorities (Jensen 2001)

In order to address the agent-principal issue scholars (Fama and Jensen 1983; Jensen and Meckling 1976; Demsetz and Lehn 1985) emphasised the importance of having a good efficient governance system which would involve hiring of board directors who would act as intermediaries or rather as the eyes of the shareholders. The function of the board of directors is guiding and giving of advice to the agents about their duties. From the recent scandal of Eron Company, it is noted that an agent problem occurred where the board of Directors failed since they were working for their own interest and not the shareholders interest.

The theory suggests that the board of directors perform their two major roles: monitoring role (hiring, firing and compensation of managers) and an advisory role (decision making) with the interest of the shareholders at heart. Therefore the size of the board, the number of independent directors on board, age diversity and gender diversity are substitute board of directors when it is measured against firm performance. These measures of performance have been scarcely discussed in the previous years until in the 1990s when importance was placed on corporate governance.

Kao & Chen (2004) observed that agency theory makes an assumption that all outside directors are independent on their judgements and therefore would make good decisions with the interest of the shareholders at heart. This is the apparel to what their counterparts who are the inside directors would do.

Board Independence was the main focus in the prior research done, but later other features such as board size, age diversity and gender diversity were added to the research. Agency theory has, with time, been discounted for explanations of board influence upon firm value (Hermalin and Weisbach 2000). Carter (2010) argue that agency theory does not fully support the financial benefits of board diversity but neither does it rule out such effects. Therefore, agency theory has not been used in this study.

Most of researchers that examine the association between firm's performance and corporate governance depended on agency theory to study the function of boards and similar governance mechanisms that affect a firm's management involvement in firms' performance (Xie *et al.* 2003; Goodwin 2009; Davidson, 2005; Benkel, 2006)

2.2.2 Resource Dependence Theory

In addition to monitoring, board members are also required to provide organizations with resources (Hillman & Dalziel 2003). The provision of resources is linked to the resource dependence theory. This theory holds that organizations are interdependent (Pfeffer & Salancik 1978) in that they depend on each other and various actors for their survival as well as for resources. As a result, they need to find different ways of managing this dependence and ensuring they get the resources and information they need. From this perspective, the board is seen as one means of reducing uncertainty by creating influential links (Hillman & Dalziel 2003; Peng 2004). Board members provide organizations with various resources through board members' skills, experience, and expertise. (Pfeffer & Salancik 1978) also note that 'when an organization appoints an individual to a board, it expects the individual will come to support the organization, will concern himself with its problems, will invariably present it to others, and will try to aid it'. Diversity in the composition of boards is important if boards are to effectively provide advice and resources. Board members

with different skills and experience and of both genders contribute to effective resource provision and to the beneficial performance of organizations.

Resource Dependence Theory (RDT) focuses on organizations maximizing its power (Pfeffer 1981). This theory discusses about the allocation of resources in an organization. It also emphasizes on the importance of separation of ownership and management. It further emphasizes that having sufficient resources in an organization can help in the development of a firm and can also act as a buffer in the events of uncertain external factors that may have an impact on the organization.

The theory indicates the importance of having a board of directors that have established a solid relationship that will enable them to work in harmony by sharing the greatest resource which is information. Resource dependence theory has termed information as a vital tool for the progress of any organization. The theory characterizes an organization as an open system as it is dependent on eventualities in an external environment (Pfeffer 1978). RDT states the role of the board as intermediation role between the firm and the external resources needed to maximize performance (Pfeffer 1972; Zald 1969). Jensen (1993) and Short *et al.* (1998) in their study indicated that the board is the most important part of any organization since it controls and monitors the activities of an organization so as to protect the shareholders' interest. It is the intermediary between the owners of the organization and managers (Monks and Minow 2001) hence termed as the most important part of any organization (Blair, 1995). The board acts as the court where the managers are charged in case of committing any offence that may jeopardize the well-being of the organization. (Oxford Analytical Ltd, 1992: 7).

The most effective way to monitor the activities of the managers is by the use of a board of directors (Byrd and Hickman 1992; Fama and Jensen 1983). This idea is further discussed by Fama and Jensen (1983) who stated that the best board to carry out this duty would be a board that composes mostly of Non-executive directors since they are the best monitors of performance. To be able to regulate and avoid the misuse of power, Tricker (1984) suggested that the organization needed work under certain regulations that will make the board of directors work effectively and with integrity.

Diligence in decision making is also a virtue that the Board members are required to possess especially when evaluating the performance of a chief executive officer. Through their additional resources, connections, and reputation, outside directors provide value to the firm (Daily *et al.* 1999). Furthermore, larger boards provide additional networking and better access to resources (Kiel and Nicholson 2003).

In summary, both theories advocate that boards should have a diversity of competent members who are able to effectively monitor top managers and provide organizations with the resources they need. By performing these roles, board members are able to positively influence the performance of organizations. Resource dependency theory considers representatives (management as well as the board) as a resource since they would provide social and business systems and influence the environment in favor of their organization (Pearce and Zahra 1992; Johnson, et al., 1996; Carpenter and Westphal, 2001). Appreciation of different theoretical perspectives will give insights into the contribution of boards to organization performance. The United Kingdom Cadbury Report (Cadbury, 1992) defined corporate governance as “the system by which companies are directed and controlled”. Due to large number of recent corporate collapses good corporate governance has emerged as a global issue. A number of theoretical perspectives are used in explaining corporate governance and problems.

2.2.3 Stewardship Theory

This theory is a substitute of the agency theory and it focuses on managerial motivation. It has the managers acting as ‘steward’ rather than on their own self-interest (Donaldson 1990; Barney 1990). A variety of non-financial motives was highlighted by the study of (Nelson & Donaldson 1999) concerning managerial behaviors.

The theory contradicts with the agency theory which states that managers should not work out of their own selfish interest (Donaldson & Davis 1991; Davis Schoorman & Donaldson 1997; Muth and Donaldson 1998). Stewardship theory argues that as a manager tries to work for his own selfish interest, his hard work triggers down to the overall performance of the organization. For the managers needs to be met, the firm performance had to be good. The major differential quality of the theory of

stewardship is that it exchanges the lack trust to which agency theory refers with respect for authority and inclination to ethical behavior. For a successful corporate governance mechanism, stewardship theory outlines the following measures:

The board of directors should at least consist of nonexecutive directors (NEDS) since they portray high knowledge on the operations of the organization. This therefore proves that their existence in a board will improve decision making and the progress of the organization.

The theory suggests that the positions of the chief executive officer and the chairman of the board should be occupied by an individual. The reason behind the idea is that it gives the CEO the opportunity to make decision without the interference of unnecessary bureaucracy. The position however leads to agency costs. The costs can be avoided when an organization is well established since there will be no chance of undue bureaucracy.

The theory encourages small size boards which will make the decision making process to be fast. It however does not state the exact way to determine the ideal size of a small board.

2.2.4 Managerial and class hegemony theory

This theory focuses on the view that the directors have of themselves and its impact on their behavior and corporate governance implications (Tricker, 2009). Tricker went ahead and stated that class hegemony recognizes that directors self –image can affect board behavior and performance. Mace (1971) and Vance (1983) analysis on the managerial hegemony theory stated that boards are legal entities with managers who consequently are not actively involved in the strategic and directing activities of the firm. As highlighted in Hendry & Kiel (2004), in some occasions, ‘...board members are specially selected by management’ (Pfeffer 1972: 20), and this appointment process provides management with the ability to control the board.

Hendry & Kiel (2004) also argue that while this dependence applies to all directors either executive or non-executive, it is even more crucial in the case of the former. The reason is that inside directors actually report to the CEO, who in return can influence their compensation and career development. As a result, the disproportional appointment of inside directors can allow the CEO to accumulate power (Stiles 2001).

2.3 Empirical Review

The traditional understanding of board composition or structure is through the paradigm of discrimination and-fairness, both through programs such as affirmative action - attempting to select from under-represented groups - and through a numbers-based approach where statistics are the most important tool (Thomas & Ely, 1996).

Several studies in other fields (other than microfinance) have examined the effect of board composition on the performance of organizations. Although these studies have been conducted in other fields and other countries, they make an important contribution as they show how board composition can benefit or harm performance. Hermalin & Weisbach (1991) studied the effect of board composition on the financial performance of listed companies in the United States. They defined board composition in terms of the percentage of board members who are employees of organizations (internal board members) and of board members who are outsiders. Their sample consisted of 142 companies listed on the New York stock exchange and used pooled data of five years. Their results indicated that there was no strong relationship between board composition and firms' financial performance. The major explanation for this was that board composition simply does not matter. Inside and outside directors are equally bad (or possibly good) at representing shareholders' interests.

This finding is similar to Oxelheim & Randoy (2003), who studied the influence that foreign board members have on organizations' values. These authors studied organizations in the Scandinavian countries and analyzed the relationship between foreigners on boards and organizations' values. They found that organizations which had at least one foreign board member outperformed those which did not have a foreigner on their boards. The authors concluded that foreign board members are able to bring a variety of experiences and expertise, which can benefit the organizations.

A few studies in the microfinance sector have also analyzed the influence of board composition on the performance of organizations. A study by Hartarska (2005) observed that the link between the governance mechanisms and performance of MFIs in Central and Eastern European countries. She studied how managerial compensation, board size and independence (percentage of external board members), prudent regulations, and auditing affect financial and outreach performance. The results with regard to boards show that boards with greater external representation have better financial performance and boards with employee representation (internal) result in poorer financial and social performance. Similar findings regarding board composition

were revealed by Hartarska & Mersland (2012) and Mori & Mersland (in press), who used a large sample to study which governance measures promote efficiency in reaching poor clients. These study defined performance as efficiency in reaching many poor customers. Using the agency and stakeholder theories as a basis for their arguments, they looked at measures such as board size, board composition (percentage of internal board members), and managerial capture. Their results regarding boards show that MFIs with a larger proportion of insiders (employees) on the board are less efficient. They concluded that MFI boards with many internal members do not impact social and financial performance.

There are many factors that could influence company performance but within the corporate governance literature, board structure appears to be the most favored issue examined (Othman, Ponirin & Ghani, 2009). A company's board structure is primarily conveyed as consisting of the following elements: board composition, age diversity and board size.

A study by Li, Wang & Deng (2007) by use of OLS regression on Chinese companies that suffered financial crisis in the years 1985 through to 2005 found a significant positive relationship between the number of independent directors and firms' performance. They stated that companies with higher portion of independent directors are less likely to encounter financial distress. A similar study was conducted in Korea by Choi; Opark & Yoo (2006) by use of Tobin's Q and a positive relation between the independent directors and firms' value was detected.

A recent research by Chunyan, Jianlei & Uchida (2010) on correlation between management return and independent directors showed a positive relationship on 804 firms listed in Tokyo Stock Exchange that had experienced a 33% performance decline in the financial crisis. They urged that independent directors monitor closely the management team making the firm sensitive to poor performance.

