

**CEO CHARACTERISTICS, BOARD INDEPENDENCE AND FINANCIAL
PERFORMANCE OF FIRMS LISTED IN THE NAIROBI
SECURITIES EXCHANGE**

BY

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DECLARATION

Declaration by the Student

This research project is my original work and has not been presented to any other examination body. No part of this research should be reproduced without my consent or that of Moi University

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DEDICATION

To my beloved Wife, Anne Mutunga and Children Agnes Ndoti and John Kioko who provided moral support and encouragement to work hard and pursue my dreams. You are my inspiration. Not forgetting my sister and brothers for their unwavering support and also my classmates for encouraging me to complete this research project. May God Bless you all.

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ABSTRACT

Firms listed in Nairobi Securities Exchange are expected to be financially stable in order to build investors' confidence and contribute to economic growth. In this regard, numerous and growing challenges which businesses face, particularly in the area of operations, cost-cutting and production efficiency are usually determined by CEO characteristics which is beneficial for firm performance very relevant. Fifteen of the sixty-five listed firms that traded on the stock exchange reported losses, two less than in the 2015 financial year, while 25 of the listed firms, or 39%, recorded falling after-tax profits in the year 2016. Firms that experience continuous and better Financial Performance will have a higher probability of surviving in the market. In this case the main objective of the study was to investigate the moderating effect of board independence on the relationship between CEO characteristics and financial performance of firms listed in the Nairobi securities exchange. The specific objectives of the study were to determine the effect of CEO duality, CEO tenure, CEO gender, CEO age on the financial performance of firms listed in the Nairobi securities exchange and to examine moderating effect of board independence on the relationship between CEO duality, CEO tenure, CEO Gender, CEO age and financial performance of firms listed in the Nairobi securities exchange. Agency theory, upper Echelons theory and resource Dependency Theory were used. The study adopted both explanatory and longitudinal research designs and all the 65 firms listed in the NSE were targeted. Inclusion exclusion criteria was used to sample out firms. Firms listed consistently and has adequate information met inclusion criteria for the period 2016 to 2020 while those with inconsistent, inadequate, delisted or suspended due to lack of regulatory compliance was excluded. Data was collected from 58 firms who met the criteria. Document review guide was used to extract and compile the required secondary data for analysis from the Financial Statements. The data collected was analyzed using Statistical Package for the Social Sciences. A total of 7 firms which were not participating on the study were picked for pilot study. Study findings were presented in figures and tables. Financial performance of the firms was analyzed for a period of 5 years. The study used hierarchical regression model to establish whether board independence moderates the relationship between CEO characteristics and financial performance; CEO tenure has a significant effect on the financial performance of listed firms in NSE ($\beta_2 = -1.50$ ($t = -4.89$, $p < 0.05$); the gender of the CEO has a significant effect on the financial performance of listed firms in NSE ($\beta_3 = 8.8570$; $t = -2.12$, $p < 0.05$); it was further determined that age of CEO has a significant effect on the financial performance of listed firms in NSE ($\beta_4 = 0.6018$; $t = 3.99$, $p < 0.05$). The results show an insignificant moderating effect of board independence on the relationship between CEO duality and financial performance ($R^2\Delta = 0.00$ $\beta = -0.02$; $\rho > 0.05$). The results indicate a positive and significant moderating effect of board independence on the relationship between CEO tenure and financial performance ($R^2\Delta = 0.07$, $\beta = 0.02$; $\rho < 0.05$). Besides, board independence has a positive and significant moderating effect on the relationship between CEO gender and financial performance ($R^2\Delta = 0.05$ $\beta = -0.06$; $\rho < 0.05$). Finally, board independence has a positive and significant moderating effect on the relationship between CEO age and financial performance. The study concludes that; CEO age, tenure, gender, significantly influences Financial Performance of firms listed in the Nairobi Securities Exchange while CEO duality does not influence. The Study recommended that it is instrumental for firms to appoint their CEOs based on the duration they have served the company or they have been in the mentioned industry. With this in place, firms will be able to appoint CEOs that are conversant with the dealings of the firm and those with wealth of experience.

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ACRONYMS/ABBREVIATIONS

CBK:	Central Bank of Kenya
CEO:	Chief Executive Officer
CMA:	Capital Markets Authority
CSR:	Corporate Social Responsibility
ESAP:	Economic Structural Adjustment Program
NIM:	Net Interest Margin
NSE:	Nairobi Securities Exchange
RBZ:	Reserve Bank of Zimbabwe
ROA:	Return on Assets
ROE:	Return on Equity
ROS:	Return on Sales
SMEs:	Small and Medium Enterprises

OPERATIONAL DEFINITION OF TERMS

- Board Independence:** 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 (Baharudin & Marimuthu, 2019).
- CEO Age:** This is the number of years of the CEO since birth
- CEO Characteristics:** involves attributes which includes duality, age, tenure, education, gender, professional experience and tenure of chief executive officer explaining differences in financial performance of firms (Diks, 2016).
- CEO Duality:** It involves a situation where an individual occupies both the CEO and Chairman (Liao, *et al.*, 2015).
- CEO Gender:** This is the CEO Sex – in this case a Male or a Female.
- CEO Tenure:** is the duration in which the CEO has been in the office and this depends on the corporate governance structures (Goldstein & Leland, 2011).
- Financial Performance:** is a subjective measure of how well a firm can use assets from its primary mode of business and generate revenues (Mwangi, 2016).

CHAPTER ONE

INTRODUCTION

1.0 Overview

This chapter presents background, statement of the problem, research objectives, hypotheses, significance and the scope of the study.

1.1 Background of the Study

Financial performance is defined as the measure of effectiveness and efficiency (Chua, *et al.*, 2018) shows how well a firm can use assets from its primary mode of business and generate revenues. Financial Performance informs investors about the general well-being of a firm. The success of a firm is manifested in the way it manages sales growth, inventory, operating expenses and effective working capital with strong liquidity, ensures the stability and position (Chandren *et al.*, 2018). The relationship between corporate governance and a firm's operating performance has been discussed in numerous studies, although largely confined to the board of directors and its sub-committees (Agyei-Mensah, 2021; Al Farooque *et al.*, 2019), whereas ignoring the CEO who is the main actor in the management of company affairs. Literature on Financial performance has shown that it is greatly influenced by corporate, foreign, dispersed, and managerial ownership (Ongore, 2011). The involvement of corporate governance has been found to be significant in achieving sound financial performance owing to the substantial influence from corporate leaders in discharging their duties effectively thus setting the direction for the firm (Chandren *et al.*, 2017).

Although financial performance identifies how well a company generates revenues and manages its assets, liabilities, and the financial interests of its stakeholders and stockholders (Kenton, 2022), it has in the recent past been of great concern among different stakeholders. Literature indicates that financial performance could be

influenced by a certain factors such as liquidity, ownership, age and size (Burca & Batrinca, 2014). In a study where data were collected from audited financial statements of 269 large listed firms for the period from 2010 to 2016, the quantile regression and ordinary least square regression showed that firm size has a positive relationship with financial performance. In contrast, capital structure, short-term liquidity and fixed asset investment have negative relationship with financial performance (Hoang *et al.*, 2019).

Corporate governance studies allude that gender diversity strengthens the board's monitoring role and enhances the financial performance (Ghaleb *et al.*, 2021). Other studies show that a positive and significant link between corporate governance and return on assets (ROA) and return on equity (ROE) (Brown & Caylor, 2019; Dony *et al.*, 2019; Khan *et al.*, 2019). The reliability of corporate governance, led by the board chairperson and the executives is vital in achieving positive operating performance and ensuring stakeholder's particularly investors' confidence (Amran *et al.*, 2014). Overall, effectiveness in discharging the corporate governance roles is necessary in strengthening operating financial performance (Chandren *et al.*, 2019) and in reducing any detrimental effect from investment (Al-Gamrh *et al.*, 2020).

Ideally, the board guides long-term corporate strategy, puts the key agents in place to implement it, and monitors performance against the strategy set out. Consequently, poor firm company performance begins with a board not fulfilling its key responsibilities. However, boards of directors operate out of sight of the public and most investors. While the nature of confidential board deliberations makes it impossible to demand full transparency of board meetings, there needs to be trust and confidence in the proper functioning of the board (Abor, 2017). An organization's board of directors is responsible for ensuring that a corporation meets the objectives of stakeholders as well as developing business strategies to prosper in the future (Arfken

et al., 2014; Peterson & Philpot, 2017). Although this is the reality, most studies of financial performance have focused on boards to the exclusion of the CEO yet he or she is main actor responsible for managing company affairs on daily basis.

There are certain CEO demographic characteristics that may influence financial performance; however prior studies have shown mixed results which eventually call for more probing. For instance, the effect of CEO duality on financial performance is reported to be differentiated based on firms' industrial affiliation and different institutional factors. In the USA, there is a general pattern of segregation between the duties of the CEO and the responsibilities of the chairperson, and empirical studies in American firms with CEO duality report poor business governance (Chen *et al.* 2018; Elsayed 2017; Thorne *et al.* 2017). In other studies examining Malaysian firms, found no connection between CEO duality and the quality of financial performance (Said *et al.* 2019). Likewise, Cheng and Courtena (2016) presented that CEO duality was not related to the degree of voluntary disclosures in the firms listed on the Singapore Stock Exchange (Cheng & Courtena 2016). However, these mixed results shows the need to carry more investigations especially in developing contexts.

Previous studies have illustrated inverse relationship between CEO tenure and financial performance (Weisbach 2018; Murphy & Zimmerman, 2013). This study is predicated on the idea that financial performance reveals information about a CEO's ability to create value for shareholders. When financial performance is poor, a CEO is replaced because the firm's owners infer that he is ineffective at formulating and implementing strategies and policies that enhance firm value. Since owners' beliefs about their CEO's ability are revised over time based on periodically observing financial performance, their beliefs of CEO ability become increasingly precise over the employment relationship. Hermalin and Weisbach (2018) theoretically show how this increasing

precision reduces both the emphasis placed on financial performance in affecting CEO dismissal and owners' demand for monitoring their CEO.

