BOARD STRUCTURE, CHIEF EXECUTIVE OFFICER'S POWER AND FINANCIAL PERFORMANCE OF LISTED FIRMS IN NAIROBI SECURITIES EXCHANGE, KENYA

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DECLARATION

Declaration by the Student

This project is my original work and has not been presented for a degree or other award in any other university.

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Declaration by the Supervisors

I hereby verify that this research work was conducted by the above candidate under our supervisions.

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DEDICATION

I dedicate this research project to my family including my lovely wife Aisha Ali and my daughter Azmi Aden.

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My gratitude goes to my supervisors for their relentless effort in guiding me through my entire process. I would like to thank my supervisors whom I am indebted to Dr. Phillip Bii and Dr. Mwengei Ombaba for their time and energy in going through my research from the inception till the end. I would also like to acknowledge all the staff in the School of Business from Garissa university College who have played a role in my coming up with this document. I also owe my gratitude to all my colleagues for their assistance and ensuring that I got the necessary materials in coming up with this piece of work. Most importantly, I am thankful to Almighty God who has given me the knowledge and the peace of mind during this period.

ABSTRACT

In Kenya the number of corporations going into receivership and others collapsing remains in dilemma. The general objective of the study was to establish the moderating effect of Chief executive officers' power on relationship between board structure and financial performance of listed firms in Nairobi Securities Exchange. This study made use of two theories namely; agency theory and stewardship theory. An exploratory research design was used in this study. The target population consisted of 68 companies for the period 2006- 2015. The research employed both descriptive statistics and inferential statistics. The sample size was 58 firms which were listed for the entire period of study and had complete data. The study used secondary data which was obtained from financial annual reports and NSE bulletins. Data was analyzed using both descriptive and inferential statistics. Specifically, multiple regression was used to test the hypotheses. The results showed that financial expertise of the board was positive and significantly related with financial performance (β*=1.831; <0. 005*). Board independence was also found to be positively and significantly related with financial performance of listed firms in Kenya (β=2.602*; p<0. 005*). Further the results showed that CEO power had a positive and significant moderation effects on board age (β 2.582; *p<0. 005)* board independence β = 2.681; *p < 0. 05* and financial expertise (β = 2.874; *p < 0.05).* The results provide evidence on new theoretical insight into factors influencing financial performance by incorporating the role of CEO Power. This study adds value on the understanding of the effect of board diversity on financial performance in listed firms and how CEO power influences this relationship in decision making in the context of a developing economy country like Kenya, where CEO power is more superficial due to the ownership structure and the role of family and founders in firm management. The findings of this study will provide a basis for further studies on board diversity and financial performance. Furthermore, the study provides empirical evidence which will be used by the policy makers with regard to board corporate governance of listed firms. The study recommends that the board should employ independent directors as they are found to effectively exercise their mandate.

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ABBREVIATIONS AND ACRONYMS

CBK	Central Bank of Kenya
CEO	Chief Executive Power
CMA	Capital Markets Authority Act
NACOSTI	National Commission for Science, Technology and Innovation
NSE	Nairobi Securities Exchange
ROA	Return on Assets
ROE	Return on Equity
UK	United Kingdom
US	United States

CHAPTER ONE

INTRODUCTION

1.0 Introduction

This chapter presents an overview of the research by looking at the background of the study, problem statement and the research objectives. It further touches on the conceptual framework, limitations of the study, significance of the study and the methodological designs to be applied.

1.1 Background to the Study

Financial performance is used to measure firm's overall financial health over a given period of time and can also be used to compare similar firms across the same industry or to compare industries or sectors in aggregation (Nath, Islam & Saha, 2015). They reasoned that financial performance of a firm can be used to determine its operating performance that means that the firm's performance is in quantifiable metrics.

Dibra, (2016) stated that the global financial crisis, triggered by bankruptcy of poorly governed companies such as Enron, AIG, Lehman Brothers and Merrill Lynch led the developed countries as well as developing nations to introduce stricter corporate governance rules and regulations in order to protect the interests of stakeholder so as to improve the overall firm performance. Ferreira (2010) contends that the inclusion of outside directors on the corporate board is vital for prosperity of the firm because they have connection which could bring resources to the firm. Zafar *et al.,* (2014) finds that the board structure emphatically impacts the firm performance as a strong board structure cultivates a disciplined atmosphere.

In South Africa Meyer & de Wet (2016) found that the proportion of independent non-executive directors had a significant positive effect on firm performance as measured by earnings per share and enterprise value, but had no significant effect on Tobin's Q ratio. The number of directors serving on the corporate board had a significant positive effect on firm performance as measured by earnings per share, enterprise value and Tobin's Q ratio. In developing countries such as Nigeria study by Edem *et al*., (2014) indicated that board size and board education are positively and significantly related to company performance. While there is no relationship between boards equity, board independence, and board age. Also, this study evidences a negative significant between board women and turnover.

In Kenya, corporate boards including those of benefits assets are said to be dominated by men. The system allows male directors to acquaint their companions with boards before they resign. The Institute of Directors of Kenya discredits that this arrangement procedure prevents larger part from claiming the ladies the opportunity to be chosen to the corporate boards thus denying the association this essential asset. In Kenya board composition is prescribed under Section 11(3) and 12 of the Capital Markets Authority Act (CMA Act, 2000) that empowers the Capital Markets Authority to make rules and regulations to govern capital markets in Kenya

1.2 Statement of the Problem

In Kenya the number of corporations going into receivership and others collapsing remains in dilemma. Muchoki, Iraya & Mwangi, (2015) reported the collapse of Euro Bank, Imperial Bank, mismanagement in Uchumi Supermarkets, the near collapses of Chase Bank, Unga Group, National Bank of Kenya among others. The devastating impact that the collapse of Enron, Worldcom, Barings Bank, Imarbank and others had

on the global economy supports the argument about the plethora of interested parties affected by corporate failure (Mizruchi, 2004; Brick, 2006).

Corporate financial fluctuation is enhanced by different scenarios for instance, Fama and Jensen (1983) asserts that the board of directors is one of the central institutions to ensure firms act in the interest of their stakeholders and mitigate the agency problem between management and shareholders. Meyer and de Wet (2016) in their studies in South Africa found that the number of directors serving on the corporate board had a significant positive effect on firm performance as measured by earnings per share, enterprise value and Tobin's Q ratio.

There are inadequate studies as to whether the composition of boards of directors can meet responsibilities in the same ways in differing market contexts and jurisdictions in which they operate (Krause *et al.,* 2014). This therefore underpins the need to investigate the moderating role of CEO power on the relationship between board structure and financial performance of the listed firms in NSE, Kenya.

1.3 Research Objectives

1.3.1 General Objective

The general objective of the study was to establish effect of Chief executive officers' power on relationship between board structure and financial performance of listed firms in NSE.

1.3.2 Specific Objectives

The specific objectives are:

1. To examine the relationship between board age and financial performance of listed firms in NSE.

2. To find out the effect of board gender on financial performance of listed firms in NSE.
3. To assess the effect of financial expertise on financial performance of listed firms in NSE.
4. To determine the effect of board independence on financial performance of listed firms in NSE.

5a. To establish the moderating role of CEO power on the relationship between board age and financial performance of listed firms in NSE.

b. To examine the moderating role of CEO power on the relationship between board gender and financial performance of listed firms in NSE

c. To assess the moderating role of CEO power on the relationship between financial expertise and financial performance of listed firms in NSE

d. To determine the moderating role of C.E.O power on the relationship between board independence and financial performance of listed firms in NSE

1.4 Research Hypotheses

The following are null hypotheses for the study,

H_{01} Board age has no significant relationship on financial performance of listed firms in NSE.

H_{02} Board gender has no significant effect on financial performance of listed firms in NSE.

H_{03} Financial expertise has no significant relationship on financial performance of listed firms in NSE.

H_{04} Board independence has no significant relationship on financial performance of listed firms in NSE.

H_{05a} C.E.O power does not moderate the relationship between age and financial performance of listed firms in NSE.

H_{0b}. C.E.O power does not moderate the relationship between board Gender and financial performance of listed firms in NSE

H_{0c}. C.E.O power does not moderate the relationship between financial expertise and financial performance of listed firms in NSE

H_{0d}. C.E.O power does not moderate the relationship between board independence and financial performance of listed firms in NSE

1.5 Significance of the Study

Research finding in this study might be found to be of valuable significance with regard to the development of policy and practice in corporate governance, particularly in the regulatory bodies like the Capital Markets Authority of Kenya and researchers. The investors and potential investors might also find the results of this study informative in their quest to have insight into the firm financial performance.

Capital Markets Authority recently released a new code for corporate governance in 2010, with suggested implication of improved firm performance based on adherence. This study also provides an opportunity to examine the linkage between the board structure and financial performance that can be used by regulators.

1.6 Scope of the Study

The study was conducted in a developing country context, by focusing on chief executive officers' powers on the relationship between board structure and financial performance of listed firms in Nairobi securities exchange, Kenya for period of ten

years from 2006-2015, other firms not listed in this period were excluded from the study. The board composition to be studied includes, board age, board gender, board independent, financial expertise and financial performance. The study made use of return on assets (ROA) as a measure of financial performance. Other factors that might affect financial performance of the firms were controlled.

CHAPTER TWO

LITERATURE REVIEW

2.0 Introduction

The study's literature is on the moderating role of C.E.O power on the relationship between board structure and financial performance of listed firms in NSE. The literature further entails an empirical review on board age, board gender, financial expertise and board independence. Further literature on financial performance is provided before showing gaps and finally a summary was provided.

2.1 Theoretical Framework

This study underpin two theories namely; agency theory and stewardship theory. Agency theory shows the relationship between the principals, such as shareholders and agents such as the company executives and managers (Clark, 2004). Stewardship theory assumes that there are no conflicting interests between shareholders and management (Donaldson and Davis, 1997).

2.1.1 Agency Theory

The first scholars to propose, explicitly that a theory of agency be created and to actually begin its creation were Stephen Ross and Barry Mitnick, independently and roughly concurrently. Ross introduced the study of the agency in terms of the problem of compensation contracting. Agency was seen, in essence as an incentive problem. Mitnick introduced the now common insight that institutions forms around agency, and evolve to deal with agency, in response to the essential imperfection of agency relationship.

Agency theory can be defined as a supposition that explains the relationship between principals and agents in business. It's concerned with resolving problems that can exist in agency relationship due to unaligned goals or different aversion levels to risk. The assumption of agency theory is a pragmatic contribution to the social sciences, incorporating central ideas about how human-machine interaction affects every day social life, including the mental structures of human agents, as machine becomes more complex in their application and behavior.

Agency theory is based on the relationship between the principal and the agent. The separation of ownership from management in modern corporations provides the context for the functioning of the agency theory. The theory of agency relationship mirror the basic structure of a principal and an agent who are engaged in cooperative behavior, but have differing goals and attitudes towards risk. The theory further assumes that principals because of information asymmetry cannot adequately observe actions that agents are taking in their benefit (Barac & Klepo, 2006). According to Stolowy & Breton (2003), if the theory of creative accounting can be constructed, it will not refer to the techniques used to manipulate, but rather to the needs, opportunities and relationships existing between categories of market participants.