2.3.1 Measures of Organizational Performance

The subject of corporate performance has received significant attention from scholars in the various areas of business and strategic management. It has also been the primary concern of business practitioners in all types of organizations since performance has implications to organization's health and ultimately its long term survival. High performance reflects management effectiveness and efficiency in making use of

company's resources and this in turn contributes to the country's economy at large (Naser & Mokhtar, 2011).

There have been various measures of organizational performance. For example return on sales reveals how much a company earns in relation to its sales, return on assets determines an organization's efficiency in ability to make use of its assets and return on equity reveals the return investors expect to earn for their investments. The advantages of performance measures are the simplicity of calculation and also that their definitions are agreed worldwide. Traditionally, the success of a company has been evaluated by the use of financial measures (Tangen, 2012).

According to Richard (2009), organizational performance encompasses three specific areas of organizations results: financial performance (profits, return on assets, return on investment, etc.); product market performance (sales, market share, etc.); and shareholder return (total shareholder return, economic value added). Specialists in many fields are concerned with organizational performance including strategic managers, operations, finance, legal, and organizational development. In an ever vibrant and competitive world, improving the productivity of an institution is essential to an organizations survival. The purpose of all productivity related endeavors is to bring about lasting improvements in the performance of an organization. Performance is something for which all organizations strive for, regardless of their size. Small organizations want to get big, big organizations want to get bigger. Indeed, organizations have to grow at least a bit every year in order to accommodate the increasing needs that emerge over time (Shrestha, 2005).

Liquidity measures the ability of the business to meet financial obligations as they fall due, without disrupting the normal, ongoing operations of the business. Liquidity can be analyzed both structurally and operationally. Structural liquidity refers to balance sheet measures of the relationships between assets and liabilities and operational liquidity refers to cash flow measures. Solvency measures the amount of borrowed capital used by the business relative to the amount of owner's equity capital invested in the business. In other words, solvency measures provide an indication of the business' ability to repay all indebtedness if all its assets were sold. Solvency measures also provide an indication of the business' ability to withstand risks by providing information about the operation's ability to continue operating after a major financial adversity (Harrington & Wilson, 2009).

Profitability measures the extent to which a business generates a profit from the factors of production: labor, management and capital. Profitability analysis focuses on the relationship between revenues and expenses and also on the level of profits relative to the size of investment in the business. Four useful measures of profitability are the rate of return on assets (ROA), the rate of return on equity (ROE), operating profit margin and net income (Hansen, Holthausen & Mowen, 2005). Repayment capacity measures the ability to repay debt from both operating and non-operating income. It evaluates the capacity of the business to service additional debt or to invest in additional capital after meeting all other cash commitments. Measures of repayment capacity are developed around an accrual net income figure. The short-term ability to generate a positive cash flow margin does not guarantee long-term survival ability (Jelic & Briston, 2011).

Financial efficiency measures the degree of efficiency in using labor, management and capital. Efficiency analysis deals with the relationships between inputs and outputs. Because inputs can be measured in both physical and financial terms, a large number of efficiency measures in addition to financial measures are usually possible (Tangen, 2012).

2.3.1 Board of Directors

The highest decision-making body in an organization is the board of directors. This therefore means that the board plays a vital role in any organization. Its role can be summed up therefore as safeguarding and maximization of shareholders' wealth, overseeing the firms' performance, and assessing managerial efficiency. In decision making, there are four major processes that are undertaken by the board members and this includes initiation, implementation and monitoring Fama and Jensen (1983). They went on and argued that presuming the board is dominated by independent outsiders then the board would normally delegate the decision management functions to the managers. Harrison (1987) supported this fact and found that the board do not actively take part in the commencement and formulation of corporate policies.

The major roles of the board of directors are to oversee the operations of the managers, monitoring and approval of all decisions. However, Chagantiet et al. (1985) stated that the board had to play both the service and control function and failure in either function will automatically show that the firms' performance will be affected.

The executive board members at all times have the responsibility to run all the activities of the organization as they are part of the unitary board. The non-executive directors however are not involved in running of the day-to-day activities of the organization. This means that they do not presume the role of administration and executive role. Non-executive directors are termed as the eyes of the shareholders since they are expected to oversee the functioning of both the inside directors and the managerial team (Fama 1980, Baysinger and Hoskisson 1990, Connors 1989, Cadbury 1992). Non-executive directors therefore ought to be independent in their monitoring function. In the UK firms, the unitary board of directors are in charge of all activities in the organization. This therefore means that the non-executive directors play a vital role in providing administrative and strategic advice to the executive directors so that the right decisions are made and policies followed. Corporate strategy can easily be influenced by the non-executive directors McNulty and Pettigrew (1999). However, Ezzamell and Watson (1997) however argued that there is a potential conflict in the governance role of non-executives.

Agency theory states the main function of the non-executive directors is monitoring of the executive directors. Previous research has therefore indicated that this role is the most ideal way of improving the effectiveness and monitoring duty of the boards. Baysinger and Butler (1985) stated that the non-executive directors have professional knowledge and skills that can assist the managers in their day-to-day activities in the organization. Weidenbaum (1986) went on and stated that due to the independence nature of non-executive directors, they are able to improve the management performance by developing more objectives that will boost the firm's performance.

Fama (1980) evaluated the idea of having non-executive directors as an important instrument to supervise executive activities and certify that they are working to the best interests of the shareholders. Fama and Jensen (1983), Carter *et al.* (2003) in their research stated that the non-executive directors value their own public image and reputation in the labour market hence will try and uphold high standards in their quality of monetary and oversight role.

The non-executive directors are viewed to be independent hence very effective in the running of the board leading to an increase in the firms' performance and reduction of any chances of financial fraud (The Cadbury report, 1992). A board should have

sufficient number of non-executive directors so as to give them weight during majority voting and in general decision makings. The implied theory of the agency model is that executive directors are termed as agents who use every little opportunity they get to enrich themselves without minding the interest of the shareholders. Donaldson (1990) however stated that the stewardship theory mentions the will and motivation that executive directors may pose to achieve recognition and good performance.

Some researcher (Baysinger and Hoskisson 1990, Wagner III *et al.* 1999) argued that the executive directors are in a good position to monitor the firms' activities and the managers since they are more knowledgeable on the running of the day-to-day activities of the organization. Conversely, Mace (1986), Patton and Baker (1987) and Lorsch and MacIver (1989) research showed that if outside directors are not motivated, do not possess certain knowledge about the firm and do not devote their time to the company, then they could not provide effective monitoring services.

2.3.2 Size of the Board and Organizational Performance

Board size is the total number of head counts of directors seated on the company's board. Agency theorists favored larger board sizes as manipulation by those smaller groups of self-interested managers is expected to become less manipulative (Agrawal & Knoeber, 1996; Baysinger & Hoskisson, 1990; Bhagat & Black, 2002; Dalton, Daily, Ellstrand & Johnson, 1998; Hesterly & Coles, 2000; Pearce & Zahra, 1992; Petrovic, 2008; Rechner & Dalton, 1991; Shleifer & Vishny, 1997). Resource dependency theorists favored larger board sizes due to the increase in the diversification of resources and quality of argument that larger boards can provide the firm (Booth & Deli, 1996; Dalton, Daily, Johnson & Ellstrand, 1999; Pfeffer, 1972; Provan, 1980). Stakeholder theorists advocated for a large and well diversified board of directors which can accommodate the interest of each stakeholder, especially those that create value to the firm, in order to realize success in driving firm performance (Ayuso & Argandoña, 2007; Clarkson, 1995; Evan & Freeman, 1993; Hillman *et al.*, 2001; John & Senbet, 1998; Zingales & Rajan, 1998). However, stewardship theorists argued that smaller board sizes promotes increased participation and social cohesion whereas larger board sizes inhibits the board's ability to reach consensus on important decisions (Muth Donaldson, 1998; Yermack, 1996).

The board size is calculated by the total number of directors serving in that board. Earlier researchers have tried to find the link between the size of the board and the firm's performance. Does board size have an effect on performance? There have been different evidences on the effect of the board size on performance with some studies reporting a positive relationship (Adams & Mehran, 2005) and others negative (Yokishawa & Phan, 2004). Moreover, there are cases that board size does not have a significant relationship with firm performance (Bermig & Frick, 2009) or the results depend on the performance measures used (Haniffa & Hudaib, 2006).

Small boards lack diverse number of opinions for decision making (Dalton, 2005). Large boards in the contrary enjoy the advantage of having diverse opinions in terms of skills, knowledge and experience. Performances are therefore affected by the lack of diverse opinions to choose from hence large boards are found to be more effective.

Researchers have found different views on the effect of board size on firm's performance. Others have found positive while others have found a negative relationship. Some researchers have also stated that there is actually no relationship between the two variables. This research will try and find if there is a significant positive relationship between the board size and firm performance just like the findings of Adams & Mehran (2005).

Another related study was conducted by Sanda, et al. (2005), who examined corporate governance mechanisms and the financial performance of organizations in Nigeria. The authors looked at board size (defined as number of board members), board composition (defined as proportion of external board members), and top management experience (defined in terms of whether the CEO comes from another country). Their sample consisted of all companies listed on the Nigerian stock exchange. Their results regarding board composition were found to partially and positively influence organizations' financial performance. They also reported that small size was effective up to certain numbers, after which it becomes ineffective. This implies that large boards (with more than ten members) are not very efficient. They further found that organizations with international CEOs who are part of the board outperformed those which did not have international CEOs. Khumalo (2011) investigated the effect of board size on firm performance in a sample of 28 dual-listed South African companies over a four-year period (2005-2008). Khumalo (2011) found no evidence of any association between board size and firm performance, as measured by the return on

equity (ROE) and Tobin's Q ratio, but found evidence that independent directors are negatively associated with firm performance.

2.3.3 Level of Education of board members and organizational performance

Empirical research linking educational qualifications of directors to firm performance is scanty (Bilimoria & Piderit, 1994a; Yermack, 2006). Bilimoria & Piderit (1994) examined the qualifications of corporate board members in terms of general characteristics such as tenure, age, director type rather than specific educational qualifications. Haniffa & Cooke (2002) found positive relationship between general business and accounting education of board directors and disclosure of information that demonstrates accountability and credibility of the top management team. Ferris, Jagannathan & Pritchard (2003) examined the professional background of directors in the case of multiple directorships and found venture capitalists stand out among bankers, consultants, venture capitalists and former executives. In a study on women directors, Smith et al. (2006) found that the positive effect of women on firm performance depends on their qualifications. These results can be easily generalized for all members.