CEO gender explains firm management and financial performance. Female CEO's either operate their firms differently, or alternatively are hired to manage firms having certain characteristics. It has been recognised that female directors make acquisition decisions that influence shareholder value leading to macroeconomic implications that affect the long-term economic growth of the company (Faccio *et al.*, 2015). Women are reported to contribute to the implementation of unique skills to the corporates that affect the net profit of the organisation (Mkhize *et al.*, 2011).

Firms with younger CEOs have been shown to exhibit higher average growth, but also considerably more variation in their growth rates. Corporate growth could be achieved through internal development, R&D, and mergers and acquisitions. Younger CEOs have been shown to be more likely to invest in research and development (Barker & Mueller, 2012; Seráing, 2014) and more likely to acquire other Örms (Matta & Beamish, 2018; Levi, *et al.*, 2020; Yim, 2013). They open and close new plants more frequently (Li, *et al.*, 2017), exhibit higher levels of strategic change (Wiersema & Bantel, 2012; Yang, *et al.*, 2021) and overall generate higher market value (Bhabra & Zhang, 2016; Cline & Yore, 2016). Secondly, older CEOs may behave cautiously and commit resources to initiatives where the possible financial outcomes are fully understood to ensure survival of their firms and to leave a legacy for future generations. A number of studies demonstrate that younger CEOs tend to pursue riskier strategies (Karami, *et al.*, 2006)

In the recent past, owing to the collapse of great corporations globally, there is increased attention on board independence. Most countries have made significant effort to strengthen their board, transparency and disclosure levels (Sanda, 2014). According to

Jiang and Wong (2004) for the last two decades the moderating effect of board independence on the relationship between capital structure and financial performance has become an area of interest among investors and has developed considerable attention in the broader field of corporate finance among other stakeholders. Lioui and Shaema (2012) argued that firms' ownership is organized in order to maximize firm value and suggested that firms' ownership and capital structure decisions reflect attempts to mitigate agency problems between various stakeholder to avoid potential conflicts of interest between a controlling shareholder and minority investors.

Meyer and de Wet (2016) determined 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 independence 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 (CMSC, 2014). Board independence framework has also continued to weaken in Kenya (Mang'unyi, 2011). In fact, according to the World Economic Forum (2013) In addition, corporate governance framework in Kenya has lagged behind other countries. This is due to company's failure to comply with current rules on the issue of board independence requirements (CMSC, 2014). Therefore, as a result of poor corporate governance, Kenya's large companies have experienced weak financial performance thereby resulting to corporate failures (Madiavale, 2011).

1.1.1 Nairobi Stock Exchange

The Nairobi Securities Exchange (NSE) is a leading African Exchange, based in Kenya – one of the fastest-growing economies in Sub-Saharan Africa. Founded in 1954, NSE has a six decade heritage in listing equity and debt securities. It offers a world class trading facility for local and international investors looking to gain exposure to Kenya and Africa's economic growth. NSE is playing a vital role in the growth of Kenya's economy by encouraging savings and investment, as well as helping local and international companies access cost-effective capital. Nairobi Securities Exchange has 65 member firms. The purpose of these Rules is to set out the operational and procedural rules issued by the Nairobi Securities Exchange Limited for the purpose of ensuring orderliness, efficiency of the market in the initial admission of securities to the Official list of the Exchange, the listing of additional shares, and the continuing listing obligations in compliance with the Capital Markets Act and the Regulations and Guidelines issued thereunder.

These Rules are divided into six main parts. Part I sets out the constitution and mandate of the Committee with respect to admission to listing, suspension and de-listing of securities under the general direction of the Board. This Part also sets out the procedures for admission to listing, suspension and de-listing of securities. Part II outlines the requirements relating to Transaction Advisors who shall undertake to accept the responsibilities laid out in Part 1 of Schedule 3 of these Rules. Part III explains the methods of listing securities on the exchange, the market segments and eligibility and disclosure requirements for listing of securities. Part IV outlines the continuing listing obligations which an issuer is required to observe. Part V consists of an appendix which stipulates the continuing listing obligations applicable to REITs and ETFs.

Financial Performance is an issue in the Nairobi Securities Exchange. Fifteen of the sixty-five listed firms that traded on the stock exchange reported losses, two less than in the 2015 financial year, while 25 of the listed firms, or 39%, recorded falling after-tax profits in the year 2016. It is in this regard that this research seeks to establish the moderating effect of board independence on the relationship between CEO characteristics and financial performance of firms listed in the Nairobi Securities Exchange. Capital Markets Authority was established in 1989 through the Capital Markets Authority Act, Cap 485 A to regulate and oversee the orderly development of Kenya's capital markets. The Authority ensures the development and maintenance of an appropriate legal and regulatory framework to boost investor confidence, enhance efficiency and to create and maintain a fair and orderly market. The Authority also reviews existing policies and makes recommendations to the Government on new policy issues that could promote and enhance market development. It also provides guidance to market operators. Therefore, Capital Market Authority (CMA) has a regulatory responsibility to keep surveillance of firms listed in NSE with regards to

capital, liquidity and other aspects with overall aim of ensuring financial stability of these firms (Maina & Sakwa, 2010).

NSE has a double responsibility for development and regulation of the market operations to ensure efficient trading. For an efficient stock exchange, the companies listed in NSE are expected to be financially health so as to ensure economic growth of a country (Maina & Sakwa, 2010). The NSE has been performing poorly in recent years. The performance of the stock market indicates that the market has not managed to make significant contribution to financing economic growth (Maina & Sakwa, 2010).

There are 65 listed firms are classified into ten sectors that exhibit similar products and/or similar markets. The sectors also have unique characteristics and risk profiles. The NSE sectors include; Agricultural, Commercial and Services, Telecommunication and Technology, Automobiles and Accessories, Banking, Insurance, Investment, Manufacturing and Allied, Construction and Allied, and Energy and Petroleum. An additional sector, Growth Enterprise Market Segment, was introduced in 2013. The Manufacturing and Allied Sector of the NSE comprises of nine listed firms involved in manufacturing and related business activities.

Investors lost big in the wake of poor financial performance by most listed firms due to poor CEO and leadership performance. Investors lost Sh 364.9 billion in paper wealth with total turnover declining 32.27% and performance going south compared to quarter two. Market capitalization went down to Sh2.21 trillion by 6.68% marking Sh364.9 billion drop in investor wealth while primary and secondary bond markets marginally improved. Shares traded during the period went down to 1.04 billion from 2.01 billion, a 48.2 percent drop under the same period in 2017 with Equity turnover dropping by 40.04 percent to Sh31.9 billion compared to 2017's Sh53.6 billion (CMA, 2018).

1.2 Statement of the Problem

Ideally, firms listed in Nairobi Securities Exchange are expected to be financially stable in order to build investors' confidence and contribute to economic growth (Gatheca, 2016). In this regard, numerous and growing challenges which businesses face, particularly in the area of operations, cost-cutting and production efficiency are usually determined by CEO characteristics which is beneficial for firm performance very relevant. Interest in CEO characteristics and financial performance has gained impetus in recent times from the assumption that CEOs have a strategic role to play in the performance of a firm given the symbolic power that they exercise on decision making and key operations of a firm (Ayaba, 2017). In addition, it has also been established that board independence is important for the financial performance of firms, since inadequate monitoring approaches should be secured shareholders from mean attitude of management (Lin, *et al.*, 2016).

There are several literature gaps that are filled by this study. First and foremost, there is lack of knowledge with respect to the level of board composition thresholds among Kenyan listed firms. Namusonge, Kabare & Mutua (2017) and Iravo, Ongore & Munene (2018) raised concerns as to why some organizations succeed while others fail and this has influenced a study on moderating effect of board composition on the determinants and financial performance of companies listed on the NSE in Kenya. From this perspective, studying moderating effect of board independence on the relationship between CEO characteristics and financial performance among Kenyan companies helps Government policies to avert poor performance and consequently bankruptcy of listed companies and enlighten the investors who will be interested in the study as they will be in a position to protect their investments and direct them to the best performing companies at the NSE which will in turn spur economic growth in the long-term.

1.3 General Objective

The main objectives of the study were to evaluate the moderating effect of board independence on the relationship between CEO characteristics and financial performance of firms listed in the Nairobi Securities Exchange.

1.4 Specific Objectives

- i. To determine the effect of CEO duality on the financial performance of firms listed in the Nairobi Securities Exchange.
- ii. To establish the effect of CEO tenure on the financial performance of firms listed in the Nairobi Securities Exchange.
- iii. To assess the effect of CEO gender on the financial performance of firms listed in the Nairobi Securities Exchange.
- iv. To determine the effect of CEO age on the financial performance of firms listed in the Nairobi Securities Exchange.
- v. To examine the moderating effect of board independence on relationship between CEO duality, CEO tenure, CEO gender, CEO Age and financial performance of firms listed in the Nairobi Securities Exchange.

1.5 Hypothesis Statements

H_{0i}: CEO duality does not significantly affect the financial performance of firms listed in the Nairobi Securities Exchange.

H_{0ii}: CEO tenure does not significantly affect the financial performance of firms listed in the Nairobi Securities Exchange.

H_{0iii}: CEO gender does not significantly affect the financial performance of firms listed in the Nairobi Securities Exchange.

H_{0iv}: CEO age does not significantly affect the financial performance of firms listed in the Nairobi Securities Exchange.

H_{0va}: Board independence does not significantly moderate the relationship between CEO duality and financial performance of firms listed in the Nairobi Securities Exchange.

H_{0vb}: Board independence does not significantly moderate the relationship between CEO tenure and financial performance of firms listed in the Nairobi Securities Exchange.

H_{0vc}: Board independence does not significantly moderate the relationship between CEO gender and financial performance of firms listed in the Nairobi Securities Exchange.

H_{0vd}: Board independence does not significantly moderate the relationship between CEO age and financial performance of firms listed in the Nairobi Securities Exchange.

1.6 Significance of the Study

The moderating effect of board independence on the relationship between CEO characteristics and financial performance of listed firms has been limited in literature. Therefore, scholars and researchers will use this study as a tool for future research to fill the gap in the moderating effect of board independence on the relationship between CEO characteristics and financial performance. The outcome of this study will help listed firms' financial managers in Kenya in understanding the firm level factors that affect their financial performance, as such make better decision on these factors as well as concentrate on them in order to improve financial performance in the industry and the sector at large.