Davidson, (2005) argues that when management provides inaccurate financial reporting information, it introduces creative accounting as a type of agency cost. The agency theory provides a basis for the governance of firms through various internal and external frameworks Roberts, (2005). The most important basis of agency theory is that the managers are usually motivated by their own personal gains and work to exploit their own personal interests rather than considering shareholders' interests and maximizing shareholder value (Weir *et al*., 2002).

Agency theory is relevant in this study since its used to understand the relationship between the agent and the principal. The agent (executive management) represents the principal (the shareholders) in a particular business transaction and is expected to represent the best interests of the principal without regard for self-interest.

2.1.2 Stewardship Theory

Stewardship Theory, developed by Donaldson and Davis (1991 & 1993) is a new perspective to understand the existing relationships between ownership and management of the company. This theory arises as an important counterweight to Agency Theory. This is a theory that managers, left on their own, will act as responsible stewards of the assets they control. This theory is an alternative view of agency theory, in which managers are assumed to act in their own self-interests at the expense of shareholders.

Stewardship theory adopts a psychological and sociological perspective of human behavior and rejects the premise that all decisions are driven by economic considerations (Psaros, 2009). Stewardship theory stresses not on the perspective of individualism (Donaldson and Davis, 1991), but rather on the role of top management being as stewards, integrating their goals as part of the organization. The stewardship perspective suggests that stewards are satisfied and motivated when organizational success is attained. Their premise is that individuals are motivated by noneconomic means such as acceptance, recognition, personal growth, and the need to gain satisfaction through their performance (Psaros, 2009).

Stewardship theory considers that performance is enhanced through good stewardship and the empowerment of managers (Royaee & Dehkordi, 2013). Stewardship theory holds that performance variations may arise due to structural constraints and not

because of insufficient rewards (Psaros, 2009). It adopts the view that independence of director representation should be minimized and asserts that the duality of the chief executive officer and board chair roles should be unified to provide a strong relationship (Psaros, 2009). Advocates of stewardship theory argue that authoritative decision-making under the leadership of a single individual (as both chairman and CEO) leads to an increase in the firm‘s performance (Jackling & Johl, 2009).

This theory proposes that managers do have similar interests to the corporation, in that the careers of each are linked to the attainment of organizational objectives, and their reputations are interwoven with the firm‘s performance and shareholder returns (Young & Thyll, 2008). Managers are seen as good stewards who are unlikely to misappropriate company resources for self-interest because they are motivated by non-financial values (Van den Berghe & Levrau 2004). Stewardship theory advocates the value of self-motivation towards what is good, assuming that managers, or the board of a firm, are self-motivated to serve the best interests of the firm and its owners.

Accordingly, the focus is on the inside directors' ability to promote shareholders' value through their superior knowledge of the company (Beasley et al., 2009). Daily et al. (2003) argued that in order to protect their reputations as decision makers in organizations, executives and directors are inclined to operate the firm to maximize financial performance as well as shareholders' profits. In this sense, it is believed that the firm's performance can directly impact perceptions of their individual performance. Having control empowers managers to maximize corporate goals. Stewardship theory is therefore not favored in modern corporate governance practices where CEO duality is frowned upon. The stewardship theory considers composition of board of directors, position of the chief executive officer (CEO) and board size as

essential elements for ensuring effective corporate governance within any organization (Coleman *et al.*, 2007).

2.2 Empirical Evidence

2.2.1 Concept of Financial Performance

Financial performance is the degree to which financial objectives of a firm are being accomplished (Pandey, 2009). There are many measures of financial performance. For example return on assets (ROA) determines an organization's efficiency in ability to make use of its assets and return on equity (ROE) reveals the return investors expect to earn for their investments and return on sales (ROS) reveals how much a company earns in relation to its sales. Traditionally, the success of a company has been evaluated by the use of financial measures (Tangen, 2003).

The main 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 & Mowen, 2005). Liquidity measures, gauge 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, 1989).

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. 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, 2001). Financial efficiency on the other hand 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, 2003).

2.2.2 Effect of Board Age on Financial Performance

Wiersema & Bantel (1992) focus on the demographic characteristics of the Board and their influence on firm´s strategic decisions. The age of Board members represents one of the demographic variables chosen for the study. Using a sample of 100 firms in 1983, they report a negative relationship between the average age of Board members and the changes in corporate strategies. This result shows that younger Boards are more tolerant to bear more risk and are more likely to accept major changes in the process of decision-making in comparison to older directors.

Kang, (2010) examined the extent of board diversity and independence in the top 100 Australian corporations in 2003 and the influential factors involved. The main findings of their research on the extent of diversity relating to gender, the age of directors, and independence in Australia's largest listed companies, reveal mixed results. In the case of gender, it is important to note that 33 companies (from a sample of 100 companies) did not have a female director. While 51 companies had one female director, only 15 companies had two or more female directors. Significantly, only 10.37% of the total director positions in Australia's top companies are occupied by females. Furthermore, only the level of shareholding concentration was found to be a significant factor in determining gender diversity.

Carter (2012) fined that younger boards are more likely to include female directors than older boards. Hence, younger directors appear to be more open to new approaches as opposed to old directors who might be interested in maintaining the status quo. Higgs (2003) reports that UK non-executive directors are notably drawn from a narrow pool. Essentially, directors in the UK are predominantly white males who are 60 years of age or above. Similar evidence is also documented for Australia’s top 100 firms where the majority of directors (78.30%) fall within the 51-70 age band and very few directors (1.98%) are below 40 years old. thus, there is a lack of diversity with respect to ethnicity and age among boards of Australian firms (Kang et al. 2007).

In a study performed by Wegge, (2014) the effect of age diversity upon performance was examined. Reviewing previous studies on age and gender diversity, he found the familiar mixed results. Based upon this he theorized that the complexity of the task could have a moderating effect upon the influence of diversity. Various theoretical frameworks from work psychology give reasons why diversity could have negative as

well as positive influences - the similarity-attraction and social identification models both predict negative effects of diversity while the model for decision making in teams make the opposite predictions. Wegge. (2008) speculate that which one of these conflicting effects will be dominant depends upon the task complexity, defined as strong demand for complex decision making.

2.2.3 Effect of Board Gender on Financial Performance

Gender representation on corporate boards of directors refers to the proportion of men and women who occupy board member positions. Adams & Ferreira (2009) find that more gender-diverse boards are tougher monitors; however, in firms with weak shareholder rights, the relationship between firm performance and female representation on boards is negative. A greater female representation on boards not only increases the size of the human capital pool from which directors can be drawn, but also provides some additional skills and perspectives that may not be possible with all-male boards.

Carter, Simkins & Simpson (2010) examine the relationship between board diversity and firm value for Fortune 1000 firms. They find a statistically significant positive relationship between the fraction of women or minorities on the board and firm value. Similarly, Jurkus, Park & Woodard (2008) investigate gender diversity in the top management of Fortune 500 firms and find that gender diversity is positively associated with both performance and stock valuation. Carter et al. (2010) and Bonn (2014) provide empirical evidence to support the view that increased gender diversity has a positive relationship with firm value.

Shrader, Blackburn & Iles (1997) investigated the relationship between the percentage of female board members and financial performance (using ROA and ROE) for a

sample of approximately 200 Fortune 500 firms. They find a significant negative relationship between the percentage of women on the board and firm value in some tests. Carter et al. (2013) report a positive relationship between board diversity (measured by the presence of women and minorities) and firm value. Using a sample of 638 Fortune 1000 firms, the results of this study suggest that a higher percentage of women and minorities on the board of directors can increase firm value. The study also suggests that the proportion of women on boards is a significant determinant of the fraction of minority directors on boards.

2.2.4 Effect of financial Expertise on Financial Performance

Knowledge and experience in accounting and finance are viewed as being among the important elements for financial expertise effectiveness (Engel et al., 2010). Experience in accounting, auditing and finance, and professionally qualified or certified accountants, are the important characteristics to be considered as an expert (Carcello et al., 2002). Additionally, these characteristics are essential to further enhance the effectiveness of the financial expertise. Accounting certification and audit committee experience are among the characteristics that are valued positively by the Board of Directors when designating an audit committee member as a financial expert (Iyer et al., 2013). Defond et al. (2005) noted that accounting expertise contributes to greater monitoring by the members of the audit committee, which, in turn, enhances multiple attributes of the financial reporting quality.

Nelson (2010) proposed academic qualification, i.e. postgraduate qualifications, as one of the characteristics of financial expertise that can enhance its effectiveness. Kim et al. (2006) suggested that formal education allows individuals to gain knowledge and skills, and earn credentials valued by others in the business community. Plus,

postgraduate qualifications might help to sustain the effectiveness of the financial expertise through higher audit quality. Kor (2003) documented that past managerial experience contributes to the competence of the top management team. Carcello et al. (2006) noted that repetition to exposure and the extensive effects of experience increases the knowledge and skills of experts. Further, DeZoort et al. (2002) implied that audit committee members' oversight experience and knowledge in accounting, auditing and finance make judgments more similar to external auditors than less experienced audit committee members.

Felo, (2009) find that expertise and size are positively related to financial reporting quality. They state that given the prior evidence of a negative relationship between financial reporting quality and cost of capital, firms could improve their reporting quality by appropriately structuring their financial expertise, thus reducing their cost of capital. The presence of financial expertise in public corporate entities has a positive effect on reducing agency cost when measured by cost to revenue (Reddy et al., 2010). Furthermore, an effective nomination committee should ensure the appointment of non-executive directors whose interests are aligned with those of the shareholders and reduce any agency problems.

2.2.5 Effect of Board Independence on Financial Performance

An independent board is a corporate board that has a majority of outside directors who are not affiliated with the top executives of the firm and have minimal or no business dealings with the company to avoid potential conflicts of interests

Coles, Daniel & Naveen (2008) re-examine the ideal number for a board by classifying firms into complex or simple firm and they find complex firms have larger boards than simple firms. There are some perspectives on how big a firm's board size

should be. From an agency perspective, it can be argued that a larger board is more likely to be vigilant for agency problems simply because a greater number of people will be reviewing management actions. From a resource dependence theory perspective, it can be similarly argued that a larger board brings greater opportunity for more links and hence access to resources. From a stewardship theory perspective, it is the ratio of inside to outside directors that is of relevance, since inside directors can bring superior information to the board for decision-making. Larger boards are likely to have more knowledge and skills at their disposal, and the abundance perspectives they assemble are likely to enhance cognitive conflict.

Reddy et al. (2008) also find similar results for New Zealand listed-firms. Furthermore, the median board size for New Zealand firms is six members which is less than what Jensen suggests for firms in the U.S. However, the smaller board size in New Zealand firms fits with its small market characteristic. Though the result is inconclusive, it is assumed that larger boards provide more expertise, greater management oversight and access to a wider range of resources; therefore to balance the skills required in the board room, New Zealand firms may require larger boards.