Several studies have found a positive relationship between competencies and firm performance (Boyatzis, 1982; Dunphy, Turner & Crawford, 1997; Hunt, 2000; Ljungquist, 2007). Boards members with higher qualifications benefit the firms through a mix of competencies and capabilities (Carpenter & Westphal, 2001; Carver, 2002), which helps in creating a diverse perspectives to decision making (Milliken & Martins, 1996; Biggins, 1999) Presence of more qualified members would extend knowledge base, stimulate board members to consider other alternatives and enhance a more thoughtful processing of problems (Cox & Blake, 1991). Members with higher educational qualifications in general and research and analysis intensive qualification like PhDs in particular will provide a rich source of innovative ideas to develop policy initiatives with analytical depth that will provide for unique perspectives on strategic issues (Westphal and Milton, 2000).

Educational qualifications are included in the index for evaluating corporations' adherence to corporate governance (Institutional Shareholder Service, 2006). Yermack's study (2006) found that share price reactions are sensitive, among others, to director's professional qualifications, particularly in the area of accounting and finance. It is clear that directors' qualifications and their specializations are related to

firm performance. However, the effect of level of educational qualifications of board members on firm performance has not received sufficient attention in literature (Bethula, 2008).

2.3.4 Experience of the Board Members and Organizational Performance

Studies have documented value from having directors with specific expertise. Kroll (2008) document that boards comprising of directors that are vigilant as well as having appropriate knowledge gained through experience are better monitors and more useful advisors to top management. Some have argued that directors who hold multiple directorships have made a significant investment in developing their reputation capital as competent directors (Fama & Jensen 1983; Carcello et al. 2002; Abbott et al. 2003). Ferris et al. (2003) note that firm performance, during a director's contract, has a positive effect on the number of board seats a director subsequently obtains, thus suggesting that reputation matters in the market for directors.

In addition, some studies document benefits to many directorships. Cotter (1997) in his study on effects of experience of the directors on organization performance documents that those boards having directors holding multiple directorships are able to obtain larger premiums in tender offers for their shareholders. Carcello et al. (2002) find that boards where multiple directorships are common are more likely to protect shareholder interests and purchase differentially higher-quality audit services. More recently, Kim et al. (2014) suggest that a director's contract with the firm is positively associated with the director's competency to advise and monitor firm performance. More specifically, they contend that "longer director contracts reflect more board and committee meetings attended, likely increased committee assignments, greater experience with the firm's strategies and policies, and greater within-firm deal-level experience (Kim et al. 2004)."

2.3.5 Gender of the board members and organizational performance

Within a corporate governance framework, the composition of corporate boards is crucial to aligning the interest of all stakeholders, to providing information for monitoring and counseling, and to ensuring effective decision making (Becht, Bolton & Roell 2005, Hermalin & Weisbach 1991). Gender diversity, together with board size, age dispersion and the share of directors chosen by the employees, all relate to board decision making processes (Bohren & Strom, 2003). Whether board diversity

influences firm performance in a positive or negative way, however, is theoretically undetermined a priori. In more general terms, Becht et al conclude that the formal literature on board designs is “surprisingly thin”. At the same time according to our knowledge this is first study on gender diversity and its effects on firm performance in Pakistan.

The increased number of women in the management levels has led to the questioning of the abilities of women leaders, especially those at the upper positions of organizations. Questions have risen among the researchers, employers on the ability of women to lead. Is there a difference on how men and women lead? How is the performance of firms that have women on board? (van der Walt & Ingley, 2003; Singh & Vinicombe, 2004; Huse & Solberg, 2006). A study done in Kenya by Josphat (2009) on the effect of women on Boards and performance also indicated that there is no significant relationship between the percentage of female on board and the performance of commercial Banks in Kenya.

Globally, there have been a number of studies which paid attention on the gender diversity of corporate boards recently e.g. Burke (1999), Sheridan & Milgate (2003), Farrell & Hersch (2005). Burke’s (1999) study of the leading three hundred and fifty companies in Canada showed that small number of women was being represented on Canadian boards and the relationship between female presence on the corporate board and firm size, where larger boards had far more women.

Catalyst (2007) examines the relationship between women on corporate boards and their companies’ financial performance in the United States. Catalyst ranked 520 companies according to the average percentage of women on those companies’ boards in 2001 and 2003 and divided the companies into four quartiles, each comprising 130 companies. The study compares the financial performance of companies in the top quartile (those companies with the highest percentage of women on their boards) with that of the bottom quartile (companies with the lowest percentage of women on their boards). The financial measures used by Catalyst were return on equity (ROE), return on sales (ROS) and return on invested capital (ROIC) the study found that companies with the most women board directors outperformed those with the least on return on sales (ROS) by 16 percent and return on invested capital (ROIC) by 26 percent.

Hussein & Kiwia (2009) studied the relationship between female board members and the performance of 250 US firms from 2000 to 2006. Their findings indicate a positive

relationship between firm performance and the level of female representation inside the boardroom. They further show that organizations that perform well tend to appoint more females to their boards so as to concede to government pressure, especially in developed countries. Barako et al. (2006) studied the relationship between corporate governance attributes and voluntary disclosure in Kenyan listed companies. The authors examined the extent to which board composition (defined as the percentage of external board members) and the existence of board audit committees affect company disclosure (defined as the release of financial and non-financial information through annual reports above mandatory requirements). Their results in regard to board composition reveal a negative relationship between the existence of external board members and voluntary disclosure, which implies that external board members do not matter much when it comes to convincing companies to reveal information.

2.3.6 Effect of organizational culture on organizations performance

According to Schrod, (2002) an organizations culture is based on the systems that help to define how people and groups interact with each other employees make decisions and think. Culture is based on a set of shared attitudes, beliefs, customs, and written and unwritten and it generally helps to define ways in which an organization conducts its business. In fact, Nelson and Quick (2011) identified four roles that an organization's culture play, including: providing a sense of identity to members, enhancing the employee commitment, strengthening organizational values and shaping behaviour through a central mechanism.

Muya (2012) conducted a survey of Kenyan State Corporations on the relationship between corporation culture and organizational performance. Using a correlation analysis, the findings revealed that an organizations values and organization performance were strongly related. Organizational culture was measured by several indicators including: employee confidence on an organizations future, internal communication, the management getting to share its business strategies and performance results with all its employees, a highly disciplined management, use of employees performance feedback and appraisals and management encouraging and rewarding specific workplace behavior and workplace harmony. They concluded that organizational culture could be made very strong and cohesive by sticking to an explicit and clearly setout principles and values. They also argued that having an influential leader who establishes desirable values, and possesses sincere and desirable

commitment to run an organization according to the desirable values and expression of genuine concern for the well-being of an organizations stakeholders can positively and significantly influence an organizations performance.

Njugi (2014) found out that an organizations culture had a great influence on the organizations performance. This is because it dictates how things are done, the organizations philosophy, available work resources, its performance targets and stability of the organization. They mainly focused on competitive culture, entrepreneurial culture, bureaucratic culture and consensual culture. They conclude that most employees prefer the entrepreneurial culture since it maximizes on their ability thus exploiting their innovativeness, creativity and independence from being micro-managed. In line with employee behavior, Oduol (2015) argues that a good organizational culture instills brawny employee behavior, which provides a conducive environment for formulation of good policies and implementation of strategies. However, she cautions that an organizations culture ought to be compatible with its intended strategies if it is going to make the organizations performance improve (Hofstede 2010; Burke & Litwin, 2007).

Raduan (2008) observed that, organization performance is highly related to an organization, which has a strong culture with well assimilated and active set of values, beliefs and behaviors. However, several researchers concurs that culture would remain linked with greater performance only if the culture is able to adapt to changes in environmental conditions (Stewart, 2010). Furthermore, the culture must not only be widely shared, but it must also have unique qualities, which cannot be imitated (Dasanayake & Mahakalanda, 2008). Cameron and Quinn (2011) states that, studies have shown that organizational culture has a direct influence on other vital performance results of any organization, including customer satisfaction and business growth and the strong effects of organizational culture are consistent across a wide range of businesses and industries, from education institutions, automotive sales and service and fast-food retailing to home construction and computer manufacturing. Corporate culture can affect an organization's bottom line (Stewart, 2010).

Strong culture in the organization is very supportive to enhance the performance of the employees that leads to the goal achievement and increases the overall performance of the organization (Deal and Kennedy, 1982).Ling & Shann (2010) noted that performance and efficiency were two different things. They also

recommended that result oriented culture needed high level of education, thoughts, instruments, training and management as well as leadership skills. According to the Stewart (2010), norms and values of organizational culture highly influence on those who are directly or indirectly involved with the organization. These norms are invisible but have a great impact on the performance of the organization

2.3.7 Effect of environmental factors on organizational performance

Environmental factors are irresistible as far as influence of organizational performance is concerned. Political influence takes the dimension of government regulatory bodies and policies, whereas legal influences comes from constitutions and laws by the authorities at local, national and international levels. Economic influence, on the other hand, is caused by inflation and taxation, which can therefore favor high performance or not (Srivastava & Frankwick, 2011). Government intervention in the development of organization is very vital (Bremmer, 2009). Cimoli (2009) in an organizational policy study noted that organizations policies are forms of government involvement that endeavor to improve productive investment. Gichunge (2010) found out that political factors considerably influence the level of organizational performance. Solomon (2010) noted that though consumers are faced with diverse options, they use simple decision rule to choose from many alternative.

The environment is a major cause of uncertainty to an organization and as such, it influences the strategy of any organization and the structure of organizational (Akanwa, 200:59). Environment could also be observed as a combination natural thing (living and non-living things) made by human and the inter-relationship between them and various occurrence that surround people on earth (Ohazurikke 2003:59). Organizations exists in an environment that consist of factors and powers that are external to the firm. In fulfilment of its objective, an organization cannot achieve its objectives without interacting with other members of the environment. An organization and its environment are inter-dependent; the organization depends on its environment for the cause and opportunities essential for its existence.

According to Xavier (2011),an organization pricing rules are affected by both internal company factors and external environmental factors which turn out to be complicated factors to handle due to uncontrollable nature of external environmental factors like taxation and inflation. Further, the study noted that an organizations performance is

directly affected by the existing pricing and taxation policy. Nkatha (2012) found out that for the organization to sustain its competitive advantage over its competitor, it must be in a position to implement changes in the society and changes in the trends of communication for better performance. In the mobile phone companies in Kenya, the government has given communication commission of Kenya authority to regulate the operations in the telecommunication sector. Koumparoulis (2013) observed that studying and examining of environmental factors will assist the organizations to achieve superior performance by inventing competitive strategies that can take advantage of opportunities and addressing the challenges arising from changes in the environment.

Ukaegbu (2004) stated that the modern environment is becoming vibrant and competitive and since business organizations do not operate in vacuum, they affect and are affected by environment settings. Therefore, business organizations regardless of their objectives must take into consideration, these environmental prospects and limitations. Businesses affect the environment by providing the required goods and services thereby contributing to the development of the business by offering opportunities and threats. One thing to be stressed at this point is that, the extent to which managers could identify, evaluate and react to the environmental forces will have significant influence on organizational performances.