Policymakers will also be guided on the formulation of rules and regulations proposed to help the industries whose firms are listed to perform better as well as the sector in general. They will be able to formulate policies that give listed firms in Kenya a

conducive atmosphere for enabling them to craft strategies that might boost their firm financial performance. The results of this study will be beneficial to investors and lenders as it may provide insight into the effect of certain operational style of firms' management in covering the interest of the managers and the shareholders, since the capital market set securities' prices based on reported firm performance.

Similarly, creditors and other providers of finance would be able to draw a line as to the recovery of their fund or otherwise through firms' performance indicators. Thus, both investors and creditors can rely on the information drawn from this research to access and make informed decision on their investment position.

1.7 Scope of the Study

The study sought to investigate the moderating effect of board independence on the relationship between CEO characteristics and financial performance of companies listed on the NSE for a period between 2016 and 2020. The study was limited to only companies' listed in the Nairobi Securities Exchange in Kenya because of reliable and consistent source of information needed for comparison purposes and also since the information is in real time therefore always updated. According to companies Act, it's a legal requirement for all registered companies to submit audited published final accounts on yearly basis and this made this study to have access to the required data. Further for the company to qualify in the sample, it must have been listed at the NSE between 2016 and 2020 and had compiled their financial reports for the relevant period of the study to enable the researcher to establish trends, patterns and relationship of the conceptualized study variables.

The scope of this study covered firms from different sectors of the economy listed on the Nairobi Securities Exchange in Kenya. This included firms from sectors covering wide range of economic activities like Agriculture, Commercial and Services,

Telecommunication and Technology, Automobiles and Accessories, Insurance, Investment, Manufacturing and Allied, Energy and Petroleum, Finance and Construction, Real Estate Investment Trust and Investment Services. These sectors will be selected not only because of their immense contribution to the economic development of Kenya but also because of the realization of the amount of finances the public investors have put in them. The five years period is selected because it is considered a reasonable amount of time to have overcome the challenges a company faces initially after listing initially.

The financial institutions included irrespective of the high volatility in their finances as compared to the rest of the companies (Engle, 2014). This is because the sector immensely affects the operations of the other sectors and also the capital market. This study will be limited to the companies listed on the Nairobi Securities Exchange. This study will also be limited on the following study variables CEO duality, CEO tenure, CEO age and CEO gender as the independent variables, while board independence will be moderating variable and finally financial performance will be the dependent variable.

CHAPTER TWO

LITERATURE REVIEW

2.0 Overview

This chapter presents the key concepts of the study, theoretical literature, and empirical review between CEO characteristics, board independence and financial performance. Finally, a conceptual framework is presented to bring out the relationship between the variables of the study.

2.1 Concept of Financial Performance

Financial performance is a subjective measure of how well a firm can use assets from its primary mode of business and generate revenues. It is the process of measuring the results of a firm's policies and operations in monetary terms (Mwangi, 2016). It identifies the financial strengths and weaknesses of a firm by establishing relationships between the items of the financial position and income statement. The term is also used as a general measure of a firm's overall financial health over a given period of time, and can be used to compare similar firms across the same industry or to compare industries or sectors in aggregation. There are many different ways to measure firms performance, but all measures should be taken in aggregation. Line items such as revenue from operations, operating income or cash flow from operations can be used, as well as total unit sales (Njeru, 2012).

Quantitative measures of firm performance include profitability measures such as gross margin, net margin for example return on sales, return on equity, economic value added, return on Assets and return on capital employed. Other measures of performance include cash flow measures such as free cash flow over sales and growth measures for example historical revenue growth. Ideally, forward-looking measures such as expected profitability, cash flow and growth should be used to measure a firms' performance

(Kiaritha, 2015). Management researchers prefer accounting variables as performance measures such as return on equity (ROE), return on investment (ROI), and return on assets (ROA). Other common measures of performance include Earnings per share (EPS); Price/Earning (P/E) ratio and net interest margin (NIM). The NIM variable is defined as the net interest income divided by total assets. Okiro (2014) use net interest margin and before tax profit/total assets as measures of financial performance. Earlier studies typically measure accounting rates of return. These include: Return on Investment (ROI), return on capital (ROC), return on assets (ROA) and return on sales (ROS). The idea behind these measures is perhaps to evaluate managerial performance-how well is a firm's management using the assets to generate accounting returns per unit of investment, assets or sales (Memba, 2011).

The problems with these measures are well known. Accounting returns include depreciation and inventory costs and affect the accurate reporting of earnings. Asset values are also recorded historically. Return of total assets (ROA) is the ratio of net income after taxes divided by total assets and reflects how well management uses the firms real investments resources to generate profit (Ongore, 2013). Return on assets indicates how profitable a business is relative to its assets. Nyabwanga, Ojera, Otieno and Nyakundi (2013) assert that return on assets must be positive and the standard figure for return on assets is 10% -12%. The higher the ROA the better because the business is earning more money on the capital invested. ROA takes into consideration the return on investment (ROI) and indicates the effectiveness in generating profits with its available assets. Return on equity (ROE) is a frequently used variable in judging top management performance, and for making executive compensation decisions.

ROE is defined as net income (income available to common stockholders) divided by stockholders equity. Return on equity (ROE) indicates the return on owners' equity,

hence the higher the better. Earnings per share (EPS) indicate the dollar amount earned on behalf of each common share, thus the higher the better. Price/earnings (P/E) ratio is the amount investors are willing to pay for each dollar of earnings, that is indicates investors' confidence (Herrmann, 2008). Liquidity is also a measure of financial performance. Liquidity measures the ability to meet financial obligations as they fall due without disrupting the operations of the firm (Mwirie *et al.*, 2015).

2.2 Concept of CEO Characteristics

CEO characteristics involve attributes which includes duality, age, education, gender, professional experience and tenure, explaining differences in financial performance of firms (Diks, 2016). Although management accounting and control systems often fall into the CFO's area of responsibility, CEOs will also likely exert a decisive influence on the design of such systems. This is to be expected, as control systems, which are geared towards directing management and employee behaviour (Malmi & Brown, 2018), are used by (and thus of interest to) not only CFOs but also CEOs, who are at the top of the corporate hierarchy and who may wish to ensure that subordinates act in their interest. Thus, CEOs (and their characteristics) can be expected to impact on systems designed to support this Endeavor.

CEOs are involved in the decision-making process of a firm, since CEOs make operational decisions daily such as hiring other top management team members, managing relationships with stakeholders, pricing and inventory management processes. Also, CEOs are responsible for building and maintaining the culture of the firm, which is linked to the workforce and it is a guide for the decision making of other employees (Wang *et al.*, 2016). Different factors influence the decision-making process of CEOs, such as the different characteristics of the CEOs that might have an influence on the choices that they make (Glick, 2017).

CEO who acquires a good proportion of company shareholding will be an agent-cum-principal officer which gives him a good ground to influence almost every activity in the organization (Mio *et al.* 2016). When the CEO has significant stock ownership, he can influence the selection of other directors, hence giving him an edge over the other members of the board. Having significant ownership will enable the CEO to influence the determination of the board member's remuneration, scuffling their dismissal if need be, and dominate in most of the board decisions (Zhang *et al.* 2016). Using a sample from Spanish hospitals, Naranjo-Gil and Hartmann (2017) found that CEO backgrounds (in terms of education and experience) are significantly associated with the design of management control systems. CEOs with a predominantly administrative (business-related) background are positively associated with higher use of financial information.

2.3 Concept of Board Independence

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 (Baharudin & Marimuthu, 2019). Aboody and Lev (2020) adds that board independence can be determined the proportion of independent administrators compared to the total number of administrators. Board independence is positively and significantly associated with financial performance in Companies. In the same vein, the findings of the study indicate that the link between CSR practices and financial performance is positively moderated by board independence. Accordingly, the positive fit between board independence and CSR drives financial performance increase (Chen & Jaggi, 2020).

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.

Coles, Daniel and Naveen (2018) 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.* (2018) 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 (2015) 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 indicated a statistically not significant effect of board diversity on financial performance.

2.4 Theoretical Framework

To underpin the study findings, the researcher used the following theories: Agency Theory, Upper Echelon Theory and Resource Dependence Theory.

2.4.1 Agency Theory

The theory was initially explored by Alchian and Demsetz (1972) and advanced by Jensen and Meckling (1976). It defines it as the contractual relationship between two parties being the principal and agent creating the situation where an agent works on behalf of a principal. The absolute responsibility of running and managing the organization as per the set standards falls directly on the chief executives (Mitnick, 2013). Jensen and Meckling (1976) provide the formal analysis about the agency

problem and refers to the agency relationship as a contractual agreement where one of the party is the principal legitimately contracts with another party who is the agency to execute and deliver some professional services on his/her behalf by delegating the authority to make decisions to the senior managers. In real life situation, shareholders of listed companies always delegate the power and authority to make decisions to the board of directors, who then passes the same powers and authority to the CEO.

Jensen and Meckling (1976) stress that when two parties to an agency relationship are maximising the value, there must be any ground to hold that the chief executives would fail to perform their contractual obligations to the best interests of the shareholders. The shareholders can mitigate these conflicts of interests by scheming the appropriate executive remunerations for the agents in order to reduce the unethical and harmful activities of the agents. Moreover, in different circumstances it may remunerate the agents to spend financial funds to ensure they would not tolerate any decisions which would cause the devastating effects on the principals or to make sure that the principals would be compensated if the agents take such harmful actions. The financial information that the market participant considers organizational issues as an important resource reduces information asymmetry existing amongst the investors, management, regulators amongst other stakeholder. But, it is generally impossible for the owners or the executive staff at zero cost to ensure that the management will make optimal decisions from the viewpoint of the shareholders. Moldoveanu and Martin (2001) also observe that agency problems may exist in two unique ways such as the failure of managerial competence and the failure of managerial integrity.