Using secondary data of quoted companies in the NSE, Mululu (2005) suggests that board activity, as measured by the frequency of board meetings, is positively related to the financial performance of firms. The results suggest that board meetings are an important dimension in board operations and particularly in the board's ability to effectively monitor management and improve firm's performance. Aosa, Machuki & Letting (2012) examined the relationship between board diversity and financial performance of 40 firms listed in the NSE. The results indicate a statistically not significant effect of board diversity on financial performance.

Mandu, (2012) examined the relationship between measures of board independence and the financial performance of commercial banks in Kenya. Data for the period 2004 through 2008 for 36 banks were obtained from the annual financial reports of commercial banks in Kenya. The study concluded that board composition has a significant negative correlation with performance of smaller firms and not for larger firms.

Mbugua, (2012) examined the relationship between board diversity and financial performance of commercial banks registered and domiciled in Kenya. Data on Boards' gender, educational qualifications, study specialization, and board specialization as well as the companies' financial performance were obtained from CBK's supervisory department where a total of 33 banks reports were sampled. The results show that there is very minimal association between board diversity and financial performance. A number of empirical studies on the effect of board size have been conducted in Kenya and globally with mixed results.

2.2.6 CEO Power

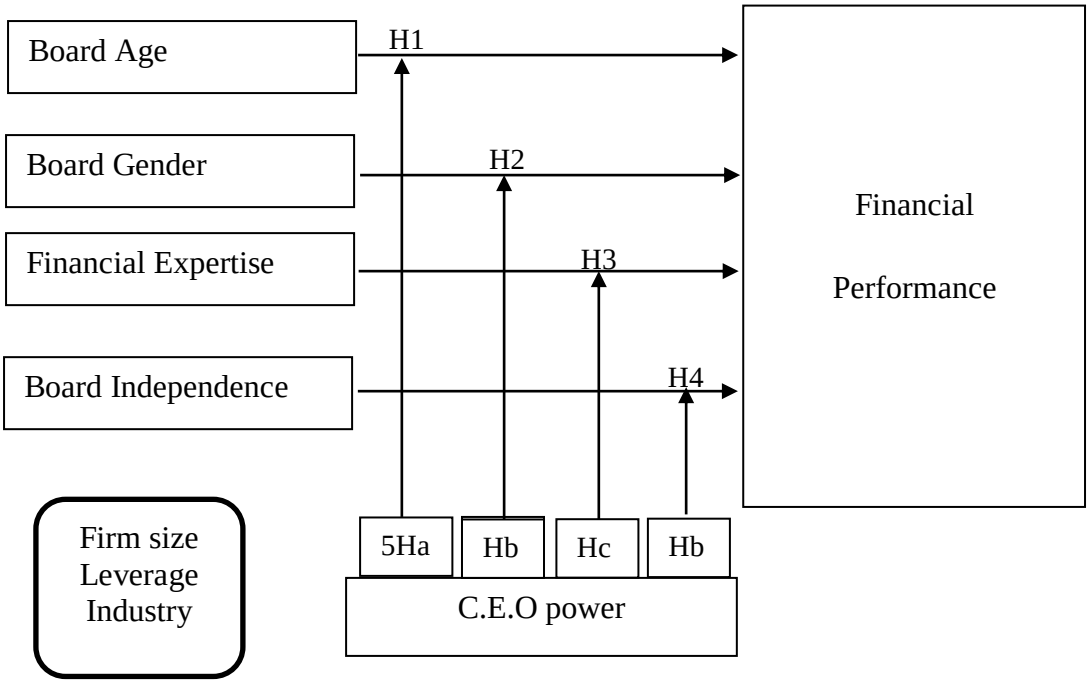
Argote & Miron-Spektor (2011) suggested that the experiential learning on the individual level have to be embedded in some supraindividual arrangement to enable the learning to occur on higher level. Similarly, Canella. (2008) pointed out that the executive characteristics need to be converted into implemented strategic choices to achieve organizational outcome. CEOs with power from the founder identity and board control may be able to overcome such constraints and insert their positive impact into the organization routine Hambrick (2007). First, the power enhances the CEO's ability to mold the strategic choice at his or her will and thus strengthen his or her influence on the firm (Hambrick & Finkelstein, 1987). Second, the power

facilitates deeper understanding of the firm-specific culture and politics and shields the implementation of innovation strategies from barriers originated from these factors (Groysberg, Lee, & Nanda, 2008; Huckman & Pisano, 2006).

Findings from relevant empirical works were largely consistent with the proposition that the power of the executives to make decisions shifts the impact on performance. Haleblian & Finkelstein (1993) proposed that the TMT characteristics are significantly associated with performance only when executives have high managerial discretion. In their study on CEO turnover and innovation, Bereskin & Hsu (2011) reported that internal CEOs who are supposed to have more power than outsiders may lead to inventions of higher quality and quantity. On the opposite end, the presence of predecessor executive, as a potential suppression force on the power of the incumbent CEO, is found to dampen the new CEO's chance to make significant gains in performance (Quigley & Hambrick, 2012).

2.3 Conceptual Framework

The study conceptual framework consisted of the independent and the dependent variables. The independent variables are the board age, board gender, financial expertise and board independence. The dependent variable was the financial performance measured using ROA. The moderating variables were measured using CEO power.



Independent Variable **Moderating Variable** **Dependent Variable**

Figure 2.1: Conceptual Framework

CHAPTER THREE

RESEARCH METHODOLOGY

3.0 Introduction

This chapter presents the methods and procedures that were used to carry out the study. They include the research design, population to be studied and sampling strategy, the data collection process, the instruments used for gathering data, and how data was analyzed and presented.

3.1 Research Design

A research design is a detailed plan that enumerates the specific methods and procedures of data collection and analysis to ensure that the evidence obtained enables the researcher answer the research questions in an unambiguous manner (Bhattacherjee, 2012). It can also be defined as the overall strategy that you choose to integrate the different components of the study in a coherent and logical way, thereby, ensuring that the researcher was effectively address the research problem; it constitutes the blueprint for the collection, measurement, and analysis of data.

This study used exploratory research design. The emphasis of exploratory studies is to study a situation or problem in order to establish whether causal relationships exist between variables. This design was suited to this study as it used secondary data on all variables and relationships between variables were interrogated without making any attempt to influence the variables.

Panel data was also used in this study. Panel data entails studying of a particular subject within multiple sites, periodically observed over a defined time frame (Gujrati, 2003). In panel data the same cross section unit is surveyed over time. Thus,

panel data have both space as well as time dimension (Gujrati, 2004). With repeated observations of enough cross-sections, panel analysis permits the researcher to study the dynamics of change with short time series. The combination of time series with cross-section can enhance the quality and quantity of data in ways that would be impossible using only one of these two dimensions (Gujrati, 2003). In this study balanced panel data was used in which each cross section unit has same number of observations.

3.2 Population of the Study

The target population comprised of all firms listed in Nairobi Securities Exchange (NSE) in Kenya as at year 2016. The target population consisted of 68 companies for the period 2011- 2015. The total number of listed firms in Nairobi securities exchange at the end of 2014 was 68 (NSE handbook, 2015). However listed firms included in the study were those that were trading on the NSE during the period, and therefore firms that were listed after 2016 and those were delisted or deregistered during the period were excluded from this study.

3.3 Sampling Procedure

The study selected all firms with complete data in the NSE. The firms fall under the category of Agricultural, Commercial and Services, Telecommunication and technology, Automobiles and accessories, Banking, Insurance, Investment, Investment services, Manufacturing and Allied, Construction and Allied, Energy and Petroleum, Real Estate Investment Trust and Exchange Traded Fund. (NSE hand book, 2016).

3.4 Sample Size

The study used purposive sampling design by considering only those firms with complete data. Those firms which were delisted during the study period were excluded in the study. The total number of firms with complete data was 58 which formed the sample size for the study.

3.5 Data Collection Procedure

Before data collection the researcher first got permission from the University College. Thereafter, a research permit was obtained from NACOSTI before enrolling in data collection process. The researcher obtained data from the Capital Market Authority (CMA) which was used in data analysis. Then the researcher collected panel data from yearly financial reports of the companies. The annual reports were downloaded from the company websites and also NSE bulletins were used.

3.6 Types and Sources of Data

Panel data was used which refers to multi-dimensional data frequently involving measurements over time. Panel data contain observations of multiple phenomena obtained over multiple time periods for the same firms or individuals. Secondary data used in this study was derived from secondary sources including journals, Nairobi Securities Market reports, Capital Market Authority reports, the specific company annual reports and their websites.

3.7 Measurements of Variables

3.7.1 Dependent Variable

Firm performance was measured using Return on Asset (ROA) as measured by (Sanda *et al.,* 2011; Taghizadeh and Saremi, 2013).

3.7.2 Independent Variable

The first set of test variables captures director monitoring and incentives as discussed under agency theory that was independent directors. Director independence was measured as the percentage of membership held by the outside independent directors, which has been considered in prior studies (Zahra and Stanton, 1988). The other set of test variables reflects the provision of resources by directors under resource dependence theory and includes board age, board gender, financial expertise and board independence. Following prior studies (Agrawal & Knoeber, 2001; Kassinis &Vafeas, 2002; Rivas *et al.,* 2009; Maere*et al.,* 2014) board age was measured by composing age groups and then measures the percentage of board members in each age group. This was done by dividing per age group the amount of people in all sample companies in that group by the total amount of board members in all sample companies. This method is also used by Siciliano (1996) and Engelen et al. (2012), and board gender as the average number of years the firm's directors have participated on the board was calculated by dividing the total number of years directors served on the board (starting from the year of appointment until the year of resignation or the focal year) by the number of directors on the board (Finkelstein &Hambrick, 1990; Hambrick & D'Aveni, 1992).

3.7.3 Control Variables

Factors that have a possibility of affecting the financial performance were controlled. *Firm size* is defined and measured as natural log of total value of firm assets (Back, 2005; Boyd *et al*., 2005; Agarwal and Taffler, 2008; Brad *et al*., 2015; Doumpos *et al.*, 2015) for firm *i* in year *t*.

Industry differences refer to attributes common to an industry (Mauri and Michael, 1998; Lieu and Ching-Wen, 2006; Short *et al*., 2007). Industry category has also been controlled for considering it is well known that a given industry can outperform another industry during a specific time frame. Differences in market growth, volatility and leverage between industries can affect firm performance.

Financial leverage was measured as the equity-to-debt ratio (equity/debt) as measured by (Haynes *et al.*, 2007; Sirtaine, 2005; Maere *et al.*, 2014).

3.7.4 Moderating Variable

The Chief executive officer's power was used as a moderating role in order to determine how the CEO tenure affects the financial performance of the firms. These include looking at the time period the officer was running the operations of the organization.

3.8 Data Analysis and Presentation Procedures

The research employed both descriptive and inferential statistics. Data was entered into EViews version 7 for analysis. Descriptive statistics was analysed through the use of Pearson correlations, frequency distributions, mean, skewness and kurtosis and standard deviation and presented using tables.