2.4 Conceptual Framework

A conceptual framework is a structure which the researcher believes can best explain the natural progression of the phenomenon to be studied (Camp, 2001). Figure 2.1 presents the conceptual framework of this study. On the left hand side, the researcher has listed the board characteristics which comprise five independent variables namely, size of the board, directors' level of education, directors' level of experience and gender of the directors. This is linked to the firm performance on the right hand side, which is measured by return on assets. The link between board characteristics and the firm performance is affected by s intervening variables

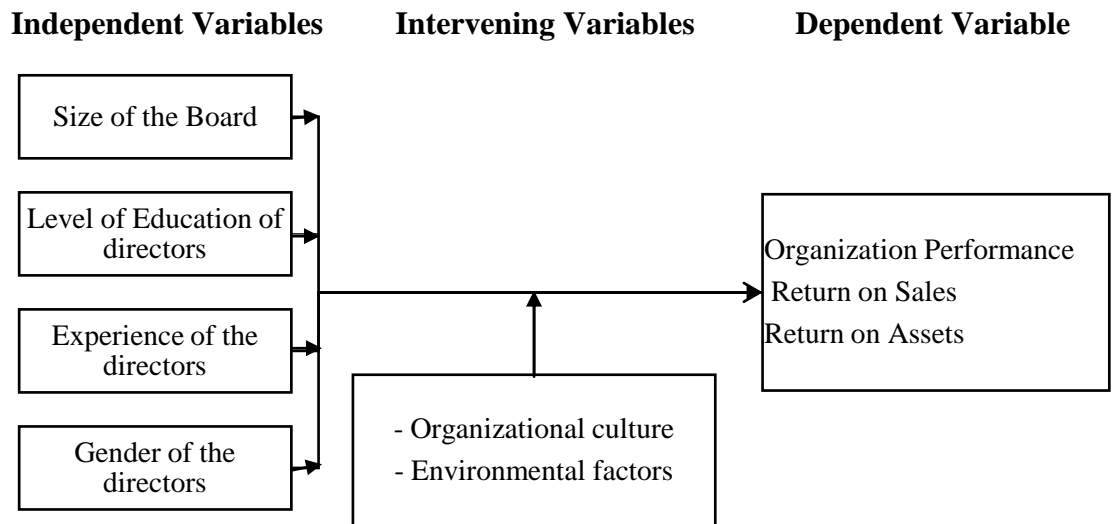


Figure 2. 1: Conceptual Framework

Source: Author (2018)

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter, describes the methods that was applied in carrying out the study and includes the research design, the target population under study, the sampling procedures, data collection and the analysis and presentation of the data collected.

3.2 Research Design

Kothari (2004) defines research design as the arrangements of conditions for collection and analysis of data while minding the relevance of the research with economy in procedure. The researcher adopted a descriptive type premised on the fact that it sought to find out the what, where and how of a phenomenon. The major purpose of descriptive research design was to provide information on characteristics of the population (Mugenda & Mugenda, 2003). Descriptive research was also used as a precursor to quantitative research design as it provided the general overview on some valuable pointers as to which variables are worth testing quantitatively.

3.3 Target Population

Burns and Grove (1997) defined the target population as the entire aggregation of respondents that meet the designated set of criteria in the research. The target population for the research constituted all listed companies quoted at the NSE for the period of three years from 2014 to 2016. The study was limited to listed companies due to lack of readily available data from private companies not listed in NSE. Currently we have a total of sixty five firms listed in NSE (Appendix1).

3.4 Data Collection

According to Collis and Hussey (2009), in order to ensure the accuracy of a research application the most appropriate data collection method ought to be identified. Meaningful published information that is sufficient in providing answers to a research query can be termed as secondary data (Sekaran 2003). According to Saunders (2007), secondary data is easily assessable information that is cost effective. Secondary data was used for this study, where annual financial reports of individual listed firms' over the three year period was extracted and ROA was used as a measure of organizational performance. Board composition data was obtained from corporate governance disclosure of individual listed firms in NSE. The data is filed by NSE and CMA

library that also files details of the board of directors of all companies and the data was readily accessible and reliable.

3.5 Data Analysis

The aim of a data analysis is to distinguish, investigate, evaluate and translate information and designs (Hair *et al* 2007). In this research, for indication of type and intensity of relationship between dependent and independent quantitative variables, multivariate and univariate analysis models was used. Univariate analysis involves a summary or descriptive statistics such as mean, frequencies, test of normality, mode, median, quartiles among others. This basically helped in characterizing different board composition across listed firms. Test of significance, R2, ANOVA and T-test was used to establish the significance of the difference in organizations performance means between the boards over the three-board term period.

3.5.1 Analytical Model

The study used multiple linear regression models. The multiple linear regression models sought to establish the relationship between board composition and organizations performance of NSE listed companies through regressing factors such as size of the firm, experience of the board members, gender and board members level of education within the period of interest. The regression model that was employed was:

$$Y = \alpha + \beta_1 x_1 + \beta_2 x_2 + \beta_3 x_3 + \beta_4 x_4 + e. \dots\dots\dots \text{equation (1)}$$

Where;

Y = Organizations performance as determined by return on assets (ROA);

α = Constant (representing the Y-intercept)

X_1 = size of the board,

X_2 = experience of the board members,

X_3 = gender of the board members,

X_4 = level of education of the board members.

β_1 = regression coefficient of variable X_1 ,

β_2 = regression coefficient of variable X_2 ,

β_3 = regression coefficient of variable X_3 ,

β_4 = regression coefficient of variable X_4 and

e = Error term which is here assumed to be normally distributed with mean 0 and some constant variance. According to Zikmund *et al* (2009), regression model helps one understands how the typical value of the dependent variable changes when any one of the independent variables is varied, while the other independent variables are held fixed.

The test for significance of coefficient of multiple correlations was determined by the use of F test. This test checks the *significance* of the whole regression model with the prediction that all the independent variables that is size of the board, experience of the board members, gender of the board members and board members level of education has no effects on dependent variable hence; $\beta_1 = \beta_2 = \beta_3 = \beta_4 = 0$ and the alternative prediction is that at least one of the independent variable is not equal to zero that is; $\beta_j \neq 0$; $j = 1, 2, 3, 4$. The prediction was rejected if $F_{cal} \geq F_{crit}$ hence concluding that at least one of the partial regressions; $\beta_1, \beta_2, \beta_3$, or β_4 is not equal to zero and therefore the overall model is *significant*.

3.6 Data Presentation

Data analysis is a process of inspecting, cleaning, transforming, and modeling data with the goal of highlighting useful information, suggesting conclusions, and supporting decision making. Data analysis has multiple facts and approaches, encompassing diverse techniques which may include the statistical method (Mastropieri, 2006). After data collection, the data was tabulated and analyzed using Statistical Package for Social Sciences (SPSS) to generate descriptive and inferential statistics which enabled the researcher to conduct a meaningful description and inferences of the distribution of measurements. Data was presented in tabular and percentage frequencies.

3.7 Ethical Consideration

Consent to undertake the study was obtained from the relevant authority. The issue of confidentiality was addressed by assuring respondents that the information they provided was specifically for research only. The respondents were not forced to share information regarding organization performance and board structure if they were not willing. The respondents were assured that there was no gain or loss for failing to participate in the research.

CHAPTER FOUR

RESEARCH FINDINGS, PRESENTATION AND ANALYSIS

4.1 Introduction

The chapter reveals the study findings on investigation of effects of board structures on organization performance. The investigation was meant to establish/ determine effects of board size, level of education, experience and gender of board members on performance of the listed organizations in Nairobi securities exchange. The data were analyzed using the Statistical Program for Social Sciences (SPSS), by use of both descriptive and inferential statistics. Descriptive statistics used mean and standard deviation to present the study outcomes. For inferential statistics, Pearson correlation, and regression analysis.

4.2 Response Rate

A total of sixty five (65) listed firms in the Nairobi security exchange were targeted for the study. Notably, information was not available from the targeted sixty five firms for the study. However, information was available from fifty three (53) out of the sixty five (65) firms which translates to eighty two percent (82%) response rate. However, a study by Holbrook *et al.* to establish the acceptable response rate in social sciences surveys revealed that a response rate of fifty percent (50%) is representative and is within the desirable response rate (Holbrook *et al.* 2007).

4.3 Descriptive Statistics

The study analyzed the performance of listed organizations on NSE as measured by the return on assets proportion .It also analyzed board structure dynamics variables of interest namely; board size, level of education, experience of the directors and gender of the directors. The variables mean, minimum and maximum and standard deviation is presented as shown in table 4.1.From table 4.1 the average return on assets for the listed organizations on Nairobi Securities Exchange is 1.7%.The average board size of directors is 12 members with a standard deviation of 1.8.Further the average years of experience of a board member is 9 years while the average representation of men in the boards of Nairobi Securities Exchange is 67.7%. On education level, the average education level for the board of directors of Nairobi Securities Exchange is 4.6 which is an indication that majority of board members are university graduates.

Table 4. 1: Descriptive statistics

	N	Minimum	Maximum	Mean	Std. Deviation
Size	65	10.00	15.00	12.7846	2.11019
Education	65	3.00	5.00	4.6154	.70027
Experience	65	5.00	10.00	9.1077	1.82964
Gender	65	.00	1.00	.6769	.47129
Return on Assets	65	.01	.02	.0168	.00478
Valid N (listwise)	65				

Source: Research Findings

4.3.1 Effects of Board Size on Organization Performance

Figure 4.1 indicates size of board members in 2014; where firms with majority of board members (above 10 members), constitutes (46.4%) and they include; Barclays Bank of Kenya Ltd which later *reduced* the size of its board members from 11 to 9 in 2015 and 2016 and the resultant effect on return on asset (ROA) was 0.05 and 0.04 meaning that there was insignificant change in the bank's performance by 2016. The CFC Stanbic of Kenya Holdings Ltd *increased* its board members from 10 in 2014 to 13 in 2016 and the resultant effect on return on assets (ROA) was 0.04 and 0.16 meaning that there was significant positive change in the bank's performance by 2016. Diamond Trust Bank Kenya Ltd on the other hand *retained* its board members at 12 throughout the period between 2014 and 2016 and the resultant effect of this on its performance on return on asset (ROA) was insignificant change from 0.04 to 0.03. Likewise, when Equity Group Holdings Ltd *reduced* its board members from 10 in 2014 to 9 in 2016, there was insignificant positive change on return on asset (ROA) from 0.15 to 0.13. However, there was only one firm (Eaagads Ltd) with minority board members between 0 and 3 constituting (1.8%). The firm *increased* its board members from 3 in 2014 to 5 in 2016 and the resultant effect on the firm's performance on return on asset (ROA) was from 0.01 to 0.05 which means that there was significant positive change in the bank performance.