In one hand, failure of managerial competence means to unwise errors committed in carrying out the managerial obligations. This emanates from disadvantageous selections in a situation where the principals would not assure if the agents accurately represent

their managerial capacity to do the work that they are contractually hired and compensated for. On the other hand, failure of managerial integrity refers to wishful conduct on the part of agents that mitigates the value of the assets of firm. This problem arises from moral risks which display the traditional incentive problem. The theory links to this study, aims at reducing barriers to trading across borders of securities by making sure that the company accounts are easily reliable, transparent, and comparable. Therefore, the company reduces the cost of raising capital and also improves the growth and become more competitive. This will in turn boost the financial performance.

2.4.2 Resource Dependency Theory

The Resource Dependence Theory developed in the 1970's by Pfeffer and Salancik (1978) emphasizes that resources required by organizations need to be acquired through a network of contacts and that efficiency in bridging network gaps will determine the quality of corporate performance. The theory provides a theoretical foundation for the role of the board of directors as a resource to the firm (Johnson *et al.*, 1996; Hillman *et al.*, 2000). The perspective of Resource Dependence Theory is that, outside directors bring a stream of resources such as information and skills to the firm (Hillman *et al.*, 2000). Corporate boards are part of the resource stream since they bring bundles of knowledge, experience, ideas and professional contacts (Carpenter, Gelektkancyz& Sanders, 2004).

Board diversity is anchored on Resource Dependence Theory since it can lead to broader corporate networks (Siciliano, 1996) and improve financial performance (Waddock& Groves, 1997). Board members with higher qualifications would thus ensure an effective board, which requires high levels of intellectual ability and experience (Hilmer, 1998). besides, qualified and skillful board members are strategic

resources that provide a strategic linkage to different external resources (Ingley & Vander Walt, 2001). Therefore, resource dependence theory acknowledges corporate board diversity in terms of both demographic (gender, age and ethnicity) and cognitive elements such as the professional and educational qualifications (Erhardt *et al.*, 2003; Kang *et al.*, 2007). In response to resource dependencies and regulatory pressures, organizations create large boards to encompass directors from different backgrounds (Pfeffer, 1972; Pearce & Zahra, 1992). Klein (1998) for instance suggests that advisory needs of the CEO increases with the extent to which the firm depends on the environment for resources. So, increasing board size links the organization to its external environment and secures critical resources. The resource dependency perspective therefore, is that large boards are chosen to maximize the provision of important resources to the firm (Klein, 1998; Hillman & Dalziel, 2003).

2.4.3 Upper Echelons Theory

The theoretical concept of upper echelons theory goes back to Hambrick & Mason (1984). The upper echelons theory postulates that outcomes are essentially shaped by the board of directors, both strategies and effectiveness are viewed as reflections of the values and cognitive bases of powerful actors in the organization. It argues that the individual features of key decision makers serve as surrogates for their cognitive orientations, perceptions, knowledge and skill for an explanation of their organization's behavior and performance. This leads the decision makers to filter the options based on their cognitive biases (Hambrick & Mason, 1984). The theory suggests that senior management demography includes age, education, functional background, and financial positions. Other researchers also included tenure (Nielson & Nielsen, 2013) and gender (Marimuthu & Kolandaisamy, 2019) as part of the demographic elements of senior management.

Therefore, the study is based on the fact that the managing director is part of the upper echelon; his mandate will influence his strategic choices and, consequently, the performance of the institution. The theory developed the proposition that the long-term CEO seemed to propose towards the status quo and would be reluctant to implement change strategies (Nielsen, 2015). The theory proposals have given rise to significant literature in the investigation of the CEOs' characteristics and their financial performance in the company. The theory has implications for the study as it helps to formulate the research hypothesis that the CEO's characteristics and mandate plays a major role in the association among board independence and financial performance. Apparently, the theory still requires empirical data, especially in different contexts. The importance of top management, as posed by theory, implies that the CEO's combination of mandates with other variables in this study is needed to prove the basis of this theory. This theory has guided the conceptualization of the influence of CEO tenure on the conduct of corporate institutions in Kenya.

2.5 Empirical Review

2.5.1 The Link between CEO Duality and Financial Performance

The empirical studies on CEO duality are based on the concept that an individual occupies both the CEO and Chairman. This model of governance structure is common in both British and American firms. These studies on the CEO duality seek to establish the effect of an individual occupying two positions of CEO and chairmanship can influence the organizational outcomes. For instance, Liao, Mukherjee and Wang (2015) the separation of the two positions is often positively associated with higher use of debt in the firm's capital structure. Abor and Biekpe (2007) examine the relationship between CEO duality and capital structure decisions of Ghanaian Small and Medium Enterprises by using multivariate regression analysis. The results provided empirical

evidence that a negative relationship between CEO duality and leverage ratios of SMEs. This impact is based on the fact that the CEO is able to make decisions on their capital structure more clearly. It's argued that the dual leadership may reduce information asymmetry problems and lead to higher access to external debt thus affecting its capital structure framework (Westphal *et al.*, 2010).

According to Hussainey and Al-Nodel (2009), there is a positive relationship between CEO duality and capital structure. They argued that boards with CEO duality follow a policy of higher levels of gearing to enhance firm value especially when these are entrenched due to greater monitoring by regulatory authorities. It is also argued that boards with CEO duality may find difficulty in arriving at a consensus in the decision which can ultimately affect the quality of corporate governance and will translate into higher financial leverage levels. Abor and Bikpie (2005) and Hassan and Butt (2009) showed a negative influence of the board of director's duality on debt to equity ratio (DER) as a measure of capital structure. In contrast, Hussainey and AlNodel (2009) found that CEO duality has a positive influence on DER with consequent higher corporate leverage level. Other studies (Al-Najjar and Hussainey, 2009; Al-Najjar and Hussainey, 2000) found that the duality of the board does not have a significant influence of the firm's Debt to Equity Ratio (DER).

The studies show that CEO duality has both positive and negative effects depending on the context. These studies have been done on several contexts including the Middle Eastern regions (Al-Najjar and Hussainey, 2009), Asian regions (Liao *et al.*, 2015) and America (Westphal *et al.*, 2010). The arguments on the CEO duality are based on the nature of corporate governance structure and thus in the context where duality is allowed then the impact can be certain while in areas where there is no dual position in

the executive structure, and then there is no impact. These arguments against dual leadership or in favour of separate leadership are largely based on agency theory.

2.5.2 The Link between CEO Tenure and Financial Performance

The extant literature on the CEO tenure is based on the length of the tenure of the CEO and this depends on the corporate governance structures. This empirical literature has shown that CEOs tend to make fewer debt-equity ratio changes in strategy as their tenure increases. Presumably, then, CEOs that have illustrated consistent firm performance would likely enjoy long periods of tenure (Goldstein & Leland, 2011). According to Allgood and Farrel, (2003), long tenures increase the credibility and independence of leaders and make them overconfident and influence the firm's capital structure. The tenure improves the experience of the CEO, which consequently decreases his reliance on subordinates and so makes delegation of decisions including leverage less frequent (Frank & Goyal, 2007; Graham *et al.*, 2010). Therefore, a positive relationship between tenure and capital structure is expected.

Empirical researches have demonstrated the positive relation between CEO tenure and the quality of financial reporting (Chtourou *et al.*, 2001). Additionally, Myers, (2001) showed a negative relationship between executive firm tenure and capital structure. Some may, however, argue that when the times are good in terms of a boom period, or perhaps even stable periods, a change in strategic direction may not be necessary since the firm would continue to grow with the market. According to Chuluun *et al.*, (2014) board tenure is positively linked to corporate debt yield. This shows that effective supervision is most probably caused by the company board's abilities, implying that a board with a long tenure tends to run good supervision to achieve the company's goals (Nugroho & Eko, 2012). Beasley (1996) finds the likelihood of financial reporting fraud is negatively related to the average tenure of non-executive directors. Furthermore, it is

argued that the average tenure of outside directors is negatively associated with the level of earnings management (Chtourou *et al.*, 2001).

The studies show that CEO tenure has a significant correlation with corporate financing such that longer-tenured executives tend to have a higher debt-to-equity ratio. The empirical evidence from have been done on developed capital markets such as those of Europe (Chuluun, Prevost&Puthenpurackal,2014) and American (Chtourou *et al.*, 2001; Myers, 2001) have indicated a positive relationship to the level of debt in the firm's capital structure. The studies have elaborately considered developed with more emphasis on the developed capital markets. The differences in the context and techniques confer other researchers with an opportunity for studies in the nascent capital market in Sub – Saharan Africa.

2.5.3 The Link Between CEO Gender and Financial Performance

The empirical studies on the gender of the CEO and capital structure are based on the differences in attitudes towards risk and in risk-related behaviour between male and female executives. These studies have been studied in economics and psychology literature (Cadsby and Maynes, 2005; Eckel and Grossman, 2004; Francoeur *et al.*, 2008 and Shehata, 2013). More recently, there has been a significant increase of women in corporate executive offices. With this increase, researchers have started to investigate the impact of gender on various corporate decisions, such as capital structure decisions, merger and acquisition decisions and going public decisions (Huang and Kisgen, 2008).

In another study, Huang and Kisgen (2013) examined and compared the investment decisions made by females and males executive. The study indicated that male executives are more likely to issue debt more than their female counterparts thus the findings of the study showed that males are more likely to alter the firm's capital structure through the issuance of more debt instruments. According to Westphal *et al.*,

(2016) firm's managerial traits are an important determinant of the firm's capital structure decisions. Based on the econometric techniques, the study indicated that female CEOs have lower leverage levels, less earning volatility and improved survival chances. There are systematic differences in the choice of financial reporting policies between female and male executives. Specifically, female CEOs follow a more conservative approach in their financial reporting compared to their male counterparts. After the change from male to female, there will be an increase (decrease) in the debt-equity ratio of the firm (Dezsö and Ross, 2012).