The main purpose of descriptive statistics was to reduce, summarize data and describe items and constructs. Pearson's Moments of correlation coefficient was used to test associations between the study variables. Multiple linear regression was conducted at 95% confidence level ($\alpha = 0.05$) in two stages. Inferential statistics was concerned with making predictions or inferences about the population from observations and

analyses of a sample. It allowed generalization beyond the sample data to a larger population.

The research employed both descriptive statistics and inferential statistics. Descriptive statistics provided simple summaries about the sample and the observations that were made. This often involves summarizing the central nature of variables, it also comprised the spread or range of scores, as well as the average difference each score is from the mean. Descriptive statistics included measures of skewness, and kurtosis to indicate how asymmetric or lopsided, and how peaked or heavy-tailed, respectively is a distribution of scores. Thus, descriptive statistics summarized basic characteristics of a distribution such as central tendency, variability, skewness, and kurtosis.

Multi-regression analysis was used to determine the influence of board structure on financial performance. The independent variables were regressed against the dependent variable on a simple linear regression analysis and a combination of the independent variables later regressed on financial performance while controlling for C.E.O power, to ascertain the moderating effect of C.E.O power. Multiple regressions were used to show the relationship between the variables of financial expertise and the financial performance.

Inferential statistics was concerned with making predictions or inferences about the population from observations and analyses of a sample. It allows generalization beyond the sample data to a larger population. To address the issue of generalization, Chi-square was used to tell the probability that the results of the analysis on the sample were a representation of the population that the sample represented.

3.8.1 Model Specification

The following equation was used;

$ROA=\beta_0+\beta_1 C1_{it}+\beta_2 C2_{it}+\beta_3 C3_{it}+\varepsilon_{it}$……..…**Model 1**

$ROA=\beta 0+\beta_1 C1_{it}+\beta_2 C_{2it}+\beta_3 C3_{it}+\beta_4 BA_{it}+\beta_5 BG_{it}+\beta_6 FE_{it}+\beta_7 BI_{it}+\varepsilon_{it}$……**Model 2**

$ROA=\beta 0+\beta_1 C1_{it}+\beta_2 C_{2it}+\beta_3 C3_{it}+\beta_4 BA_{it}+\beta_5 BG_{it}+\beta_6 FE_{it}+\beta_7 BI_{it}+\beta_8 BA*CP_{it}+\beta_9 BG*CP_{it}$

$+ \beta_{10} FE*CP_{it} +\beta_{11} BI*CP_{it}\ \varepsilon_{it}$**.....**……..……**Model 3**

Where

ROA/ROE= Firm financial performance of firm i (i=1, 2….44) in time t(t=1, 2…10)

BA_{it} =Board age of firm i in time t

BG_{it} =Board gender of firm i in time t

BI_{it} = Board independent of firm i in time t

FE_{it}= Financial Expertise of firm i in time t

C1, C2& C3=Control Variables

CP_{it} = CEO power of firm i in time t

S=Firm size

ε_{it} are the random error terms.

3.8.2 Underlying Assumptions of the Regression Model

Regression models rely upon certain assumptions about the variables used in the analysis. When these assumptions are not met the results may not be trustworthy and

may lead to biased parameter estimates. The following assumptions underlie multiple regression model of analysis:

1. Regression assumes that variables have normal distributions. Non-normally distributed variables can distort relationships and significance tests (Osborne and Waters, 2002).
2. Assumption of a linear relationship between the independent and dependent variable(s). Linearity refers to the degree to which the change in the dependent variable is related to the change in the independent variables. Standard multiple regression can only accurately estimate the relationship between dependent and independent variables if the relationships are linear in nature. Two things may influence the linearity. First, individual cases with extreme values on one or more variables (outliers) may violate the assumption of linearity. It is, therefore, important to identify these outliers and, if appropriate, exclude them from the regression analysis. Second, the values for one or more variables may violate the assumption of linearity. For these variables the data values may need to be transformed (Saunders *et al.*, 2009; Cohen *et al.*, 2013).
3. Assumption of homoscedasticity also referred to as homogeneity of variance, the extent to which the data values for the dependent and independent variables have equal variances. Homoscedasticity means that the variance of error terms is the same across all levels of the independent variable (Osborne and Waters, 2002).
4. Independence of the error terms. Each case or observation should be independent of one another. The regression model assumes that the errors from the prediction line are independent and there is absence of autocorrelation.
5. The independent variables are uncorrelated, that is, there is absence of multicollinearity. Multicollinearity occurs when two (or more) independent

variables are highly correlated, thus making it difficult to determine the separate effects of individual variables (Saunders *et al.,* 2009).

3.9 Statistical Tests

In this study, the statistical issues of concern were the usability of the data considering the methods of analysis that were used. Statistical tests were carried out to test these assumptions before analysis was done. Additionally, tests on the distribution of the data were done to identify whether the predictor variables were highly correlated amongst each another, a condition known as collinearity Field (2009) and the stationarity of the variables or lack of unit roots (Gujrati, 2004). The following section explains the tests that were done to test the various regression assumptions and conditions.

3.9.1 Test for Normality

In regression analysis, the assumption of normally distributed errors is relevant for any combination of values on the predictor variables. According to Williams *et al*., (2013) it becomes possible to make inferences about the regression parameters in the population that a sample was drawn from, even when the sample size is relatively small. Additionally, when errors are not normally distributed the coefficients t and F statistics may not actually follow t and F distribution. This study used the Jarque-Bera (JB) test and the normal probability plots recommended by Hair *et al*., (2010) to test for normality. In the normal probability plots the standardized plots are compared with the normal distribution which makes a straight diagonal line and the plotted residuals are compared with the diagonal. If a distribution is normal, the residual line closely follows the diagonal (Hair *et al.*, 2010).

3.9.2 Test for Independence of Errors

Chatterjee and Hadi (2012) opines that the errors in a regression model are assumed to be independent or not serially correlated across different observations. This is important for time series data where data points are observed in some sort of meaningful sequence. Independence of errors means that error terms of two different periods must be linearly unrelated (Sosa-Escudero, 2009).

The Durbin-Watson (D) test of serial correlations was used to test for independence of error terms. This statistic is typically used to test first order autocorrelations (ρ) with the statistic D ranging in value from zero to four. When the error terms are independent D is expected to be close to 2.00 (Sosa-Escudero, 2009 and Lind *et al*., 2015). Values of D closer to zero indicate positive autocorrelation whereas large values of D point to negative autocorrelations, which seldom occurs in practice (Lind *et al*., 2015). The D statistic normally tests the null hypothesis that there are no residual correlation (H0: ρ=0) against the alternative hypothesis that positive residual correlation exist (Ha: $\rho > 0$).

3.9.3 Test for Linearity in Parameters

The linearity relationship between the dependent and the independent variables represents the degree to which change to dependent variable is associated with the independent variable (Hair *et al.*, 2010). This implies that the response variable is assumed to be a linear function of the regression parameters ($\beta 1, \beta 2 \ldots \beta n$) but not necessarily a linear function of the predictor variables ($X_1, X_2 \ldots X_n$). This permits modeling of not only linear but also non-linear relationships between the predictor and response variables especially quadratic relationships which are modeled by

including both the predictor variable (X_i) and a squared predictor variable (X_i^2) in the regression model.

3.9.4 Test for Multi-collinearity

William *et al.,* (2013) defines multi-collinearity as the presence of correlations between predictor variables. In severe cases of perfect correlations between predictor variables multi-collinearity creates a shared variance between variables thus decreases the ability to predict the dependent measure as well as ascertain the relative roles of each independent variable (Hair *et al.,* 2010). The study assessed multi collinearity by means of tolerance and Variance Inflation Factor (VIF). Normally, a tolerance of below 0.10 or a VIF greater than 10 is regarded as indicative of severe multi-collinearity problems (Hair *et al.,* 2010).

3.9.5 Unit Roots Test

According to Gujrati (2004) a stationary time series is one whose mean and variance are constant over time and the value of covariance between the two time periods depends only on the distance or gap or lag between the two time periods and not the actual time at which covariance is computed. In other words, the mean, variance and auto-covariance (at various lags) for a stationary time series are time invariant and the time series is mean reverting. A characteristic of stationary time series data is that it does not have unit roots. Therefore, an initial step in panel data analysis is to conduct unit root tests to check for the stationarity of the data. The unit roots for the variables in this study were conducted using the Dickey Fuller unit-root test which tests the null hypothesis that the panels contain unit roots (or H0: $\alpha = 0$) against the alternative hypothesis that panels are stationary/ do not have unit roots (or Ha: $\alpha > 0$).

3.10 Ethical Considerations

Prior to data collection, the researcher obtained a university letter, NACOSTI permit and the county letter to allow him to conduct the study. The researcher also paid a visit to the respective firms and informed the general managers of his intention to conduct the study. The participation will be voluntary in nature and the researcher will assure them that the information received were confidential and used for academic purposes only. The researcher avoided plagiarism by citing and referencing other scholars work in the text.

CHAPTER FOUR

DATA ANALYSIS AND INTERPRETATION

4.1 Introduction

The general objective of the study was to establish effect of Chief executive officers' power on relationship between board structure and financial performance of listed firms in NSE. The specific objectives were: to examine the relationship between board age and financial performance of listed firms in NSE, to find out the effect of board gender on financial performance of listed firms in NSE, to assess the effect of financial expertise on financial performance of listed firms in NSE and to determine the effect of board independence on financial performance of listed firms in NSE. Further the study established the moderating role of CEO power on the relationship between the independent variables and financial performance of listed firms in NSE. The study findings were presented, first starting with the descriptive statistics, correlation and regression analysis.

4.2 Descriptive Statistics

The descriptive statistics for the companies studied are presented in Table 4.1 respectively.

Table 4.1: Descriptive Statistics

Variables	Min	Max	Mean	Std. Dev
ROA	-16.63	54.33	10.51	8.45
BA (Board Age)	46	69	61.01	3.42
BG (Board Gender)	0.00	4	1.65	1.06
FE (Financial Expertise)	1.00	2.00	1.28	0.14
BI (Board Independence)	3.00	11.00	9	2.00
CP (CEO Power)	-0.59	3.22	1.17	2.62
C1 (Firm Size)	5.00	18.00	10.59	2.00
C2 (Leverage)	0.17	5.72	1.25	0.92
C3 (Industry)	0.08	1.08	0.54	0.19

Source: Researcher (2017)

Table 4.1 shows the firm performance measured by ROA ranged from -16.63 to 54.33% with an average of 10.51% and a standard deviation of 8.45. The average age of Board members stand at 61 years with a standard deviation of 3 years. Most of directors are part of the Board for long periods of 10 to 15 years. As a result, having the same directors in the Board implies a constant average age during the 5-year period. The youngest member is 46 years old and the oldest one is 69. On board gender, there was an average of 1.65 with the maximum at 4 women in a board. With less than 2% women on each board, this suggests that male totally dominated corporate decision making in Kenya.