Figure 4.2 shows size of board members in 2015, where percentage of firms with board members of (10 and above) has *reduced* from 46.4% in 2014 to 41.1% in 2015. The following were some of the firms where such decisions were implemented;

Britam Holdings Ltd, Home Afrika Ltd, National Bank of Kenya Ltd among others. While this was the case, percentage of the firms with board members between 7 and 9 *increased* from 39.3% in 2014 to 44.6% during the period (2015).

The study findings indicate that at the Britam Holdings Ltd where the board size was *reduced* from 10 in 2014 to 9 in 2015, the reduction had negative performance on return on assets (ROA) of -0.02 in 2015 from the previous positive performance of 0.04 in 2014. Similarly, there was negative performance at Home Afrika Ltd when the board size was *reduced* from 12 in 2014 to 8 in 2015. Thus, a negative performance on return on assets of -0.01 in 2015 from 0.04 in 2014 was recorded. Once again, when the board size was *reduced* at National Bank of Kenya Ltd from 10 in 2014 to 9 in 2015, the return on assets (ROA) went down from 0.01 to -0.01 during the same period.

According to Adams and Mehran, researchers have different views on the effect of board size on organization performance. Others have found positive performance or relationship while others have found a negative relationship. Some researchers have also stated that there is actually no relationship between the two variables (Adams & Mehran, 2005). Sanda, *et al.* (2005) from their study on effects of board size on firm's performance reported that small size was effective up to certain number of board members, after which it becomes ineffective. They further noted that large boards (with more than ten members) are not very efficient.

It is evident from the study findings that firms in their effort to improve performance have consistently reduced their board members in the bracket of above ten (10) board members. However, this effort has not yielded the intended results since whenever this was done; the performance in most cases went down apart from in a few instances when there would be some slight improvement.

Notably for the firms that tried to reduce their board members were operating against the theory of resource dependency which favored larger board sizes due to the increase in the diversification of resources and quality. The resource dependency theorists further argued that larger boards can provide the firm opportunity towards improvement of their performance (Booth & Deli, 1996). The majority of firms seem not to be ready to apply stakeholder theory which also advocate for a large and well diversified board of directors which can accommodate the interest of each stakeholder, especially those that create value to the firm in order to realize success in driving the

firm's performance (Ayuso & Argandoña, 2007). Instead, they are ready to apply the stewardship theory approach which argues that smaller board sizes promotes increased participation and social cohesion whereas larger board sizes inhibits the board's ability to reach consensus on important decisions (Muth Donaldson, 1998; Yermack, 1996).

Therefore, it is evident from the study findings that size of the board affects organization performance either positively or negatively.

Figure 4. 1: Size of board members in 2014

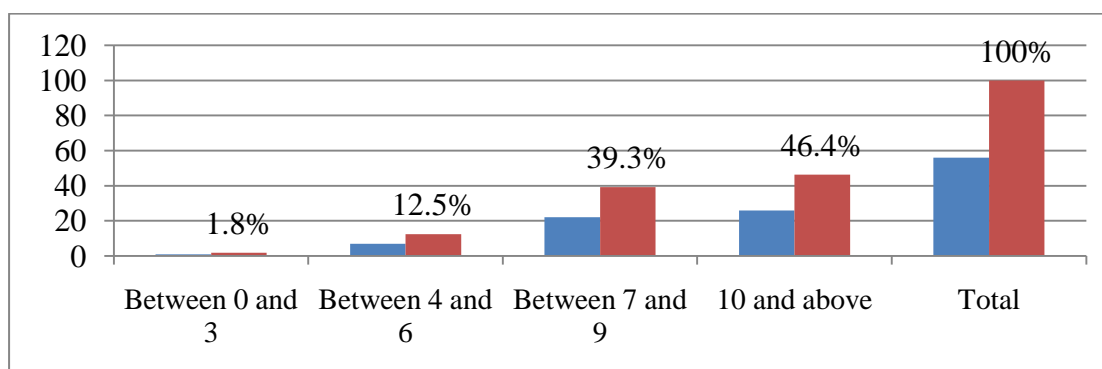
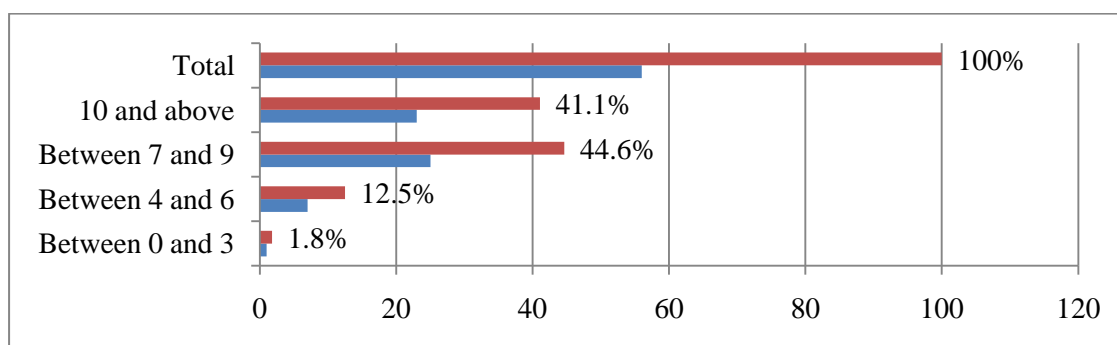


Figure 4. 2: Size of board members in 2015



4.3.2 Effects of level of education of board members on organization Performance

Figure 4.3 shows board members level of education in 2014; where firms with majority of board members with the highest level of education (PhD), constitutes (7%). One of such firms is Kenya Power & lighting Co Ltd which later *reduced* the number of its board members with PhD from 4 to 2 in 2014 and 2016 respectively and the resultant effect on return on asset (ROA) was 0.05 and 0.04 respectively hence a insignificant change in the bank's performance. Meanwhile, Nation Media Group *retained* the number of its board members with PhD level of education at 4 throughout

the period between 2014 and 2016 and the resultant effect on its performance on return on assets (ROA) was significantly negative. The same was observed with Carbacid Investment Ltd, Kurwitu Ventures and Sasini Ltd who *retained* its board members with the same level of education throughout the period between 2014 and 2016 and the resultant effect of this on its performance on return on asset (ROA) was significant negative. The CFC Stanbic of Kenya Holdings Ltd had most of its board members with professional qualification in 2014 and by 2016 most of the board members had master's qualification and the resultant effect on return asset (ROA) was 0.04 and 0.16 respectively meaning that there was significant positive change in the bank's performance by 2016.

Several studies have found a positive relationship between competencies and firms' performance (Boyatzis, 1982; Dunphy, Turner & Crawford, 1997; Hunt, 2000; Ljungquist, 2007). Further studies have found that board members with higher qualifications benefit the firms through a mix of competencies and capabilities (Carpenter & Westphal, 2001; Carver, 2002), which helps in creating a diverse perspectives to decision making (Milliken & Martins, 1996; Biggins, 1999). Yermack's (2006) found that share price reactions are sensitive, among others, to director's professional qualifications, particularly in the area of accounting and finance (Bethula, 2008).

Although the effect of level of educational qualifications of board members on firm performance has not received sufficient attention, it is evident from the study that the board of director's level of education has both positive and negative effects on the organization performance.

Figure 4. 3: Level of education of board members in 2014

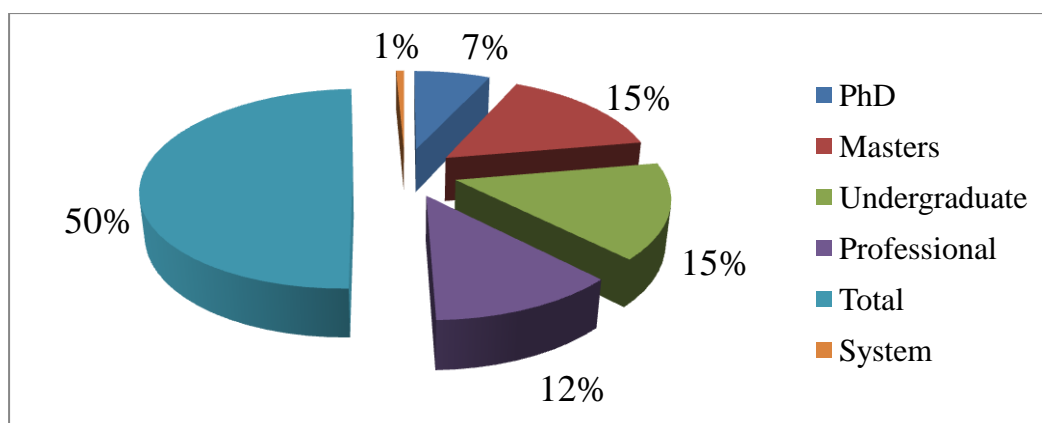
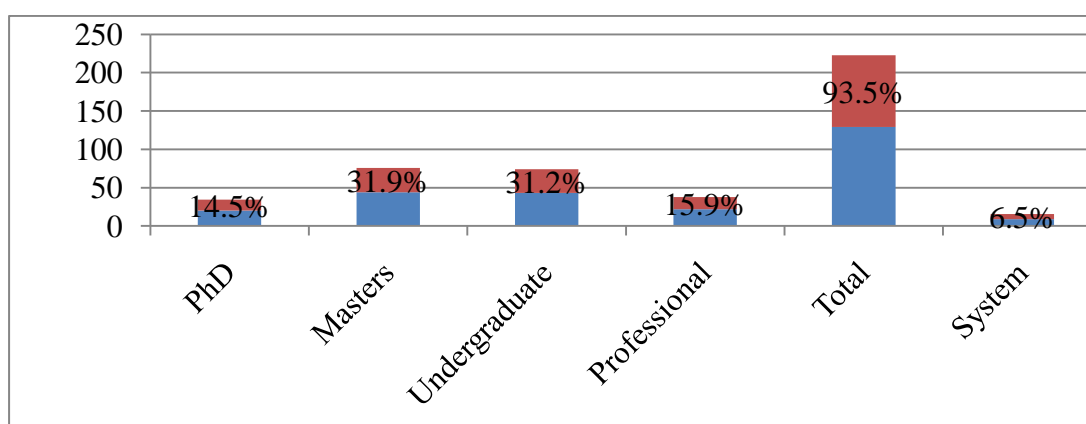


Fig 4.4 Level of education of board members in 2016



4.3.3 Effects of level of experience of the board members on organization performance

Figure 4.5 indicates the level of experience of the directors in 2014; where firms with majority of directors with above 10 years of experience constitutes (62.2%) and they include; Home Africa Ltd which later *reduced* the level of experience of directors from ten 11 in 2014 to 8 in 2015, the resultant effect on return on asset (ROA) was 0.04 and -0.1 respectively meaning that there was a significant negative change in the firm's performance. The Co-operative Bank of Kenya Ltd *increased* the number of board members with over ten (10) years' experience from 14 in 2014 to 16 in 2015 and the resultant effect on return asset (ROA) was 0.04 and 0.05 meaning that there was significant positive change in the bank's performance by 2015. NIC Bank Ltd on the other hand *retained* the number of board members with over ten (10) years' experience at 11 throughout the period between 2014 and 2016 and there was no effect on its performance on return on asset (ROA) which was also retained at 0.04.