Schubert *et al.*, (1999) and Kruse and Thompson (2003) find no systematic differences in risk attitudes towards capital structure decisions for their subjects. Evidence from field studies also demonstrates gender differences in risk-related behaviour. For example, study betting decisions on capital structure, and they find that women are more risk-averse than men in their decision skills. Using data from the Survey of Consumer Finances, Jianakoplos and Bernasek (1998) find single women are more risk-averse than single men in capital structure decisions. Eckel and Grossman (2008), examined gender differences in the allocation of defined contribution plan assets, and they find women are less likely to hold their assets mostly in stock than men. More recent studies begin to investigate whether the gender of corporate executives or directors affects corporate decision-making. Erhardt, *et al.*, (2003) investigate how gender differences of CEOs affect various corporate decisions. They find that firms under the control of female CEOs grow slower than firms under the control of male CEOs. Besides, female CEOs are less likely to make significant acquisitions and are less likely to issue debt. Furthermore, the capital structure adjusts the speed of under the control of female executives is slower than that under the control of male executives.

Recent studies also attempt to link the gender of top executives to capital structure and investment-cash flow sensitivity, and how the market reacts to the new appointments of female executives or directors. For instance, Welbourne *et al.*, (2007) examine the effect of having women on the top management teams of IPO firms on short term and long-term firm performance. They find the presence of women executives have a positive association with the firms' short-term performance, 3-year stock price growth, and growth in earnings per share. Ben-David, Graham *et al.*, (2007) investigate how the gender of CEO executives affects investment-cash flow sensitivity. They find corporate investments made by male CEOs are more sensitive to cash flow, particularly in the equity dependent companies, compared to investments made by female CEOs.

The empirical studies show that the gender of the CEO has a significant correlation with corporate financing through the difference between the risk inclinations. Male executives tend to have a high-risk inclination (Huang and Kisgen, 2013) as compared to the female executives who are risk-averse (Faccio *et al.*, 2016). Thus, male executives are more likely to issue more debt when faced with corporate financing decisions as opposed to their female counterparts. This empirical evidence has been gathered from a developed country where their capital markets are vibrant. These studies have elaborately considered developed countries with more emphasis on the developed capital markets. The differences in the context confer other researchers with an opportunity for studies in the burgeoning capital market in Sub-Saharan Africa.

2.5.4 The Link Between CEO Age and Financial Performance

That is, a CEO's ability and willingness to bear risk could be shaped by his or her age thus influencing his capital structure decision-making skills. It is generally believed that males are more risk-tolerant than females and that risk-taking tends to decrease with age and increase with education level, higher levels of income, wealth, professional

experience, and sophistication (Leland, 2001). According to Chen (2014), there is a significant relationship between capital structure and age plus experience of top employees. Firms with older and qualified board membership have low leverage or debt ratio. According to Yasser *et al.*, (2015), there is a significant relationship between capital structure and CEO age. The finding concurs (Abor, 2000) that firms with older CEOs generally have low gearing levels. He argued that older CEOs exert pressure on managers to follow lower gearing levels and enhance firm performance.

Executives in these firms work in a hierarchy with the CEO in most cases an older individual at the top. As a result, the CEO is the most powerful individual on the board regarding capital structure decision making (Graham *et al.*, 2010; Graham *et al.*, 2015). It is argued that age difference affects the capital structure decisions of managers and younger managers, more frequently select to operate in a more competitive environment than older do (Hafsi & Turgut, 2013). However, the difference still exists not due to different risk aversion, but because young managers are more overconfident and there are age differences in preferences for performance in a competitive environment. Board experience measured by average age of the directors has a positive relationship with firm performance (Vo & Phan, 2013). Consistently, the older directors have more competitive advantage and working experience than younger directors (Peni, 2014). The positive relationship between CEO age and operating performance confirms that older directors are effective leaders in managing operating performance (Chandren *et al.*, 2019).

Conversely, firm performance may weaken as the Chairman grows older, possibly leading to less productive cost structures (Waelchli & Zeller, 2013). The Chairman, like other individuals, becomes significantly slower, experiencing substantial changes in

motivation and reduced cognitive abilities (Waelchli & Zeller, 2013). Further, the Chairman within the age 50 to 65 has a negative significant relationship with firm performance (Waelchli & Zeller, 2013). According to Koufopoulos et al. (2008), efficient firm performance does not rely on the Chairman's age as there is a negative relationship between age and firm performance. According to stewardship theory, at any age the Chairman will do his/her best for the firm and stakeholders.

2.5.5 Moderating Effect of Board Independence on the Link between CEO Characteristics and Financial Performance

Independent directors have distinct spurs, values, and time skies relative to internal directors, who normally pay attention to lucrative short-term targets (Post *et al.*, 2011). Boards of directors are referred to as the entity that substantially upholds the interest of all concerned stakeholders. Thus, to gain and further substantiate the involvement of stakeholders, it is important to have both managers and non-executive members on the board (De Andres & Vallelado 2008; Fuzi *et al.*, 2016). A key proposition is that a non-executive director is very important for smooth functioning of the organization, mitigating agency cost and protecting shareholder interests in dividend payout. Thus, Roberts *et al.*, (2005) argue that a non-executive directors who are less knowledgeable about a business than other top management tent to react as police who do not even know what to police. Thus the non-executive director should have more knowledge of the business vis-a-vis the executive board member in order to have an effect.

Byrd & Hickman (1992), Rosenstein & Wyatt (1990) and Coles *et al.*, (2001), postulate that a greater representation of non-executive directors improve dividend payment decisions because of expertise influence provided toward firm performance and decision on dividend payout . This was also confirmed by Belden *et al.*, (2005) and when using a sample of 524 US firms in the sample period from 1998 to 2000. The

author found that a great number of non-executive directors had more meaningful on the board as they are better monitors and thus proposes reforms of US regulation on the latter. The idea was also tested by Chen *et al.*, (2005) using 412 publicly listed Hong Kong firms during the period of 1995–1998 and the result indicated a significant effect of non-executive directors on dividend payout. It weighs the presence of audit committees with little impact on dividend policy, although the domination of non-executive director.

Wen-Hsi *et al.*, (2012) explores the moderating roles of corporate governance on the relationship between CEO duality and firm performance using a sample of 1,974 publicly listed firms in Taiwan. The effect of CEO duality on dividend payout shrinks. The results do not, however, support the moderating role. However, Combs *et al.*, (2007) using 73 US firms CEOs find that when duality is conferred under an inside director dominated board, the opportunity for CEOs to take unchallenged self-serving actions increases. However, Bathala and Rao (1995) using a sample of 261 U.S firms found a negative relationship between non-executive directors and dividend payout. The study by Basil & Hussainey (2009) based on a sample of 400 non-financial firms listed on the London Stock Exchange for the period from 1991 to 2002 found that dividend payout is negatively associated with the number of non-executive directors on the board of directors.

Borokhovich *et al.*, (2005) using a sample of 192 US firms in the period from 1992 to 1999 found that a high number of non-executive directors led to lower dividend payout since it is a substitute for non-executive directorships on the board. In their view, a large non-executive board is a drain on the resource of the firm. Whereas this may be true, the substitution hypothesis, in a rather paradoxical manner posits that, in order to raise

external funds on attractive terms, a firm must establish a reputation either by dividends or by following a good governance mechanism (La Porta *et al.*, 2000).

2.6 Research Gap

Ayabei and Ayabei (2016), Kitui (2013) and Ngulumbu and Aduda (2017) have focused on the quantitative measures derived from financial statements. These studies have totally ignored the qualitative aspects and the fact that board independence has an economic relation with financial performance of listed firms. Most of the studies carried out have both empirical and methodological conflicting results Ongore *et al.*, (2015) found out that board independence on financial performance have yielded mixed results, due largely to contextual variables and varying roles of boards in different jurisdictions.

Mutende, Mwangi, Njihia and Ochieng (2017) found out that free cash flows influences performance positively. Ngulumbu and Aduda (2017) found out that the overall financial performance of listed companies was influenced by the corporate governance practices. Results also revealed that there was an increasing trend in board Size, independent directors (non-executive directors), number of board committees, number of founder directors, gender mix, level of education of directors and age of the directors over the three years. Kitui (2013) concluded that board composition variable; age, gender, independence and ethnicity had a significant positive influence on the financial performance. Amoll (2015) found out that board age, tenure, gender and duality had positive significant influence on the financial performance and Tarus, Tarus Ayabei, and Ayabei (2016) found that board independence has important implications on capital structure decisions. Ebrahim (2014) conducted on the moderating effect of board diversity on the relationship between board of director's characteristics and firm

performance in Oman. The study findings indicated that board independence influence financial performance positively.

2.7 Summary of Literature

While most international (Raymond *et al.*, 2010; Harvoth & Spirollari, 2012; Azare *et al.*, 2014; Charas, 2014; Victor *et al.*, 2014) and Kenyan (Muigai, 2012; Wetukha, 2013; Waithaka *et al.*, 2013) empirical studies, have examined the direct relationship between board characteristics and financial performance very few studies (Bathulah, 2008; Kholeif, 2008) have considered the effect of moderating variables. Many scholars recently called for investigation of moderating effects in studies linking corporate governance to firm performance (Finkelstein & Mooney, 2003; Letendre, 2004; Carpenter *et al.*, 2004; Pye & Pettigrew, 2005). Besides, Carpenter *et al.*, (2004) concluded that researches done on corporate governance should not ignore the role of intervening variables for them to be acceptable or publishable.

In addition, Borsch-Supan and Koke (2002) suggest that all the studies on Corporate Board Characteristics should use panel data and at the same time to take into consideration the unobserved firm characteristics variables. This study therefore, incorporated the moderating variable of firm attributes and determined both the direct approach and the moderation approach for the relationship between board characteristics and financial performance. This study further employed both the accounting-based and market-based measures of financial performance and used panel data for a time frame of five years so as to validate the results.

2.8 Conceptual Framework

The conceptual framework defines the research problem and guides the subsequent discussions on the research topic. It is an approach to research that is informed by multiple research traditions and design strategies (Depoy and Gitlin, 2011).