The financial expertise tested whether the organizations listed under the NSE comprised financial expertise with the necessary qualifications. The test was based on their level of education with above diploma considered as the cutting line. The mean of 1.28 indicates that many financial experts had the needed expertise to carry out their functions. There are about 9 independent directors on average with a standard deviation of 2 directors. The minimum number of independent directors in the Board is 3 and the maximum is 9. A small percentage of members in the Board are insiders. This implies that the Boards are predominated by outside directors.

4.3 Tests for Regression Assumptions

Regression analysis requires certain assumptions be met before it can be used to analyze any data. These include normality of errors, linearity and independence of errors (William *et al*., 2013). In addition Gujrati, (2004) agrees that panel data requires testing for multi-collinearity and stationarity before it can be subjected to regression analysis. Severe assumption violations can result in biased estimates of relationships, over or under-confident estimates of the precision of regression coefficients, untrustworthy confidence intervals and significance tests (Chatterjee and

Hadi, 2012; Cohen *et al.,* 2003). The sections that follow present the results of the various assumption tests done in this study.

4.3.1 Test for Normality of Errors

The tests for normality of error terms was done using Jarque-Bera (JB) test. Brys *et al*., (2004) argues that JB tests the hypothesis that the distribution of error terms is not significantly different from normal (H0: E (ε) ~N (μ=0, Var. =σ2). The results of the tests are presented in Table 4.2. The results show that the significance levels for the Jarque-Bera statistics were greater than the critical p-value of 0.05 implying that the errors were not different from normal distribution (Tanweeer, 2011). This can also be confirmed from the normal P-P plots in Appendix 3.

Table 4.2: Test Statistics for Model Residual Normality

Model	***JB (*Prob*).*** **Z-Score$_{it}$**	**Conclusion**
Model 1	3. 437 (0.168)	Normal
Model 2	2. 583 (0.335)	Normal
Model 3	3.016 (0.223)	Normal

Source: Research Data (2017)

4.3.2 Tests for Linearity

According to Chatterjee and Hadi, (2012) a model relating the criterion variable to the predictors is normally assumed to be linear in the regression parameters. The parameter linearity assumption is often tested by plotting residuals against predicted values of the response variable (Osborne and Elaine, 2002). Thus, the relationship should take a linear form for this condition to be met. As indicated in Appendices 2 and 3, the linearity in parameter assumption was met for all models.

4.3.3 Tests for Independence of Errors

According to Chatterjee and Hadi (2012) Errors in a regression model are assumed to be independent or not serially correlated across different observations. The Durbin-Watson test of serial correlations was used to test for independence of error terms. The Durbin-Watson statistic (D) is typically used to test first order autocorrelations (ρ) with the null hypothesis that there are no residual correlation (H0: $\rho = 0$) against the alternate hypothesis that positive residual correlations (Ha: $\rho > 0$) exist (Lind *et al*., 2015). The error terms are independent when D is close to 2.00 Lind *et al*., (2015). Values of D closer to zero indicate positive autocorrelation whereas large values of D point to negative autocorrelations, which seldom occurs in practice (Lind *et al*., 2015). The results in Table 4.3 show that the error terms were independent for all the regression models of Z-score.

Table 4.3: Test Statistics for Independence of Errors

	Durbin Watson Statistic (D)	
Model	**Z- Score**	**Conclusion**
Model 1	1.653	Error terms are independent
Model 2	1.562	Error terms are independent
Model 3	1.719	Error terms are independent

Source: Research Data (2017)

4.3.4 Testing for Multi-Collinearity

Collinearity means that two or more of the independent variables in a regression have a linear relationship. Variance inflation factor (VIF) and tolerance were used in this study to determine for multi-collinearity in predictor variables. According to Field (2009). A tolerance of below 0.10 or a VIF greater than 10 or a correlation coefficient

above 0.8 is regarded as indicative of serious multi-collinearity problems. Tolerance is equal to the inverse of VIF. According to Gujrati (2004) the closer Tolerance is to zero, the greater the degree of collinearity of that variable with other regressors. On the other hand, the closer Tolerance is to 1, the greater the evidence that the variable is not collinear with other regressors. This study followed the procedure given out by (Gujrati, 2004) that included the use of TOL and VIF. As indicated in the Table 4.4 below, the tolerance statistics were all above 0.10 and VIF values were all below 10 meaning that there was no problem of multicollinearity among the independent variables.

Table 4.4: Collinearity Statistics for independent Variables

Predictor Variable	**Collinearity Statistics**	
	Tolerance	**VIF**
Industry	.727	1.376
Firm Size	.693	1.442
Leverage	.803	1.246
Board Age	.385	2.598
Board Gender	.657	1.523
Board Independence	.720	1.390
Financial Expertise of Directors	.306	3.269
CEO Entrenchment	.833	1.201

Source: Research data (2017)

4.3.5 Testing for Unit Roots

As per Gujrati (2003) data series must be primarily tested for stationarity in all econometric studies. Where a series is found to be non-stationary at levels, it is differenced until it becomes stationary (Gujrati, 2004; 2003 and Baltagi, 2001). Since

panel data models were used in this study and the data set had a time dimension unit root existence was investigated by panel unit root tests.

This study conducted unit root test for the variables using the Levin-Lin unit root test. As shown in Table 4.5 the p-values for the Levin-Lin -Fisher Chi-square statistic were less than theoretical values of 0.05 for return on assets, board independence, board age, firm size, and industry. The null hypothesis was rejected implying that the variables do not contain a unit root therefore suitable for modelling and forecasting (Levin *et al.,* 2002). To correct for non stationarity in financial leverage, gender and financial expertise the first difference of the variables [D (var)] were used in the regression models.

Table 4.5: Panel Unit Root Test Statistics

Series	((**Lin- Fisher χ2**),	**P-value**	**Conclusion**
Firm Size	162.612	0.000	Reject H_0
Profitability	130.000	0.000	Reject H_0
Leverage	097.625	0.629	Do not Reject H_0
Board Age	118.367	0.000	Reject H_0
Board Independence	112.674	0.001	Reject H_0
Board Gender	65.604	0.052	Do not Reject H_0
Board Financial Expertise	20.427	0.431	Do not Reject H_0
CEO Power	141.962	0.000	Reject H_0
Return on Assets	112.165	0.001	Reject H_0

(ADF), Null Hypothesis: Unit root process
Cross sections: 39
Source: Research data (2017)

4.3.6 Model Specification Tests Statistics

In this study the random effects model was used in constructing the panel regression models. The decision for using random effects models in this study was based on the Housman specification test (Wooldridge, 2002; Greene, 2002). According to Gujrat (2004) Housman specification test should be used to determine between random and

fixed effects. Baum (2001) also concurs that Hausman specification test tests the null hypothesis that the slope coefficients of the models being compared do not differ significantly, with the fixed effects being used when there are differences in the slope coefficients. Consequently, the null hypothesis is rejected when Prob.>χ2 is less than the critical p-value and in such a case the fixed effects regression is appropriate. Hausman test results of these three models are presented along with panel regression results are shown in Table 4.7. All the models were run on random effects since the significance levels were greater than the critical value of 0.05.

Table 4.6: Model Specification Test Statistics for Z score

Model	**χ2 Statistic**	**χ2 d.f.**	**Prob.**	**Appropriate Model**
Model 1	2.534	3	0.745	Random Effects
Model 2	6.745	8	0.571	Random Effects
Model 3	4.459	14	0.983	Random Effects

Source: Research data (2017)

4.4 Correlation Analysis

Table 2 presents inter-correlation between various variables of this study and the results indicate that the strength of correlation between most variables are weak hence produced small effect (± 0.1) while association between other variables produced moderate effect (±0.3) and high effect (±0.5) respectively.

Table 4.7: Correlation Results

		1	2	3	4	5	6	7	8	9
1	ROA	1.000								
2	BA	-.065	1.000							
3	BG	.107*	.159	1.000						
4	FE	.046	.197**	-.035	1.000					
5	BI	.513*	.410*	-.016	.036	1.000				
6	CP	655*	.556**	.076	.099	.593**	1.000			
7	C1	-.201*	.718**	.106*	.156**	.447*	.621**	1.000		
8	C2	-.235*	.021	.145**	.184**	.442*	.714**	.662**	1.000	
9	C3	.093	-.138**	-.081	-.045	-.156**	-.194**	-.217**	-.218**	1.000

Note: *Correlation is significance at 0.01.
**Correlation is significance at 0.05.
Key: C3= Industry; C2 – Leverage, C1= Firm Size; CP= CEO Power; Bi=Board Independence; FE= Financial Expertise; BG=Board Gender; BA=Board age; ROA= Return on Assets

The findings in table 4.2 show that CEO Power is positively correlated to ROA (p<0.05). This implies that when the CEO has more power profitability of the firm is higher and vice versa. The probable reasoning could that with more power CEOs are in a position to influence decisions in the board and hence more performance. Board gender was found to be positively and significantly correlated with return on Assets (p<0.05). This shows that when the board has significant number of female directors the return on assets improves. This could be explained by the fact that women directors are transparent and are effective in discharging their duties. Board independence was found to be positively and significantly correlated with return on assets (p<0.05). This means that independence of the board will lead to high return on assets. This could be probably explained because of the independent directors not being employees of the firm are in a position to discharge their oversight role effectively. This could also be explained by agency theory.

In the same note, board age was found to be significantly correlated with financial expertise (p<0.05). This means that with the age of the board increasing financial expertise of the directors also increases. Board age was also found to be positively and significantly correlated with CEO power (p<0.05). Implying that as the age of the board increases the CEO's influence on making decisions also increases. It was also established that board age is positively and significantly correlated with board independence and firm size.

Correspondingly, BG (r = 0.145) and BE (Expertise) (r = 0.184) are highly positively correlated to firm size at 1% significant. This implies that as firm size increases there is need for gender inclusion and expertise to address the challenges associated with firm complexity. Board independence (BI), r = 0.593; 1% significant) has highest positive association with CEO power and this means board independence increase CEO power. Board size (C1) r = 0.662) is highly positively related to firm size meaning that as the firm is increasing in size more directors are needed on the board to manage the complexity of the firm. Furthermore, leverage (C3, r = -0.218 at 1% significant) strongly negatively related to firm size than other variables and this implies as firm size increases leverage may likely reduce.

4.5 Regression Analysis

Multiple regression analysis of this study was carried out in 3 steps. In the first step all the control variables were regressed to show their effect on the dependent variable. The variables in this step together formed regression model 1, which is presented in equation 1 below.

$ROA=\beta_0+\beta_1 C1_{it}+\beta_2 C2_{it}+\beta_3 C3_{it}+\varepsilon_{it}$…….**.....Model 1**

Where β0 is the intercept, β1 – β3 are coefficients and e is the error.

In the second step, all independent and control variables were regressed to obtain the main effect of the study and the result from this analysis was used to estimate the predictive power of these variables to meet the first four objectives of this study. Furthermore, this result was used to test hypotheses H_{01}, H_{02}, H_{03} and H_{04}. All the variables regressed in this step combined to give regression model 2.