The study findings also indicate that companies with all the board members with level of experience above 10 years report high return on asset (ROA). Safaricom Ltd being among the companies with higher performance from the sample has maintained a board with all its members having experience of more than 10 year and the resultant effect has had a positive growth in the performance of the company. The same has been observed with companies like Unga ltd, British America Tobacco Kenya and Flame Free Group Holding.

Kroll (2008) documented that boards comprising of directors that are vigilant as well as having appropriate knowledge gained through experience are better monitors and more useful advisors to top management. Some researchers have also argued that directors who hold multiple directorships have made a significant investment in developing their reputation capital as competent directors (Fama& Jensen 1983; Carcello et al. 2002; Abbott et al. 2003). Ferris *et al.* (2003) note that firm performance, during a director’s contract, has a positive effect on the number of board seats a director subsequently obtains, thus suggesting that reputation (experience) matters in the market for directors. The same is supported by the agency theory that suggests that boards have to be diverse in terms of skills, experience, and gender balance. This creates a balance on boards and leads to effective monitoring and subsequently to the successful performance of the organization (Hussein &Kiwia, 2009).

From the study findings, it is clear that board level of experience has either positive or negative effect on the performance of the organization depending on whether the experience increased or reduced.

Figure 4. 4: Experience of board members in 2014

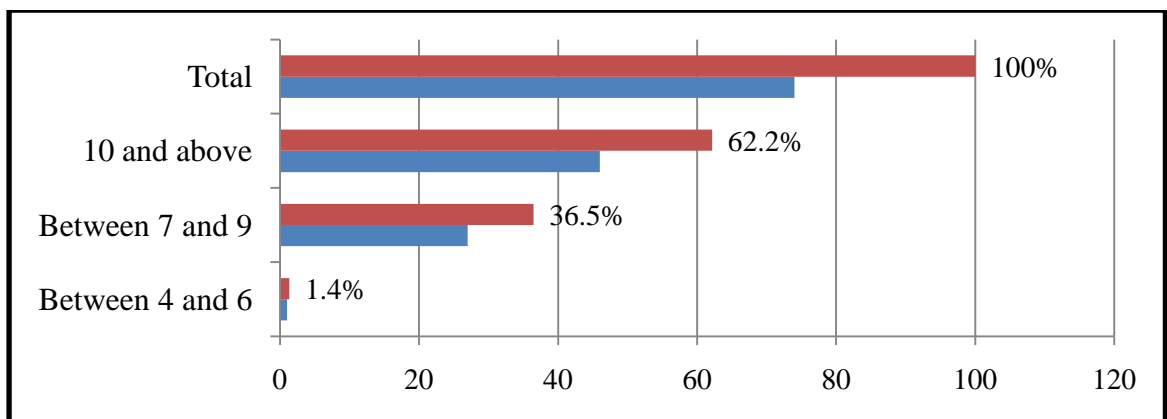
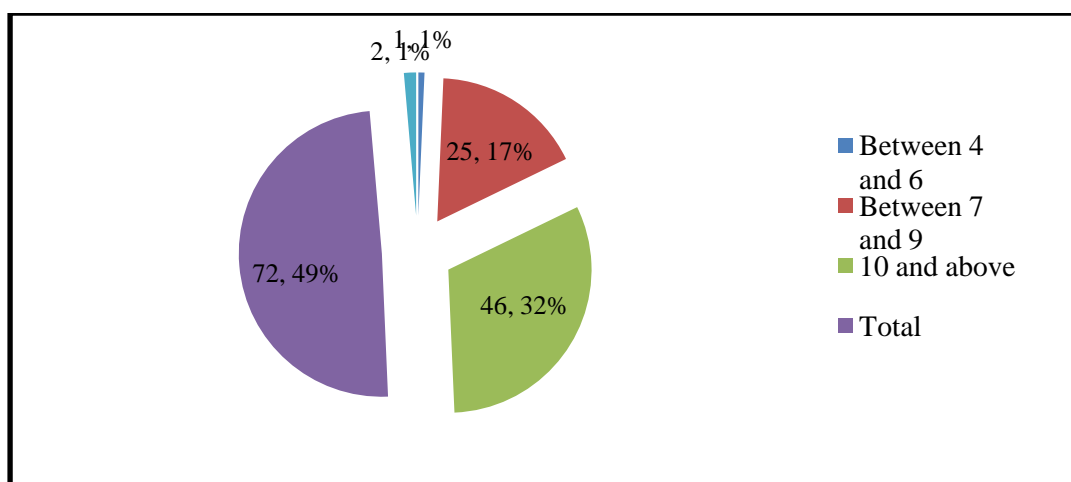


Figure 4. 5: Experience of board members in 2015



4.3.4 Effects of Gender of Board Members on Organization Performance

Figure 4.7 and 4.8 indicate the percentage of women ranges from having no woman on board to a maximum of 25% women representation on board. Most of the boards in the sample size have a woman representative on board with only 7 firms having no woman on board. The number of women representation on board has also been decreasing when comparing the two years 2014 and 2015. The maximum number of women representation on a board being 5 with most firms having between 3 and 2 women representation on their board. The study indicates that there were seven companies in the sample size with no women representative on board and they include; ARM Cement Ltd with a board size of twelve members and no women representation with a resultant negative effect on the performance (ROA) which reduced from 0.05 in 2014 to -0.08 in 2016. The same effect was observed in Carcacid Investment Ltd whose performance reduced from 0.24 in 2014 to 0.08 in 2016, Car & General Ltd performance reduced from 0.05 in 2014 to 0.02 in 2016 and the other four companies. This indicates that women representation on board has a significant effect on firm's performance.

Figure 4.7 indicates board members diversity in 2014; where firms with majority of women representation constitutes (4.6%) and they include; Safaricom Ltd which *maintained* the number of women representation at 5 in 2014, 2015 and 2016 and the resultant effect on return on asset (ROA) was 0.36, 0.44 and 0.48 meaning that there was positive change in the firms' performance when women representation is maintained. The same was observed with CIC Insurance Group Ltd, which maintained its number of women representation on the board at 4 throughout the period between

2014 and 2016 and the resultant effect of this on its performance on return on asset (ROA) was positive. Eaagads Ltd and Pan Africa Insurance Holdings Ltd which later *reduced* the number of its women representation on board from 1 to 0 and from 2 to 1 between 2014 and 2016 respectively of which the resultant effect on return on asset (ROA) was from 0 to 0.05 and 0.05 to 0.01 respectively meaning that reduction in women representation has mixed (i.e. either positive or negative) results in the firms' performance.

Figure 4.8 shows the board members gender diversity in 2015 where percentage of women representation on board between 2 and 3 has reduced from 25% in 2014 to 23% in 2015. Again percentage of women representation between 4 and 5 has reduced from 6.5% in 2014 to 4.6% in 2015. The following were some of the firms where such decisions were implemented; KenGen Ltd where the number of women representation was *reduced* from 4 in 2014 to 3 in 2015. It was observed that such reductions reflected a positive performance on return on assets (ROA) of 0.03 in 2015 from 0.02 in 2014. Similarly, there was positive change in the organization performance at East Africa Breweries Ltd when the women representation on the board was *reduced* from 4 in 2014 to 3 in 2015. It was noted that reduction in women representation resulted to a positive change in the firm's performance to 0.23 in 2015 from 0.19 in 2014. However, some negative change in return on assets (ROA) was realized in certain firms with an increase in women representation on board. One of such firms is Eveready East Africa Ltd where an increase of women representation on board from 3 in 2014 to 4 in 2015 resulted in negative change on return on assets (ROA) from 0.32 in 2014 to 0.23 in 2015. Similar case was observed at Longhorn Publishers Ltd when women representation on board was increased from 2 in 2014 to 3 in 2015.

Therefore, the study findings clearly indicated a positive change on return on assets when women representation is reduced and negative change on return on assets when women representation is increased as opposed to Hussein and Kiwia (2009) whose study on relationship between female board members and the performance of 250 US firms from 2000 to 2006 only indicated a positive relationship between firm performance when the number of women are increased. They further show that organizations that perform well tend to appoint more females to their boards so as to concede to government pressure, especially in developed countries. This is also

supported by the Resource Dependence Theory which emphasized that diversity in the composition of boards is important if boards are to effectively provide advice and resources. However, a study done in Kenya by Josphat (2009) on the effect of women on boards and performance indicated that there is no significant relationship between the percentage of female on board and the performance of commercial Banks in Kenya.

Figure 4. 6: Gender of board members in 2014

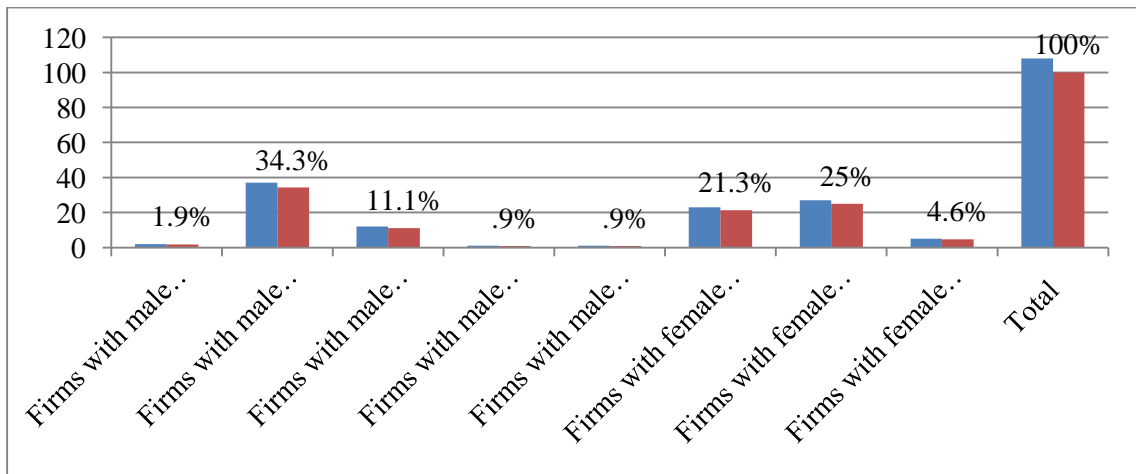
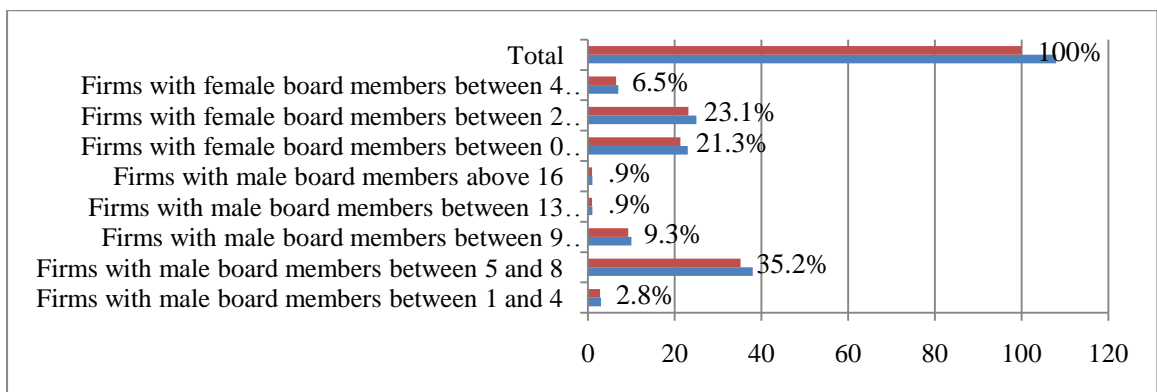