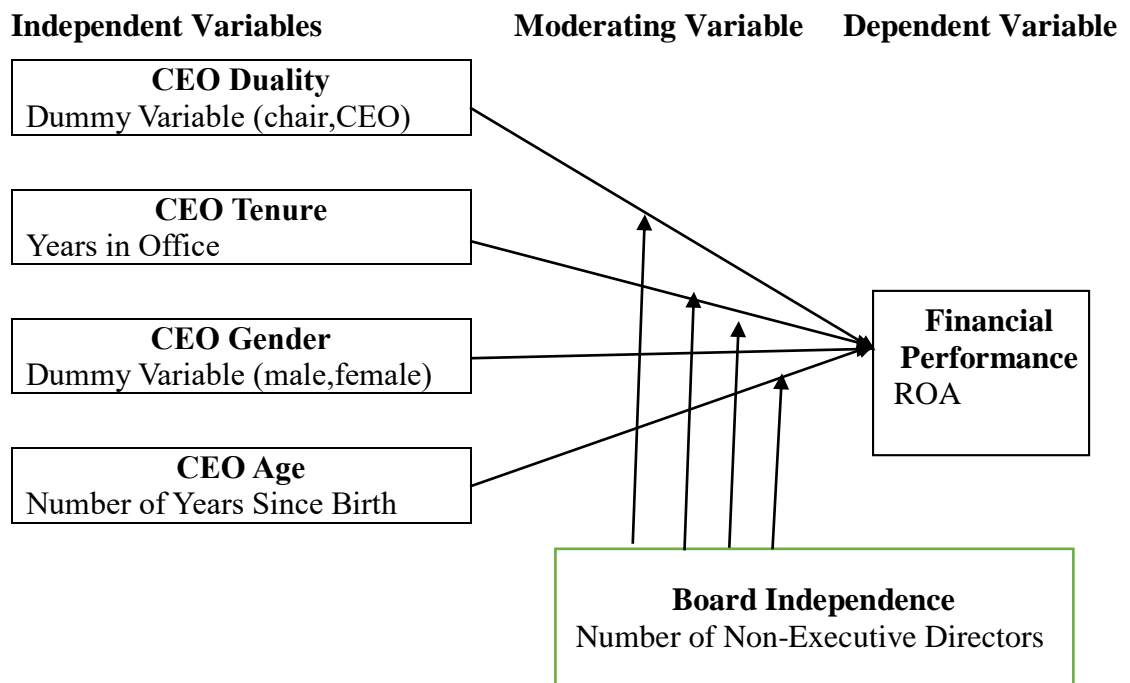


Figure 2. 1: Conceptual Framework

Source: Researcher, 2022

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter describes the methodology that will be used in undertaking the study. It starts by explaining the research design that was adopted; according to Ritchie, Lewis, Nicholls and Ormston (2013) a central part of research is to develop an efficient research strategy. Based on the model and variables developed in Chapter two, this chapter covered the research design and research methodology used to test the variables. In particular, issues related to research design, the population, the type of data collected, sampling frame, sample and sampling techniques, data collection instrument, data collection procedure, and the data analysis will be discussed.

3.2 Research Design

This study adopted both explanatory and longitudinal research design to analyze the moderating effects of board independence on the relationship between CEO characteristics and financial performance. Explanatory research design will be used because the variability is allied with study constructs can be understood well when it is observed over time. Longitudinal research design will be used since this study will assess financial performance over a period of time. Consequently, the researcher adopted the explanatory research design which is also known as causal research design (Saunders, Lewis & Thornhill, 2012) and which will be deemed more suitable as opposed to the descriptive research. The explanatory research design which will be deemed suitable owing to the nature of the conceptualized cause-effect relationships underlying the study variables, namely: CEO Duality, CEO Tenure, CEO Gender, CEO Age, Board Independence and financial performance.

The researcher therefore anticipated that the research design would yield explanations regarding the relationship between board independence, CEO characteristics and financial performance. Besides, Olsen and Marie (2014) argue that explanatory research design has the ability to determine the nature and extent of cause-effect relationships. Subsequently, the research design will adopt for the study is deemed suitable for assessing objectives of the study which will be in the dominion of cause-effect studies. This study adopted longitudinal research design since cover all the firms that have traded at NSE, for the duration of Five years that is from 2016 to 2020. A longitudinal study is an observational research method in which data is gathered for the same subjects repeatedly over long periods. Longitudinal research can extend over the years or even decades. In a panel cohort study, the same individuals are observed over the study period.

3.3 Target Population

Population refers to the aggregation of elements from which the sample is selected (Rubin & Babbie, 2016). Target population represents the collection of cases the researcher is interested and which they intend to make generalizations (Sim & Wright, 2000). This study targeted all the 65 firms listed in Nairobi Securities Exchange. These firms were analyzed differently that is financial firms and non-financial firms. The years covered will be Five years from 2016 to 2020. A period of Five years will be selected because most NSE firms performed so poorly within this period causing a public outcry. In addition Five years period was adequate to measure any significant change.

3.3.1 Inclusion Criteria and Exclusion Criteria

The concept of inclusion and exclusion is a counting technique that computes the number of elements that satisfy at least one of several properties (Swift & Wampold,

2018). In this study, an inclusion exclusion criterion was used to determine the sample. Firms that traded consistently and had adequate information met inclusion criteria for the period 2016 to 2020 while those with inconsistent, inadequate, delisted or suspended due to lack of regulatory compliance will be excluded.

3.4 Unit of Analysis

The unit of analysis used in this study was drawn from the population of listed firms operating in Nairobi Securities Exchange in Kenya. The study utilized census approach with purposive exclusion of firms operating with non-commercial motive. The purpose of collecting data of all firms is that the data estimates are not subject to sampling error. The research design utilized panel data covering the period 2016 to 2020. The research design will be used to explore and understand the cause-effect relationship between the moderating variable (MV), independent variables (I.V) and dependent variable (D.V) under the study.

3.5 Data Collection Procedure

The researcher uses a document review guide to extract and compile the required secondary data for analysis from the financial statements. The secondary data encompass of panel data. A combination of time series with cross-sections enhances the quality and quantity of data to levels that would otherwise be impossible to achieve with only one of the two dimensions (Gujarati & Porter, 2003). The cross-sectional data consisted of the firms while the time series data is the years between 2016 and 2020. This is because the data for the periods are current data and easily available. The data for all the variables in the study is extracted from the annual published and audited annual reports and financial statements of the firms listed in NSE covering the years 2016-2020.

The specific financial statements from which the data is extracted from include the income statement, statement of financial position and the notes to the accounts. Consequently, the sample data begins in 2016 and ends in 2020. Consistent with Mathuva (2010), a number of filters will be applied in order to ensure accuracy of the collected data. Observations of firms with anomalies such as negative values in their total assets, current assets, fixed assets, capital, depreciation or the interest paid were purged. Observations of items from the statement of financial position and statement of financial performance showing signs contrary to reasonable expectations was eradicated. Since the panel data will be analyzed had a number of influential observations and data errors as pointed out by Fama and French (1998).

3.6 Data Analysis and Processing

Data was analyzed through statistical procedures which will cover broad range of descriptive analysis, from simple procedures that are used regularly like computing an average to complex and sophisticated methods. Besides using frequencies and descriptive analysis, the study will use hierarchical multiple linear regression analysis to test the statistical significance of the various independent variables. According to Faraway (2002) multiple linear regressions is used in situations where the number of independent variables is more than one and hence will be suitable for this study as it has more than one independent variable.

The study seeks to ascertain the causal effect of one variable upon another and to explore such issues; the researcher collected data on the underlying variable of interest and employed regression to estimate the quantitative effect of the causal variable upon the variable that they influence. The study will assess the statistical significance of the estimated relationships, through (t-test) to check whether there will be a significance difference between the means of the two groups in the dependent variable when the

independent variable will be held constant. IBM Base (2010), states that a paired samples t-test compares the means of two variables for a single group. Analysis of Variance (ANOVA – F test) will also be used to determine the effect of independent variables and the control variable on the dependent variable, separately and in combination. According to Jackson (2009) multiple regression analysis involves combining several predictor variables in a single regression equation. Therefore, with multiple regression analysis, the study will be able to assess the effect of multiple predictor variables on the dependent measures. The Statistical Package for Social Sciences (SPSS) will be used to analyze the study data.

3.6.1 Quantitative Analysis

Quantitative data was analyzed using inferential statistics where both parametric tests was used. The aim will be to determine if the means of two unrelated samples differ. Pearson correlation test will be conducted to test level of significance between all independent variables and dependent variables. Pearson's correlation coefficient will be used as a measure of linear correlation. The measure is symbolized by letter r and varies between -1 and $+1$, with 0 indicating no linear relationship while Coefficient of determination (R^2) measures the amount of variation in the dependent variable explained by independent variables. The closer the R^2 is to 1 the better the regression line to the actual data (Sekaran, 2000). ANOVA will be used to test whether the regression analysis model used is fit or the relationship of the variables just occurred by chance. Significance of F ratio will be used to determine whether model used will be fit or not. When the F ratio is significant the model used is considered fit and vice versa (Weeks & Namusonge, 2016). A P- value of less than 0.05 indicates that the P - statistics is high and that the null hypothesis of independent needs to be rejected since it's not true.

3.6.2 Empirical Model

In multivariate analysis, hierarchical multi-linear regression model was used in explaining decision to financial performance by testing variables used as the independent variables of the study. The idea was to identify meaningful, stable relationship among the sets of data. Regression measures the causal relationship between one dependent and one independent variable. Multiple regression analysis measures the effects of multiple independent variables on one dependent variable. Hierarchical multiple regressions will therefore be adopted to measure the effects of multiple independent and moderating variables on the dependent variable and effects of multiple independent variables on the moderating variable (Okello *et al.*, 2015). To test for moderation effect of board independence, Baron and Kenny (1986) procedures will be used. Each of the independent variables was interacted with board independence, in order to compute hierarchical regression. The following were the equations:

$$Y = B_0 + B_1X_1 + B_2X_2 + B_3X_3 + B_4X_4 + e \dots \dots \dots \text{eqn 1}$$

$$Y = B_0 + B_1X_1 + B_2X_2 + B_3X_3 + B_4X_4 + B_5M + e \dots \dots \dots \text{eqn 2}$$

$$Y = B_0 + B_1X_1 + B_2X_2 + B_3X_3 + B_4X_4 + B_5M + B_6M * X_1 + e \dots \dots \dots \text{eqn 3}$$

$$Y = B_0 + B_1X_1 + B_2X_2 + B_3X_3 + B_4X_4 + B_5M + B_6M * X_1 + B_7 M * X_2 + e \dots \text{eqn 4}$$

$$Y = B_0 + B_1X_1 + B_2X_2 + B_3X_3 + B_4X_4 + B_5M + B_6M * X_1 + B_7 M * X_2 + B_8 M * X_3 + e \dots \dots \dots \text{eqn 5}$$

$$Y = B_0 + B_1X_1 + B_2X_2 + B_3X_3 + B_4X_4 + B_5M + B_6M * X_1 + B_7 M * X_2 + B_8 M * X_3 + B_9 M * X_4 + e \dots \dots \dots \text{eqn 6}$$

Where:

Y = Financial Performance

B_0 = Constant Term

$B_1, B_2, B_3, B_4, B_5, B_6, B_7, B_8$ and B_9 = Regression Coefficient of the Predictor Variables

X_1 = CEO Duality

X_2 = CEO Tenure

X_3 = CEO Gender

X_4 = CEO Age

M = Board Independence (Moderating Variable)

e = Error Term.