$ROA=\beta0+\beta_1C1_{it}+\beta_2C_{2it}+\beta_3C3_{it}+\beta_4BA_{it}+\beta_5BG_{it}+\beta_6AC_{it}+\beta_7BI_{it}+\varepsilon_{it}$……**Model 2**

Where β0 is the intercept, β1 – β7 are coefficients and e is the error.

To achieve the fifth, sixth, seventh and eighth objective of this study, the moderating effect of CEO power was introduced into regression together with independent and control variables and the moderating effect of CEO power was established. This was achieved by determining the interaction effect of the product term of the criterion variable and the moderator variable. This step was necessary to test hypotheses $H_{04a,}$ $H_{04b,}$ H_{04c} and $H_{04d.}$ The variables in this step together formed regression model 3, 4, 5 and 6 as shown.

$ROA=\beta0+\beta_1C1_{it}+\beta_2C_{2it}+\beta_3C3_{it}+\beta_4BA_{it}+\beta_5BG_{it}+\beta_6FE_{it}+\beta_7BI_{it}+\beta_8BA*CP_{it}+\beta_9BG*CP_{it}$

$+\beta_{10}FE*CP_{it}+\beta_{11}BI*CP_{it}+\varepsilon_{it}$.....**Model 3**

Where β0 is the intercept, β1 – β11 are coefficients and e is the error.

4.5.1 Regression results

Table 4.8: Regression Results

	Dependent variable (ROA)		
	Model 1	Model 2	Model 3
Constant	26.352 (5.475)***	20.399 (4.151)***	27.410 (4.916)***
C1 (Industry)	-0.344 (-3.452)***	-0.103 (-1.150)	-0.348 (-3.377)***
C2 (firm size)	0.571 (-6.836)***	-0.456 (-5.786)***	-0.576 (-4.523)***
C3 (leverage)	0.056 (1.361)	0.066 (1.310)	0.065 (1.373)
Age BA_{it}		0.102 (0.812)	0.195 (1.665) **
Gender BG_{it}		0.045 (0.893)	0.032 (0.608)
Expertise BE_{it}		0.297 (1.731)**	0.312 (2.765) **
Independence BI_{it}		0.187 (1.102)**	0.193 (1.213) **
CEO Power CP_{it}		0.456 (4.239)**	0.459 (5.173)**
$BA*CP_{it}$			0.146 (2.582)**
$BG*CP_{it}$			-0.033 (-0.721)
$BE*CP_{it}$			0.253 (2.874) ****
$BI*CP_{it}$			0.176 (2.681) ****
R^2	0.187	0.344	0.461
Adjusted R^2	0.178	0.338	0.455
Change in R^2	-	.0157	0.117
F	7.563	5.956	6.256
P	0.000	0.006	0.000

Significant levels are: *** P<.01, ** P<.05 and * P<.10.

Table 4.4 reveals that the value of the F ratios being significant for all three regressions suggested the models were statistically fit to predict the financial performance represented by ROA. With R^2 0.187 for model 1, this means that all the control variables only offered about 19% explanation of the variance in the dependent variable (ROA). But, the conservative explanation offered by adjusted R^2 was 18%.

In model 1, among the control variables only leverage (C3) ($\beta = 0.056$; $p > 0.05$), had a positive impact on ROA although insignificant. The other two variables firm size (C1) ($\beta = -0.344$; $p < 0.01$), and firm size (C2) ($\beta = -0.571$; $p < 0.01$), had a negative influence on financial performance (ROA). This implies that those firms which are small in size are like to make more returns on assets. The likely reason behind this is that the smaller firms tend to utilize the assets efficiently hence higher returns on assets. Therefore, the model one becomes

$$ROA=26.352-0.344\ C1_{it}-0.571C2_{it}+0.056C3_{it}+\varepsilon_{it}$$

In model 2, all the independent variables except gender which was insignificant other variables were positive and significantly related with ROA. The significant influence was strong on board independence ($\beta = 0.157$; $p > 0.01$), ($\beta = 0.456$; $p < 0.01$), financial expertise ($\beta = 0.100$; $p > 0.10$). This means that boards with independent directors will experience more return on assets. It also means that those firms with board of directors having financial expertise are more likely to have better return on the assets. The equation for model 2 becomes;

$$ROA=20.3990.103C1_{it}+0.456C_{2it}+0.066C3_{it}+0.102BA_{it}+0.045BG_{it}+0.297BE_{it}+0.187\ BI_{it}+\varepsilon_{it}$$

In model 3, the interaction effect of CEO power was established by entering the moderator variable into the model three. The regression coefficient indicates that the interaction term between financial expertise and CEO power was significant and positive influence on financial performance (β =2.874*; p < 0.05*). Other than that, the regression coefficient suggests CEO power interacted positively and significantly with board age (β = **2.582**; $p < 0.05$) to influence the ROA. There was also significant moderation between CEO power and board independence (β=2.681; $p < 0.05$). This means that firms whose board is independent have positive returns on investment, hence more profits.

However, CEO power had insignificant moderating impact on the relationship between board gender (β = -0.033; $p < 0.1$). Hence, showing that CEO power does not significantly moderate the relationship between board gender and financial performance of listed firms in Kenya in the period of study. This result is used to answer objective 5, 6, 7 and 8 that CEO power moderate relationship between board structure and financial performance. The equation for model 3-6 becomes;

ROA=27.410+0.348$C1_{it}$0.576C_{2it}+0.065$C3_{it}$+0.195BA_{it}+0.032BG_{it}+0.312GE_{it}+0.193 BI_{it}+ 0.146BA*CP_{it}+-0.033BG*CP_{it} + 253BE*CP_{it} + 0.176BI*CP_{it} ε_{it}

4.6 Testing Hypothesis

4.6.1 Independent Variables on ROA

To test the hypotheses different predictor variables were regressed against the criterion variable. Random effects regression models were run for all the models and the results are presented in Table 4.3. The F-statistics was used to test the regression models Blackwell III (2005) and the goodness of fit (Hoe, 2008). The F-statistics test was used to test significance of the regression parameters at five percent significance

level using the following criteria; $H_{0;}\beta_j=0$ and H_a: $\beta_j\neq0$, $_i$th H_0 being rejected if $\beta_j\neq0$;*p*-value ≤0.05).

Hypothesis H_{01} stated that board age has no significant effect on financial performance of firms listed in Nairobi Securities Exchange. The results found a negative but non-significant effect between board age and financial performance (β =0.812; $p>0.05$). This result therefore failed to reject the hypothesis $H_{01.}$ This implies that board age has no effect on financial performance of listed firms in Nairobi securities exchange. The probable reasoning could be lack of a clear link between the age of the board of directors and firm's financial performance.

Hypothesis H_{02} postulated that board gender has no significant effect on financial performance of listed firms in NSE. The findings indicate that there is a positive but insignificant relationship between board gender and financial performance of listed firms in Kenya. This study therefore failed to reject the hypothesis (β=0.893, $p>0.05$). This implies that the gender of the board does not have an effect on ROA in the period of study. This could simply be because of the less number of boards having the requisite third gender rule.

Hypothesis H_{03} indicated that financial expertise has no significant relationship on financial performance of listed firms in NSE. The study found a positive and significant effect of financial expertise and financial performance. (β =**1.731;** $p<0.05$). This implies that board independence has an effect on financial performance of listed firms in NSE in the period of study. This could be due to the reason that directors with financial expertise are having knowledge on finance are likely to be effective monitors of the management.

Hypothesis H_{04} indicated that board independence has no significant relationship on financial performance of listed firms in NSE. The findings showed a positive and significant effect of board independence and financial performance of listed firms in Kenya. The hypothesis was rejected as the study found a significant influence (β =**1.102**, $p>0.05$). This implies that those firms with independent directors are likely to have a higher ROA. This could be probably by the fact that independent directors are effective monitors by not being dependent of management.

4.6.2 Moderating Role of CEO Power on the Relationship between Board diversity and Financial Performance

Hypothesis H_{05a} hypothesized that C.E.O power does not moderate the relationship between age and financial performance of listed firms in NSE. The results indicated that the interaction term between board age and CEO power was positive and significant (β=**2.582**, p<0.05). Hence, the hypothesis was rejected. This result implies that CEO power indeed moderates the relationship between board age and financial performance of listed firms. The reason could be that CEO has influence in decision making thus, making able to influence other directors to support his decisions. This can be supported by stewardship theory that managers are stewards and thus put organizational goals over and above personal goals.

Hypothesis H_{05a} postulated that C.E.O power does not moderate the relationship between gender and financial performance of listed firms in NSE. The findings showed that there was negative but insignificant interaction term between gender and CEO power (β=-0.721, p>0.05). This hypothesis was therefore accepted as the study found no significant influence of moderating role of CEO power on board gender on financial performance (ROA) thus concludes that C.E.O power does not moderate the

relationship between gender and financial performance of listed firms in NSE. This result could imply that with CEO power does not moderates board gender.

Hypothesis H_{05c} stated that that C.E.O power does not moderate the relationship between financial expertise and financial performance of listed firms in NSE. The results indicated a positive and significant interaction between financial expertise of boards and CEO power (β =2. 874 p<0.05). This implies that CEO power does moderate the relationship between financial expertise of the board and financial performance of listed firms in Kenya in the period of study. This study therefore failed to reject hypothesis H_{05c} showing C.E.O power does moderate the relationship between financial expertise and financial performance of listed firms in NSE. Reasonably because with financial expertise of directors and CEO power the board is able to make decisions which will positively affect the firm's performance.

Lastly, Hypothesis H_{05d} suggested that C.E.O power does not moderate the relationship between board independence and financial performance of listed firms in NSE. The results showed a positive and significant interaction between board independence and CEO power (β=2.681 p<0.05). Thus, the hypothesis was rejected. Implying, that CEO power does moderate the relationship between board independence and financial performance of listed firms in Kenya. The probable reason could be independent directors are not part of management hence make independent decisions with regard to their monitoring role. These findings in turn support agency theory that independent directors are effective monitors.

4.7 Discussion of the Findings

This study provides empirical evidence on the relationship between board structure, CEO power and financial performance. This relationship is as conceptualized by the agency theory and supported by the stewardship theory.

The results showed that financial expertise of directors is positively and significantly related with firm financial performance. The results supports, previous studies (Kor and Sundaramuthy 2009; Guner *et al.*, 2008; Van der Walt and Ingley 2008 and Lee *et al.*, 1999) which indicated that the appointment of directors with expertise in finance significantly increases the financial performance of companies. However, the study contradicts the study by Noor and Iskandar (2012) who found a non-significant relationship between financial expertise of directors and financial performance of Malaysian firms.

The findings showed that board independence is positively and significantly related with financial performance. This findings is in support of with prior studies (Lakshana and Wijekoon, 2012; Platt and Platt, 2012; Darrat *et al.*, 2010; Lajili and Zéghal, 2010; Daily *et al.*, 2003 and Daily and Dalton, 1994) who found that board independence enhances financial performance of companies. The results also supports a recent study by (Ombaba and Kosgei, 2017) which showed that board independence enhances financial performance of listed firms in Nairobi securities exchange. The argument behind this could be attributed to the fact that independent directors who are appointed aren't associated in any way with the appointing firm and hence they are independent from management. Thus, when discharging their roles they are not influenced by the management of the firm.