Figure 4. 7: Gender of board members in 2015



4.4 Correlation Analysis

As indicated in the table 4.2 below, there was a moderate positive correlation between return on assets and board size of directors (0.823), level of education of directors (0.797), experience of the directors (0.565) and gender (0.576). This indicates that an increase in the study variables increases firm's performance which would translate into a rise in return on assets. The results show little evidence on multi co-linearity among

the independent variable since the correlations among them are not very strong henceforth all can be used into consequent regression analysis

Table 4. 2: Correlations Analysis

		Size	Education	Experience	Gender	Performance
Size	Pearson Correlation	1				
	Sig. (2-tailed)					
	N	65				
Education	Pearson Correlation	.736**	1			
	Sig. (2-tailed)	.003				
	N	65	65			
Experience	Pearson Correlation	.492**	.826**	1		
	Sig. (2-tailed)	.004	.003			
	N	65	65	65		
Gender	Pearson Correlation	.840**	.801**	.566**	1	
	Sig. (2-tailed)	.002	.003	.002		
	N	65	65	65	65	
Performance	Pearson Correlation	.823**	.797**	.565**	.576**	1
	Sig. (2-tailed)	.004	.002	.002	.003	
	N	65	65	65	65	65

** . Correlation is significant at the 0.01 level (2-tailed).

Source: Research Findings

4.5 Regression Results

A multiple linear regression analysis was performed to test the effect of the independent variables on the dependent variable. The average ratings for the four independent variables (board size, level of education, experience of the board members and gender of the board members) were used as the indicators for input into the regression model. The coefficient of determination and standard error of the regression model is indicated in Table 4.3. Results in Table 4.3 indicate that the

adjusted r^2 was 0.683 indicating that the independent variables explained 88.3% of the performance a case study of the listed organizations on Nairobi Securities Exchange. This indicates that the model had good explanatory power.

Table 4. 3: Regression Model Parameters

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.838	.703	.683	.23905

Source: Research Findings

Further, the regression output in Table 4.4 presents the source of variance, mean of variances and the f value. The results indicate that the overall model was significant and could provide important results. This indicates that the model could provide some predictive significance and was a good fit.

Table 4. 4: Analysis of Variance of the Regression

Model	Sum of Squares	df	Mean Square	F	Sig.
Regression	8.110	4	2.027	35.481	.000
Residual	3.429	60	.057		
Total	11.538	64			

Source: Research Findings

Further, the regression output on significance of the independent variables is presented in Table 4.5

Table 4. 5: Significance of Independent Variables

Variables	Unstandardized Coefficients		Standardized Coefficients	T	Sig.
	B	Std. Error	Beta		
(Constant)	2.215	.462		4.795	.001
Board Size	.926	.080	.824	11.54	.004
Education Level	-.383	.097	.477	3.396	.002
Directors experience	.893	.105	.732	8.526	.002
Gender of Directors	.862	.132	.634	6.512	.003

Source: Research Findings

The results in Table 4.5 indicate that board size has a significant and a positive effect on organization performance. This result indicates that large organization usually has large size boards whereas smaller organization tends to have smaller boards. This has

an implication that firms with large board sizes tend to perform better while very small board sizes results in negative performance. This shows that performance of listed firms in Kenya is dependent on size of corporate boards.

Further, level of education of directors is found not significantly associated with the performance of organizations though the result demonstrates negative association. This result indicates that level of education of directors is not effective enough to enable the improvement in organization performance. In other words, the performance of an organization may be influenced by other BOD characteristics or rather by factors other than BOD characteristics such as earning per share, dividend per share and price–earnings ratio that exposed to the market volatility which consequently influences the performance of an organization. This result is quite similar to the study done by Bhagat *et al.* (2010) when they found that no strong evidence of a linkage between directors (CEO) education and firm performance. The result of their study showed that the leadership of a CEO having an MBA degree from a top 20 business school enables a better operating performance, but the result is weak and probably, statistically insignificant.

Experience of the directors as a significant and a positive effect on organization performance. This result indicates that board experience was important in ensuring robust organization performance; this evidence supports the views of Alänge and Steiber (2009) which indicated that board competence and experience were important in creating board commitment for sustainable major organizational performance.

Finally, the results indicate that gender of the directors has a significant and a positive effect on organization performance. This result indicates that gender diversity is positively related with firm performance. This has an implication that inclusion of females in the board allows for a wholesome approach to management as it inculcates social and humane aspects to business, thus increasing firms' corporate image. However the number of women directors observed in the study is significantly low compared to that of men. Given the historical composition of boards in the Kenyan context, the study asserts that gender disparity can explain firm performance. Few women in the organization board may have succeeded because women in most cases lack the required job training and work experience to govern the monetary sector. A study done in UK, noted that the number of female directors in finance, utilities and transport sector was a little bit higher when compared to other industries (Grosvold, 2007). The study conclusions on the number of women executives on the Kenyan

boards could also point to the fact that there is an unfair representation on women in numerous companies' boards.

4.6 Interpretation of Findings

The descriptive statistics of the variables used in the analysis of the sample was very crucial for the study. The study presents the descriptive statistics of the variables used in the analysis: size of the board; education level of the directors; level of experience of directors and gender of the board of directors. The findings show that board composition is significantly associated with organization performance. The average return on assets for the listed organizations on Nairobi Securities Exchange is 1.7%. The average board size of directors is 12 members with a standard deviation of 1.8. Further the average years of experience of a board member is 9 years while the average representation of men in the boards of Nairobi Securities Exchange is 67.7%. On education level, the average education level for the board of directors of Nairobi Securities Exchange is 4.6 which is an indication that majority of board members are university graduates.

The study further determined the correlation between the independent variables used in the study i.e. board composition variables and organization performance. For this analysis Pearson correlation was used to determine the degree of association within the independent variables and also between independent variables and the dependent variable. The study findings indicate there was a moderate positive correlation between return on assets and board size of directors (0.823), level of education of directors (0.797), experience of the directors (0.565) and gender (0.576). This indicates that an increase in the study variables increases firm's performance which would translate into a rise in return on assets. However, the results show little evidence on multi co-linearity among the independent variable since the correlations among them are not very strong henceforth all can be used into consequent regression analysis

A multiple linear regression analysis was performed to test the effect of the independent variables on the dependent variable. The average ratings for the four independent variables (board size, level of education, experience of the board members and gender of the board members) were used as the indicators for input into the regression model. The coefficient of determination and standard error of the regression model indicate that the adjusted r^2 was 0.683 indicating that the

independent variables explained 88.3% of the performance a case study of the listed organizations on Nairobi Securities Exchange. This indicates that the model had good explanatory power. Further, source of variance, mean of variances and the f value results indicate that the overall model was significant and could provide important results. This indicates that the model could provide some predictive significance and was a good fit.

Further the study carried out the hypothesis testing between the board composition variables and organization performance. A Pearson coefficient measure showed a strong, significant, positive relationship between board composition and organization performance of companies listed on NSE in Kenya. Therefore basing on these findings the study rejected the hypothesis that there is no relationship between board composition and organization performance of companies listed on NSE in Kenya and confirmed that there exists a relationship between board composition and financial performance of companies listed on NSE in Kenya.

CHAPTER FIVE

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

The chapter is a summary, conclusion and recommendations of the study on effects of board structures on organization performance. The study investigated effects of the following board structures (board size, experience of the directors, level of education of directors and gender of directors) on organization performance.

5.2 Summary of the Findings

This study tested effect of board structure on organizations performance in the context of Nairobi Securities Exchange. This study clearly proved to be that board size, experience of the directors and gender of the directors has a positive relationship with the performance of organization. However the study established that education level of directors has a negative relationship with the performance of organization. The study conclusions make it clear that diversity is a fundamental corporate governance element in the organization sector. A lot needs to be done to enhance individuals selected as directors in terms of their board size, average period of experience, gender and education level to enhance the performance of organizations. The study found that firm performance based on the return on assets in the overall regression model is significant except for education level of directors. This means that the independent variables of board size, experience of the directors and gender of the directors are important forecasters of organization performance. The study also revealed a positive correlation between all the four variables and organization performance.

5.3 Conclusion

5.3.1 Effect of Board Size on Organization Performance

The study concluded that board size has a significant and a positive effect on organization performance. This result indicates that large organization usually has large size boards whereas smaller organization tends to have smaller boards. This has an implication that firms with large board sizes tend to perform better while very small board sizes results in negative performance. This shows that performance of the listed firms in Kenya is dependent on size of corporate boards

5.3.2 Effect of Education Level of Directors on Organization Performance

The study concluded that level of education of directors is found not significantly associated with the performance of organizations though the result demonstrates negative association. This result indicates that level of education of directors is not effective enough to enable the improvement in organization performance. In other words, the performance of an organization may be influenced by other BOD characteristics or rather by factors other than BOD characteristics such as earning per share, dividend per share and price–earnings ratio that exposed to the market volatility which consequently influence the performance of an organization.

5.3.3 Effect of Experience of the directors on organization performance

The study concluded that experience of the directors has a significant and a positive effect on organization performance. This result indicates that board experience was important in ensuring robust organization performance; this evidence supports the views of Alänge and Steiber (2009) which indicated that board competence and experience were important in creating board commitment for sustainable major organizational performance.

5.3.4 Effect of Gender of the directors on organization performance

The study concluded that gender of the directors has a significant and a positive effect on organization performance. This result indicates that gender diversity is positively related with firm performance. This has an implication that inclusion of females in the board allows for a wholesome approach to management as it inculcates social and humane aspects to business, thus increasing firms' corporate image. However the number of women directors observed in the study is significantly low compared to that of men.

5.4 Recommendations

The study highly recommends that the listed organizations on Nairobi Securities Exchange should pay more attention to all the following recommendations in order to remain relevant and competitive in the market.