3.7 Test for Regression Assumptions

Testing of independent variables, moderator and dependent variable will be possible since normality, linearity and serial auto-correlation assumptions of regression model will be considered. Regression assumes that variables have normal distribution. Non-normally distributed variables with substantial outliers can distort relationships and significant tests. Shapiro-Wilk test will be used to test for normality, owing to its superiority compared with Kolmogorov-Smirnov test, since it holds large data. Where, non-significant results (> 0.05) showed the data fits normal distribution.

Linearity implies that the mean values of the outcome variable for each increment of the predictor(s) lie along a straight line. Partial correlation analysis will be used to assess association between predictor and criterion. Pedhazur (1997), Cohen and Cohen (1983) and Feldman (1985) suggested the use of examination of residual plots. However, for this study, correlation coefficient will be used. The other assumption of regression is serial auto-correlation, this can be detected with the help of tolerance and its reciprocal variance inflation factor (VIF). Tolerance should be above 0.20 (Menard,

1995) and this will be the cut-off value for this study. Serial autocorrelation test will be carried out through Durbin-Watson statistics where a statistical value of between 1.50 - 2.50 will be accepted.

3.8 Ethical Consideration

It is pertinent to consider the ethical implications of the research process (Mugenda & Mugenda, 2013). In this study, the major ethical issues that will be considered are; informed consent, privacy and confidentiality and researcher's responsibility. The thesis has been presented to Moi University School of graduate studies and the National Council of Science, Technology and Innovation for ethical approval. No permission from NACOSTI since secondary data is used for the research.

CHAPTER FOUR

DATA ANALYSIS, PRESENTATION AND INTERPRETATION

4.1 Overview

This chapter presents data analysis and their interpretation based on the data collected from the listed firms in Nairobi Security Exchange (NSE) which have been consistent from 2016 to 2020. The chapter analyses the variables involved in the study and estimate the conceptual model described in chapter two. The section begins with the description followed by the presentation of the descriptive statistics of the study variables and inferential statistics respectively. Accordingly, hypotheses testing was done and the explanations of the findings were subsequently presented. Ultimately, the conclusion of the hypotheses was supported by a discussion.

4.2 Descriptive Statistics

Data was collected from 58 firms and thus was considered to be sufficient enough for the inferential statistics, 7 firms were excluded from the study because they did Not meet the inclusion exclusion criteria.

4.2.1 Demographic Characteristics of the CEO

The research instrument required that the CEO age, gender, level of education and years of experience were indicated in Tables 4.1 below. The CEO had an average tenure of seven years with a maximum of 14 years. Usually, the trend in the listed firms is that an average tenure for the CEO is a minimum of four years but with no limit. Further, the average age for the CEO was 48 years but with a maximum of 64 years. Furthermore, the data indicates that majority of the CEOs in the study are 94% male.

Table 4. 1: Descriptive Statistics

Variable	Mean	Std. Dev.	Min	Max
CEO Tenure in years	6.76	3.27	1	14
CEO Age in years	48.32	6.58	32	64
CEO Duality	1.55	.548	1	2
CEO gender	Male			Female
	94%			6%

Source: Research Data (2022)

The trend line shows that ROA for financial firms was higher than that of non-financial firms for the period 2016 to 2020. The average in ROA for financial firms in 2016 was 0.63 where it had a sharp drop to 0.58 and maintained an increasing trend until 2016 to the highest average at 0.67. The average in ROA for non-financial firms in 2016 was 0.54 where is had a sharp drop to 0.42 and maintained an increasing trend until 2016 to the highest average at 0.62. The sharp decreases in ROA in both the financial and non-financial firms for the period 2017 can be attributed to the instability in the markets as a result of the election environment in 2017. According to Pervan and Visic (2012), return on assets gives investors an idea of how effectively the company is converting the money it has to invest into net income. The higher the ROA number, the better, because the company is earning more money on less investment.

4.3 Diagnostic Tests

The study carried out different diagnostic tests to make sure that the postulations of Classical Linear Regression Model (CLRM) are not contravened and to select the appropriate models for investigation in the event that the CLRM postulations are violated. Thus, prior to running a regression model pre-estimation and post estimation tests have been conducted. The pre-estimation tests conducted in this case are the multicollinearity test and unit root tests while the post estimation tests are normality test, test for heteroscedasticity, test for autocorrelation, and Hausman specification test. The study has performed these tests to avoid spurious regression results.

4.3.1 Panel Unit Root Tests

A unit root test was conducted using the LLC test to establish whether the variables were stationary or non-stationary. The purpose of this was to avoid spurious regression results being obtained by using non-stationary series. Results in Table 4.2 indicated that all variables are stationary (i.e. absence of unit roots) at 5% level of significance. The study therefore shows that all the variables under consideration did not have unit root and are therefore used in levels. This means that the results obtained are not spurious (Gujarati & Porter, 2003).

Table 4. 2: Unit Root

Financial Sector						
Variable name	Statistic (adjusted)	P-value	Comment	Statistic (adjusted)	P-value	Comment
ROA	2.232	0.006	Stationary	2.273	0.003	Stationary
CEO Gender	2.278	0.020	Stationary	2.028	0.010	Stationary
CEO Duality	4.035	0.004	Stationary	4.403	0.001	Stationary
CEO Tenure	9.145	0.000	Stationary	9.171	0.000	Stationary
CEO Age	2.824	0.003	Stationary	2.623	0.002	Stationary

Source: Research Data (2022)

4.3.2 Test for Normality

The normality assumption ($ut \sim N(0, \sigma^2)$) was required in order to conduct single or joint hypothesis tests about the model parameters (Brooks, 2008). Table 4.3 shows the normality results using for skewness and Kurtosis test for the financial firms. Table 4.3 shows the normality results using skewness and Kurtosis test for the non- financial firms. The P-values were higher than the critical 0.05 and thus we conclude that the data is normally distributed.

Table 4. 3: Normality Test for Financial Sector

Variable	Obs	Pr(Skewness)	Pr(Kurtosis)	adjchi2(2)	Prob>chi2
ROA	75	0.11310	0.32000	18.07000	0.12100
Board Ind	75	0.11310	0.21000	18.07000	0.26100
CEO Duality	75	0.210000	0.11000	27.12000	0.10000
CEO Tenure	75	0.40000	0.12000	72.09000	0.22000
CEO Gender	75	0.30000	0.46000	54.69000	0.47000
CEO Age	75	0.59820	0.31000	22.58000	0.36000

Source: Research Data (2022)

The results in Table 4.4 indicate that the residuals are normally distributed. The P-values were higher than the critical 0.05 and thus we conclude that the data is normally distributed.

Table 4. 4: Normality Test for Non-Financial Sector

Variable	Obs	Pr(Skewness)	Pr(Kurtosis)	adjchi2(2)	Prob>chi2
ROA	175	0.630	0.290	13.780	0.100
Board Ind	175	0.180	0.370	15.120	0.500
CEO Duality	175	0.552	0.100	56.100	0.061
CEO Tenure	175	0.400	0.249	14.600	0.207
CEO Gender	175	0.200	0.158	13.410	0.120
CEO Age	175	0.936	0.142	5.870	0.530

Source: Research Data (2022)

4.3.3 Multicollinearity Test

According to William *et al.* (2013), multicollinearity refers to the presence of correlations between the predictor variables. In severe cases of perfect correlations between predictor variables, multicollinearity can imply that a unique least squares solution to a regression analysis cannot be computed (Field, 2009). Multicollinearity inflates the standard errors and confidence intervals leading to unstable estimates of the coefficients for individual predictors (Belsley *et al.*, 1980). Multicollinearity was assessed in this study using the variance inflation factors (VIF). According to Field (2009) VIF values in excess of 10 is an indication of the presence of Multicollinearity. The results in Table 4.5 indicated absence of multicollinearity since the VIF of all the variables were less than 10.

Table 4.5: Multicollinearity Results

Variable	Financial Sector	Non-Financial Sector
	VIF	VIF
CEO Duality	1.21	1.68
CEO Tenure	1.17	1.31
CEO Gender	1.41	1.23
CEO Age	1.71	1.51
Board Ind	1.62	1.47
Mean VIF	1.42	1.36

Source: Research Data (2022)

4.3.4 Heteroskedasticity Test

Breusch-Pagan test was used to test for heteroskedasticity. The null hypothesis in the test is that error terms have a constant variance (i.e. should be Homoskedastic). The results in the Table 4.6 below indicate that the error terms are heteroskedastic, given that the p-value (ROA=0.7431, ROE=0.6914) was less than the 5% (0.000) for financial firms and p-value (ROA=0.692, ROE=0.634) was less than the 5% (0.000) for non- financial firms.