However, this finding did not support the results by Chaganti *et al.*, (1985) and Simpson and Gleason (1999) who found a non- significant relationship between

independent directors and firm's financial performance. The probable reasoning is that there could be lack of supportive environment that enhances independency of the board in discharging their monitoring and supervisory roles.

The results of the study suggest significant and positive moderation on the relationship between board structure and financial performance. It was established that CEO power moderates the relationship between board age and financial performance of listed firms in Kenya in the period of study. The findings also indicated that CEO power moderates the relationship between board independence and financial performance and also the relationship financial expertise and financial performance of listed firms in Kenya. This finding can be supported from the results shown in table 4.3 above. The result of change in R2 indicates the moderation effects. This findings support agency theory notion that independent directors are effective managers unlike dependent directors. The results also support stewardship theory that managers are stewards who value organizational goals to personal goals. Thus, as stewards CEOs always strive to achieve organizational goals first.

CHAPTER FIVE

SUMMARY OF FINDINGS, CONCLUSIONS AND RECOMMENDATIONS

5.0 Introduction

This chapter presents the summary of findings, concluding comments drawn from the findings and recommendations on the implications of the research on theory, policy and practice. The chapter also presents further research suggestions.

5.1 Summary of Findings

The purpose of the study is to determine the relationship between board structure and financial performance of listed firms and the moderating effect of CEO power. The study was conducted across 58 firms that were listed in NSE for the period 2006 to 2015. The firms with incomplete data and those which were delisted during the period of study were excluded from the study. The theories that supported this study were agency theory, and stewardship. The results of the study advanced knowledge on the role of corporate governance in enhancing firm's financial health. The discussions highlight key findings of the study.

5.2 Summary of the Findings

First, the findings indicated that higher representation of financial expertise in the boards had a positive effect on the financial profitability of the firms. This shows that directors with financial knowledge significantly influence firms' profitability. The findings offer support to the notion that directors with financial knowledge understand the financial terms and are in a position to advice the CEO on the way forward with regard to financial performance of firms.

Second, the findings indicated that higher representation of independent directors has a positive association with financial performance. These results suggested that a higher proportion of independent directors in the board enhance the probability of a firm performing financial sound. This finding supports the notion that independent directors are more effective in monitoring function compared to dependent directors. This assertion is consistent with agency theory. Thus, as a result of their independence the interest of the shareholders and value of the firm are well protected.

Third, the findings of the interaction term between CEO power and board age indicated a positive and significant effect on financial performance of listed firms in Kenya. This implies firms with powerful CEO are able to make profits since the CEO is in a position to influence decisions which positively impact the firm.

Forth, the results of the study indicate that the interaction term between financial expertise of directors and CEO power has a positive and significant effect on financial performance of listed firms in Kenya in the period of study. This means that when directors have financial related skills and knowledge, and CEO Power are likely to influence make decisions that positively impact financial performance of the firms.

Lastly, the study established that the interaction term between board independence and CEO power had a positive and significant effect on financial performance of listed firms in Kenya in the period of study. That means that for independent boards and CEO power will influence their positively influence firm performance. This implies that high CEO power precipitates the domination of independent directors.

When a firm has entrenched CEO at its helm the governance role of independent directors seems to be less effective. According to Stein and Plaza (2011) the elucidations given to back such effects look for refuting the independent directors'

true independence and aptitude to provide an impartial viewpoint in decision-making. Consequently, independent directors will not have any incentive to go against the management.

5.3 Conclusions

The study successfully extended knowledge by studying and testing whether CEO power could moderate board composition and financial distress relationship. This study confirmed the argument by Hillman and Dalziel (2003) that CEO power is more apt to moderate the relationship between board structure and firm performance than to have a direct effect. It was found that CEO power moderates the relationship between board independence, board age and financial expertise of directors with financial performance. The study concludes that when the CEO is entrenched, the board tends to become passive and submissive to the discretion of the CEO.

Based on the findings of this study, the following conclusions can be drawn; overall, the study is suggesting that the board plays an important role in the decision making of the firm. Board independence was found to be having a positive and significant effect on financial performance. This study concludes that board structure should comprise of more of independent directors as they enhance probability of financial soundness.

The impact of CEO power on financial performance cannot be overemphasized given the positive and significant effects of CEO power on financial performance. This finding qualified CEO power to be treated as a moderator for testing the interactions. This result showed that with CEO power and board independence there is more chances of financial success among firms. This finding is in support of the notion that with independent directors in the board there is effectiveness on the part of

management. The study therefore concludes that when the board is independent chances of firm being financially is increased. Hence, independence of the board should be enhanced.

In conclusion, the findings of this study have important implications for both academic, finance and corporate governance. As scholarly inquiries into the notion of CEO power and financial performance have remained conceptual to date, this study is one of the first to attempt to test the concept in empirical setting. The policy makers will find useful implications that are relevant and can be used to endorse the findings of this research in corporate governance policies.

5.4 Recommendations of the Study

Based on the findings, this study provides valuable recommendations to both theory and practice. The researcher believes that these recommendations will create vital insights to both scholars and practitioners in finance and corporate governance.

5.4.1 Theoretical Recommendations

Notably, the findings of this study have enhanced the body of knowledge on board composition and financial performance by providing empirical evidence on how CEO power moderates the relationship between board composition and financial distress. By incorporating CEO power as a moderator in board structure and financial performance relationship this study has widened the theoretical prism of board composition effects. Consequently, the study upheld the prescriptions of stewardship theory that managers are stewards who put organizational interest over and above personal interest hence minimizing financial distress. Thus, if managers are appointed objectively moderate CEO power will lead the firm into financially sound position. The study also supported the prescriptions of agency theory that independent directors

provide better control over management and that average tenured boards are beneficial to the firms than seasoned directors. The study therefore has boosted the existing literature on financial distress, CEO entrenchment and board composition which provide a reference point for academic discourse and future reference.

5.4.2 Policy Recommendations

As the corporate governance reformations are vigorously advocated in Kenya, this study provides insights into the roles of corporate governance in financial healthiness. As such the findings of this study provide valuable insights to authorities, managers and stakeholders on corporate governance. Specifically, these findings can be beneficial to authorities that formulate the policies, mainly the Capital Market Authority and Nairobi Securities Exchange.

Firstly, the study found the relationship between board independence and financial performance was positive and significant this point to the fact that independent boards effectively monitor management compared to dependent directors. Therefore, the composition of boards should take cognizance of members who are independent of management. Hence, the study recommends that the authorities should put structures that enhance the appointment of independent directors who have requisite skills and knowledge in the board. This will positively influence financial performance since independent directors are more effective and efficient in controlling and supervising the management.

Second, the study also takes cognizance of the value of financial expertise of the board. The researcher believes that financial expert boards serve the interests of shareholders. This is specifically important in Kenya, given the family ownership structure that is common to most firms. The study recommends that governance

policies need to set a cap that the board should have financial experts as board members.

Lastly, the results suggest that relative CEO entrenchment moderates the relationship between board structure and financial performance, and that CEO power will make sound financial decisions. Thus, the study recommends that CEOs should be allowed moderately sufficient power. This recommendation is in line with stewardship theory which postulates that CEOs/managers are stewards and selfless persons whose goals come after the organizational goals.

5.4.3 Recommendations for Further Research

The following suggestions were made for further research based on the findings of this study;

Firstly, the study do recommend more board composition variables to be included in future research like ownership, audit committee composition, ethnicity, gender, age and level of education with financial performance.

Thirdly, this study only incorporated listed firms with complete data. The study therefore recommends future studies to incorporate those firms with incomplete data.

Fourth, to take research to the next level the study recommends that future research to undertake a study on mediated-moderated relationships.

Lastly, future research should strive to penetrate inside the black box of the internal control system for listed firms to better understand the complex dynamics of corporate decisions by looking at board processes of these firms.

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APPENDICES

Appendix I: List of Companies At The NSE As At July 2016

AGRICULTURAL SECTOR
Eaagads Ltd
Kapchorua Tea Co. Ltd
Kakuzi
Limuru Tea Co. Ltd
Rea Vipingo Plantations Ltd
Sasini Ltd
Williamson Tea Kenya Ltd
AUTOMOBILES AND ACCESSORIES
Car and General (K) Ltd
Sameer Africa Ltd
Marshalls (E.A.) Ltd
BANKING
Barclays Bank Ltd
CFC Stanbic Holdings Ltd
I&M Holdings Ltd
Diamond Trust Bank Kenya Ltd
HF Group Ltd
KCB Group Ltd
National Bank of Kenya Ltd
NIC Bank Ltd
Standard Chartered Bank Ltd
Equity Group Holdings
The Co-operative Bank of Kenya Ltd
COMMERCIAL AND SERVICES
Express Ltd
Kenya Airways Ltd
Nation Media Group
Standard Group Ltd
TPS Eastern Africa (Serena) Ltd
Scangroup Ltd
Uchumi Supermarket Ltd
Hutchings Biemer Ltd
Longhorn Publishers Ltd
Atlas Development and Support Services
Deacons (East Africa) Plc
Nairobi Business Ventures Ltd
CONSTRUCTION AND ALLIED
Athi River Mining
Bamburi Cement Ltd
Crown Berger Ltd
E.A.Cables Ltd
E.A.Portland Cement Ltd