5.4.1 Effect of Board Size on Organization Performance

The study concluded that board size has a significant and a positive effect on organization performance. However, this study recommends that organization listed at

the NSE should examine their board composition in more detail and experiment in order to find the optimal board size. In some cases organizations might prefer smaller or larger board based on, for example, their strategy and current phase of company's development

5.4.2 Effect of Education Level of Directors on Organization Performance

The study concluded that level of education of directors is not significantly associated with the performance of organizations. However, the literature also supports the notion that adoption of technology and organizational change strategies enhanced firm performance. For these reasons, the study recommends that organization listed at the NSE should embrace technological advancement and seek innovative ways of increasing their performance with smaller focus on the education level of directors for efficiency, expediency in decision making and competitiveness.

5.4.3 Effect of Experience of the Directors on Organization Performance

The study recommends that organization listed at the NSE who value return on assets should have their board members serving for a shorter term and have more board members who are more experienced. Therefore, code for corporate governance should focus critically on these experiences of the directors as the keystone to achieving the much-needed performance in the organization listed at the NSE. The study also recommends that director induction and evaluation based on experience should be conducted annually for directors to understand their roles effectively and how well they achieved their objectives year on year

5.4.4 Effect of Gender of the Directors on Organization Performance

Having established that gender diversity significantly affects organizational performance, the study recommends that gender diversity in the board is critical since it leads to enhanced firm performance and should be encouraged. The study therefore recommends that organization listed at the NSE should attempt to incorporate more women members as it was proved to translate to more returns in terms of organizational performance. It's therefore important that the right mix of both genders to be put in place in order to enhance excellent performance in the organization listed at the NSE.

The study further recommends that in line with the legal requirements stipulated in The Constitution of Kenya (2011), which requires public firms to have at least a third

of senior officials from either gender, firms in the NSE should adopt change and uphold the law. The study recommends that the role of gender diversity be examined further as it patents explanations as to why firms differ in performance. The study posits that firms with more gender balance can perform better than firms with one gender dominating the board.

5.5 Suggestions for Further Research

This study investigated the effect of board structure on organizations performance in the context of Nairobi Securities Exchange It may be valuable to progress this further utilizing performance measures like market based performance factors, for instance, Tobin's Q and compare the relationship. It may also be valuable if the study was carried out in the other sectors in the economy such as the insurance and manufacturing sector so as to come up with a conclusive position on whether board structure variables do affect the performance of such firms.

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APPENDICES

Appendix I: Listed Organizations in the NSE

AGRICULTURAL

- 1 Eaagads Ltd
- 2 Kakuzi Ltd
- 3 Kapchorua Tea Co. Ltd
- 4 The Limuru Tea Co. Ltd
- 5 Sasini Ltd
- 6 Williamson Tea Kenya Ltd

AUTOMOBILES & ACCESSORIES

- 7 Car & General (K) Ltd
- 8 Marshalls (E.A.) Ltd
- 9 Sameer Africa Ltd

BANKING

- 10 Barclays Bank of Kenya Ltd
- 11 CFC Stanbic of Kenya Holdings Ltd
- 12 Diamond Trust Bank Kenya Ltd
- 13 Equity Group Holdings Ltd
- 14 Housing Finance Group Ltd
- 15 I&M Holdings Ltd
- 16 KCB Group Ltd Ord
- 17 National Bank of Kenya Ltd
- 18 NIC Bank Ltd
- 19 Standard Chartered Bank Kenya Ltd
- 20 The Co-operative Bank of Kenya Ltd

COMMERCIAL AND SERVICES

- 21 Atlas African Industries Ltd
- 22 Express Kenya Ltd
- 23 Hutchings Biemer Ltd
- 24 Kenya Airways Ltd

- 25 Longhorn Publishers Ltd
- 26 Nairobi Business Ventures Ltd
- 27 Nation Media Group Ltd
- 28 Standard Group Ltd
- 29 TPS Eastern Africa Ltd
- 30 Uchumi Supermarket Ltd
- 31 WPP Scangroup Ltd

CONSTRUCTION & ALLIED

- 32 ARM Cement Ltd
- 33 Bamburi Cement Ltd
- 34 Crown Paints Kenya Ltd
- 35 E.A.Cables Ltd
- 36 E.A.Portland Cement Co. Ltd

ENERGY & PETROLEUM

- 37 KenGen Co. Ltd
- 38 KenolKobil Ltd
- 39 Kenya Power & Lighting Co Ltd
- 40 Total Kenya Ltd
- 41 Umeme Ltd

INSURANCE

- 42 Britam Holdings Ltd
- 43 CIC Insurance Group Ltd
- 44 Jubilee Holdings Ltd
- 45 Kenya Re Insurance Corporation Ltd
- 46 Liberty Kenya Holdings Ltd
- 47 Pan Africa Insurance Holdings Ltd

INVESTMENT

- 48 Centum Investment Co Ltd
- 49 Home Afrika Ltd

50 Kurwitu Ventures Ltd

51 Olympia Capital Holdings Ltd

52 Trans-Century Ltd

INVESTMENT SERVICES

53 Nairobi Securities Exchange Ltd Ord 4.00

MANUFACTURING & ALLIED

54 A.Baumann & Co Ltd

55 B.O.C Kenya Ltd

56 British American Tobacco Kenya Ltd

57 Carbacid Investments Ltd

58 East African Breweries Ltd

59 Eveready East Africa Ltd

60 Flame Tree Group Holdings Ltd

61 Kenya Orchards Ltd

62 Mumias Sugar Co. Ltd

63 Unga Group Ltd

TELECOMMUNICATION & TECHNOLOGY

64 Safaricom Ltd

REAL ESTATE INVESTMENT TRUST

65 Stanlib Fahari

Appendix II: Raw Data

Data collection sheet for the effects of board structure on organization performance of companies listed on Nairobi Securities Exchange

	Size of the Board (Average)	Gender distribution (Percentage of women directors on the board)	Level of Education(Average)				Level of Experience (Average)		ROA Average
			PhD	Masters	1 st Degree	Professional Qualification	Below 10 years	Above 10 years	
Eaagads Ltd	4	9	0	0	0	0	0	0	0.02
Kakuzi Ltd	8	0	0	0	0	0	0	0	0.10
Kapchorua Tea Co.	7	0	0	0	0	0	0	0	0.04
Sasini Ltd	7	14	2	2	1	1	1	6	0.05
Williamson Tea	4	0	0	0	0	0	0	0	0.05
Car & General (K)	7	0	0	0	0	0	0	0	0.03
Sameer Africa Ltd	6	5	0	3	2	1	0	6	-0.10
Barclays Bank	10	41	1	5	3	1	2	8	0.05
CFC Stanbic	11	30	0	4	2	5	3	8	0.11
Diamond Trust Bank	12	17	0	7	3	2	6	6	0.03
Equity Group	10	24	3	3	3	1	1	9	0.13
Housing Finance	8	22	0	3	1	3	0	8	0.02
I&M Holdings Ltd	8	8	1	4	0	4	0	8	0.05
KCB Group Ltd Ord	11	27	0	6	5	0	5	6	0.05
National Bank	10	17	1	5	4	0	2	8	0.00
NIC Bank Ltd	13	16	0	5	7	1	1	11	0.04
Standard Chartered	10	33	0	0	0	0	0	10	0.05
The Co-operative Bank of Kenya Ltd	19	16	1	4	5	9	4	15	0.05
Kenya Airways Ltd	13	13	1	5	4	3	0	13	-0.12
Longhorn Publishers	9	31	1	2	5	1	5	4	0.13
Nation Media Group	16	17	4	6	5	1	3	13	0.74
Standard Group Ltd	8	13	1	4	2	1	0	8	0.02

TPS Eastern Africa	11	9	0	3	5	3	4	5	0.01
Uchumi Supermarket	9	35	1	6	2	0	4	5	-0.34
WPP Scangroup Ltd	7	0	0	1	4	2	2	5	0.06
ARM Cement Ltd	11	0	0	3	2	6	1	10	-0.03
Bamburi Cement Ltd	11	21	1	5	5	0	2	9	0.18
Crown Paints Kenya	7	14	0	0	0	0	0	0	0.05
E.A.Cables Ltd	8	13	0	3	4	1	0	8	-3.69
E.A.Portland Cement	5	13	0	0	0	0	0	0	0.14
KenGen Co. Ltd	13	26	2	8	2	1	2	11	0.03
KenolKobil Ltd	5	13	0	2	4	0	2	4	0.12
Kenya Power & Lighting Co Ltd	10	19	3	3	5	0	0	10	0.05
Total Kenya Ltd	9	29	0	3	6	1	4	6	0.08
Umeme Ltd	11	15	0	5	3	3	4	6	0.08
Britam Holdings Ltd	10	14	3	5	1	1	0	10	0.02
CIC Insurance	13	31	0	4	4	5	5	8	0.05
Kenya Re Insurance Corporation Ltd	11	27	0	10	1	0	3	8	0.12
Pan Africa Insurance Holdings Ltd	8	21	0	3	4	0	4	4	0.02
Centum Investment	9	22	2	2	4	1	0	9	0.13
Home Afrika Ltd	9	32	0	5	4	0	0	9	-0.04
Kurwitu Ventures	6	17	0	6	0	0	3	3	-0.09
Olympia Capital Holdings Ltd	8	13	0	4	2	1	0	8	0.01
Trans-Century Ltd	7	14	0	3	3	1	0	7	-0.11
Nairobi Securities Exchange Ltd	10	27	1	6	2	1	0	10	0.19

B.O.C Kenya Ltd	9	41	0	5	4	1	2	7	0.10
British American Tobacco Kenya Ltd	7	45	1	0	5	4	0	10	0.54
Carbacid Investments Ltd	5	0	0	1	1	3	0	5	0.16
East African Breweries Ltd	13	29	3	3	5	2	2	11	0.24
Eveready East Africa	8	46	0	5	1	1	0	8	-0.12
Flame Tree Group Holdings Ltd	5	20	0	0	2	3	0	5	0.26
Unga Group Ltd	9	33	0	2	6	1	0	9	0.06
Safaricom Ltd	12	43	0	5	6	1	0	12	0.43

Appendix III: Letter of Introduction



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7th November, 2018.

Ministry of Higher Education Science and Technology,
National Council for Science, Technology & Innovation,
P.O. Box 30623 – 00100,
Nairobi

Dear Sir/Madam,

**RE: RESEARCH BY LUCY CHEPCHIRCHIR RONO -
GMB/NBE/0227/01/14**

The above named is a student of Kabarak University taking Masters of Business Administration. Her research is entitled “Effects of Board Structure on Organization Performance: A Case Study of All the Listed Organization in The Nairobi Security Exchange”. *She* has been **Examined and Accepted** by the Board of Postgraduate Studies.

She is therefore authorised to proceed on with her research. Any assistance accorded to her is highly appreciated.

Thank you.

Yours faithfully,

Dr. Betty Tikoko
DIRECTOR - (POST GRADUATE STUDIES)