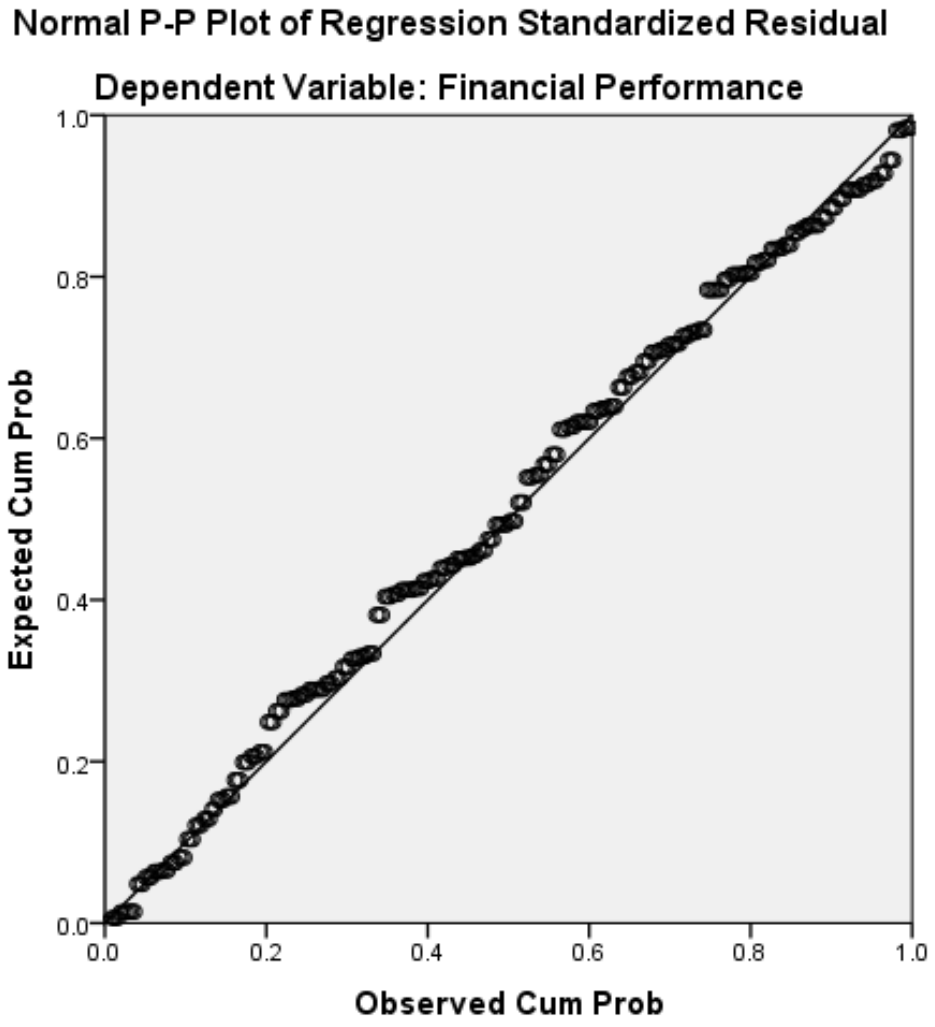
ENERGY AND PETROLEUM
KenolKobil Ltd
Total Kenya Ltd
KenGen Ltd
Kenya Power & Lighting Co Ltd
Umeme Ltd
INSURANCE
Jubilee Holdings Ltd
Pan Africa Insurance Holdings Ltd
Kenya Re-Insurance Corporation Ltd
Liberty Kenya Holdings Ltd
Britam Holdings Ltd
CIC Insurance Group Ltd
INVESTMENT
Olympia Capital Holdings ltd
INVESTMENT SERVICES
Nairobi Securities Exchange Ltd
MANUFACTURING AND ALLIED
B.O.C Kenya Ltd
British American Tobacco Kenya Ltd
Carbacid Investments Ltd
East African Breweries Ltd
Mumias Sugar Co. Ltd
Unga Group Ltd
Eveready East Africa Ltd
Kenya Orchards Ltd
A.Baumann CO Ltd
Flame Tree Group Holdings Ltd
TELECOMMUNICATION AND TECHNOLOGY
Safaricom Ltd
REAL ESTATE INVESTMENT TRUST
Stanlib Fahari I-REIT
EXCHANGE TRADED FUND
New Gold Issuer (RP) Ltd

Appendix II: Data Collection Schedule

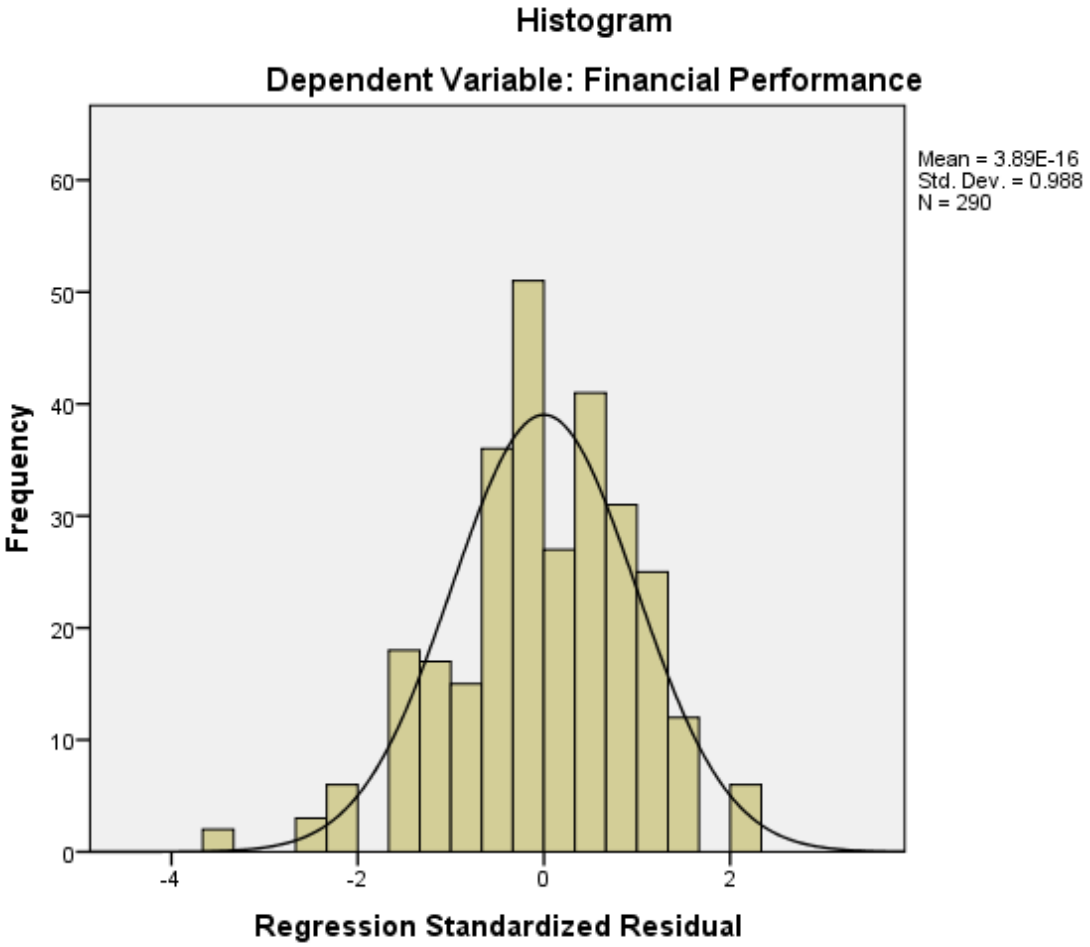
Name of Company

			Amount in financial year (sh. 000,000)										
YR	No of Directors	No of Female Directors	No of Independent Directors	Age of Directors	Firm Size	Leverage	Industry	CURRENT ASSETS (CA)	CURRENT LIABILITIES (CL)	WC= CA-CL	TOTAL ASSETS (TA)	RETAINED EARNINGS (RE)	EBIT
1													
2													
3													
4													
5													
6													
7													
8													
9													
10													

Appendix III: P-P Plot



Appendix IV: Histogram



Appendix V: Research Permit

GARISSA UNIVERSITY COLLEGE
(A constituent College of Moi University)
SCHOOL OF BUSINESS & ECONOMICS

REF: MBA/SBE/1001/2015

19th July, 2017

The Director, Research Coordination Division,
National Commission for Science, Technology & Innovation,
Utalii House, 8th & 9th Floor,
P.O Box 30623-00100,
NAIROBI.

Dear Sir/Madam,

RE: ADEN MUSA MOHAMUD - REGISTRATION NO. – MBA/SBE/1001/15

The purpose of this letter is to introduce the above named student who is pursuing **Master of Business Administration, Finance option** in the department of **management** in the school of **Business and Economics.**

The title of his research is **"Effect of chief executive officer's power on the relationship between board structure and financial performance of listed firms in Nairobi securities exchange."**

He has been cleared and now has to proceed to the field to collect the data for his project in the course of this semester **(June – September, 2017)**

Any assistance accorded to him will be highly appreciated.

Thank You

Dr. Samuel Nyambega
Dean, School of Business & Economics

CONDITIONS

1. The License is valid for the proposed research, research site specified period.
2. Both the Licence and any rights thereunder are non-transferable.
3. Upon request of the Commission, the Licensee shall submit a progress report.
4. The Licensee shall report to the County Director of Education and County Governor in the area of research before commencement of the research.
5. Excavation, filming and collection of specimens are subject to further permissions from relevant Government agencies.
6. This Licence does not give authority to transfer research materials.
7. The Licensee shall submit two (2) hard copies and upload a soft copy of their final report.
8. The Commission reserves the right to modify the conditions of this Licence including its cancellation without prior notice.

REPUBLIC OF KENYA

NACOSTI

National Commission for Science, Technology and Innovation

RESEARCH CLEARANCE PERMIT

Serial No.A 15082

CONDITIONS: see back page

THIS IS TO CERTIFY THAT:
MR. ADEN MUSA MOHAMUD
of GARISSA UNIVERSITY COLLEGE, 0-70100 Garissa,has been permitted to conduct research in *Nairobi County*

on the topic: *EFFECT OF CHIEF EXECUTIVE OFFICER'S POWER ON THE RELATIONSHIP BETWEEN BOARD STRUCTURE AND FINANCIAL PERFORMANCE OF LISTED FIRMS IN NAIROBI SECURITIES EXCHANGE*

for the period ending:
24th July,2018

Permit No : NACOSTI/P/17/82182/18503
Date Of Issue : 24th July,2017
Fee Recieved :Ksh 1000

.....
Applicant's Signature

.....
Director General
National Commission for Science, Technology & Innovation

NACOSTI

NATIONAL COMMISSION FOR SCIENCE,
TECHNOLOGY AND INNOVATION

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9th Floor, Utalii House
Uhuru Highway
P.O.Box 30623-00100
NAIROBI-KENYA

Ref. No. **NACOSTI/P/17/82182/18503**

Date: **24th July, 2017**

Aden Musa Mohamud
Graissa University College
P.O. Box 1801-70100
GARISSA.

RE: RESEARCH AUTHORIZATION

Following your application for authority to carry out research on ***"Effect of Chief Executive Officer's power on the relationship between board structure and financial performance of listed firms in Nairobi Securities Exchange,"*** I am pleased to inform you that you have been authorized to undertake research in **Nairobi County** for the period ending **24th July, 2018.**

You are advised to report to **the Chief Executive Officers of selected firms, the County Commissioner and the County Director of Education, Nairobi County** before embarking on the research project.

Kindly note that, as an applicant who has been licensed under the Science, Technology and Innovation Act, 2013 to conduct research in Kenya, you shall deposit **a copy** of the final research report to the Commission within **one year** of completion. The soft copy of the same should be submitted through the Online Research Information System.

GODFREY P. KALERWA MSc., MBA, MKIM
FOR: DIRECTOR-GENERAL/CEO

Copy to:

The Chief Executive Officers
Selected firms.

The County Commissioner
Nairobi County.

The County Director of Education
Nairobi County.

ORIGINAL

OFFICIAL RECEIPT

AC: 17144

Station Nairobi Date 21/7/17

RECEIVED from Aden Musa Mohamud

Shillings One thousand Shillings only

— cents —

on account of Research permit fee

Vote Head R&I 3

NACOSTI

Item AIA

Cash

Cheque No. Direct Deposit

USD	
Kshs	1000/=
AC No.	

Signature of Officer receiving remittance