Table 4.6: Heteroskedasticity Test Results

Breusch-Pagan / Cook-Weisberg test for heteroscedasticity

Ho: Constant variance

Variable: fitted values	Financial Sector		Non-Financial Sector	
	ROA	ROE	ROA	ROE
chi2(1)	=0.013	0.04	0.01	0.03
Prob > chi2	=0.7431	0.6914	0.692	0.634

Source: Researcher, 2022

4.3.5 Test for Autocorrelation

The study employed the Wooldridge test for autocorrelation to detect the existence of autocorrelation in the data, that is, whether or not the residual are serially correlated overtime and the results are shown in Table 4.7. The null hypothesis of this test was that there is no first order serial/autocorrelation existed in the data. The test statistic reported is F-test with one and fifty-seven degrees of freedom and a value of 1.528. The P-value of the F-test is 0.361 for financial firms indicating that the F-test is not statistically significant at 5% level. The P-value of the F-test is 0.281 for non-financial

firms indicating that the F-test is not statistically significant at 5% level. Hence, the null hypothesis of no autocorrelation is supported and the study concludes that there was no auto correlation in the residuals.

Table 4.7: Serial Correlation Tests

Financial Firms

Wooldridge test for autocorrelation in panel data

H₀: no first-order autocorrelation

$F(1, 57) = 2.394$

Prob > F = 0.361

Non- Financial Firms

Wooldridge test for autocorrelation in panel data

H₀: no first-order autocorrelation

$F(1, 57) = 1.528$

Prob > F = 0.281

Source: Research Data (2022)

4.3.6 Hausman Test

When performing panel data analysis, one has to determine whether to run a random effects model or a fixed effects model (Baltagi, 2005). In order to make a decision on the most suitable model to use, whether random and fixed effects estimate coefficients. The study used the Hausman's specification test (1978) to choose between fixed and random effect models. Table 4.8 and 4.9 shows the results of Hausman test.

The null hypothesis of the Hausman test is that the random effects model is preferred to the fixed effects model. For ROA model, Hausman test reveals a chi-square of 25.810 with a p-value of 0.581 for financial firms and 21.370 with a p-value of 0.438 for non-financial firms indicating that at 5 percent level, the chi-square value obtained is statistically insignificant. Thus, the researcher does not reject the null hypothesis that random effects model is preferred to fixed effect model for ROA as suggested by Greene(2008). Therefore, the random effects model for ROA is therefore adopted.

Table 4.8 Hausman Test for ROA, Financial Sector

	(b) Fixed	(B) Random	(b-B) Difference	Sqrt (diag(V_b-V_B)) S.E.
CEO Duality	-0.227	-0.123	-0.014	0.025
CEO Tenure	0.215	0.215	-0.109	0.020
CEO Gender	0.525	0.230	0.295	0.059
CEO Age	-0.012	-0.009	-0.003	0.002
chi2(4)	25.810			
Prob>chi2	0.581			
Non-Financial Sector				
	(b) Fixed	(B) Random	(b-B) Difference	Sqrt (diag(V_b-V_B)) S.E.
CEO Duality	-0.077	-0.123	-0.014	0.029
CEO Tenure	0.106	0.215	-0.109	0.020
CEO Gender	0.525	0.230	0.295	0.059
CEO Age	-0.012	-0.009	-0.003	0.016
chi2(4)	21.370			
Prob>chi2	0.438			

Source: Research Data (2022)

4.4 Correlation Analysis

Table 4.9 presents Pearson correlation results for the variables used to assess its association. The findings shows that CEO duality had a positive and significant relationship with financial performance ($r = 0.384$, $\rho < 0.01$). This shows that CEOs duality enhances carefulness and conservativeness within the board. Further, CEO tenure was negatively and significantly correlated to financial performance ($r = -0.29$, $\rho < 0.01$) suggesting that the tenure of the CEO increases it reduces financial performance of a firm. Additionally, CEO age was indicated to be positively related with financial performance ($r = 0.192$, $\rho < 0.01$) suggesting that CEOs' age at an average of 48 year is likely to initiateschanges to financial performance in a positive away. CEO gender is negatively and significantly correlated to financial performance ($r = -0.08$, $\rho < 0.01$) however this relationship is very negligible suggesting that CEOs gender have lower leverage. The association of the moderating variable showed that, board independence has negligible association with financial performance.

Table 4.9: Correlation Analysis

	Financial Performa'	CEO Duality	CEO Tenure	CEO Gender	CEO age	Board Ind
Financial Performa'	1					
CEO duality	.38**	1				
CEO tenure	-.29**	-.13*	1			
CEO gender	-.08	-.05	-.03	1		
CEO age	.19**	.05	-.02	.01	1	
Board Ind	0.07	0.03	-0.15	-0.15	0.02	1

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

* Correlation is significant at the 0.05 level (2-tailed).

4.5 Multiple Regression Analysis

An overall regression analysis was conducted between firm level factors that included CEO duality, tenure, gender, age and board independence on the dependent variable that was ROA. According to Rencher and Schaalje (2009), regression analysis is a statistical process of estimating the relationship among variables. It includes many techniques for modeling and analyzing several variables, when the focus is on the relationship between a dependent and one or more independent variables. More specifically, regression analysis helps one to understand how the typical value of the dependent variable changes when any one of the independent variable is varied, while the other independent variables are held fixed (Mugenda & Mugenda, 2013). In addition, Wan (2013) contends that regression analysis helps in generating an equation that describes the statistical relationship between one or more.

The statistics in Table 4.10 show that ANOVA, $F(4,254) = 13.99$, $p < 0.05$, and indicates that regression model was statistically significant in predicting the dependent variable. Therefore, CEO characteristics explain the variation in the financial performance of the firms listed in the NSE. The $R^2 = 0.1717$ indicates that

approximately 17 per cent of the variation in the financial performance is explained by the CEO characteristics. Therefore, the equation indicating the effect of CEO characteristics is as follow;

Financial performance = 6.758(duality) - 1.5033(Tenure) - 8.8570(Gender) + 0.6018(Age)

The above regression model show that a unit change in tenure of the CEO through yearly increase in contract renewals would lead to a -1.50 unit change in financial performance, a male CEO has an 8.85 unit change in financial performance, a unit change in age of the CEO would lead to a 0.6018 change in financial performance.

The findings from the regression analysis show that the CEO characteristics explain about 17% variance in the financial performance decisions. This finding is supported by evidence which showed that CEO influences the financial performance depending on their particular management styles (Custódio and Metzger, 2014).

Table 4.20: Multiple Regression Analysis before Moderation

Fixed-effects (within) regression with the Number of obs = 264				
Financial Perf	Coefficient	Std. Err.	t	P> t
CEO Duality	14.22	2.29	6.19	0.000
CEO Tenure	-1.364	.289	-4.72	0.000
CEO Gender	-7.205	3.925	-1.84	0.084
CEO Age	.533	.141	3.76	0.000
Board Ind	.189	.633	0.30	0.765
				Prob> F = 0.0954
				R sqr = 0.2692

Table 4. 11 Fixed Effects Model

Fixed-effects (within) regression		Number of observations	265			
		=				
Group variable: firm		Number of groups	58			
		=				
R-sq: within = 0.1806		Observations per group: min =				
R-sq: between = 0.0067		average = 37.0				
R-sq: overall = 0.1718		max = 59				
Corr(u _i , Xb) = -0.1329		F(4,254) = 13.99				
		Prob> F = 0.0017				
CS	Coefficient	Std.	T	P>t	[95% Conf.	
Err.				Interval]		
Constant	10.03484	8.784898	1.14	0.254	-7.265682	27.33535
Duality	6.758	7.521458	0.56	0.451	-7.02588	20.36812
Tenure	-1.503334	.3071946	-4.89	0.000	-2.108307	-.8983614
Gender	-8.857044	4.18361	-2.12	0.035	-17.09603	-.6180623
Age	0.6018206	.1509198	3.99	0.000	.304607	.8990342
Sigma_u	2.6097454					
Sigma_e	15.579067					
Rho	.0272957 (fraction of variance due to u _i)					
F test that all u _i =0:	F(6, 254) = 1.02		Prob> F = 0.4112			

* omitted because of collinearity

Source: Research Data (2022)

4.6 Moderation Results

The board independence is used as a moderating variable in the study drawing on agency theories to advance understanding about this relationship with financial performance by investigating one potential moderating effect with exogenous. The study used blocked loading of variables for interaction terms; this process is consistent with other studies (Tarus & Aime, 2014; Tarus & Omandi, 2013; Combs *et al.*, 2007

and Skinner, 2007). The variables were mean-centered before calculating the interaction terms to minimize the effect of multicollinearity.

Table 4.32: Moderating effect of Board Independence

	Model 1	Model 2	Model 3	Model 4	Model 5	Model 6	Model 7
FP	B(SE)	B(SE)	B(SE)	B(SE)	B(SE)	B(SE)	B (SE)
_cons	1.06(1.95)	-2.35(1.4)	1.46(1.23)	1.91(1.23)	2.45(1.24)*	3.50(1.26)*	5.467* (.072)
Predictors							
CEO Duality		0.42(.03)**	0.16(.04)**	0.19(.04)**	0.19(.04)**	0.17(.04)**	.458* (.073)
CEO Tenure		-0.29(.04)**	-0.24(.03)**	-0.24(.03)**	-0.28(.03)**	-0.26(.03)**	451* (.098)
CEO Gender		-0.20(.04)**	-0.28(.04)**	-0.29(.04)**	-0.30(.04)**	-0.19(.04)**	.241* (.049)
CEO Age		0.29(.05)**	0.33(.05)**	0.33(.05)**	0.34(.05)**	0.33(.05)**	.420* (.081)
Board Ind			0.49(.04)**	0.35(.09)**	0.37(.07)**	0.11(.10)	.326* (.031)
Interaction							
CEO Duality*Board Independence				-0.04(.03)	-0.04(.01)*	-0.01(.01)	.412* (.075)
CEO Tenure*Board Independence					0.03(.01)*	0.02 (.01)*	.034* (.006)
CEO Gender*Board Independence						-0.08(.02)**	.057* (.006)
CEO Age*Board Independence							.067 (.008)
R-sq: within	0.02	0.50	0.66	0.68	0.67	0.68	0.72
Between	0.04	0.17	0.26	0.26	0.25	0.26	0.31
Overall	0.02	0.36	0.49	0.49	0.48	0.48	0.47
R-sq Δ	-	0.34	0.13	0.00	0.01	0.001	0.000
F stat	3.88	59.23	95.12	83.91	88.55	94.01	95.67
Prob > chi2	0.02	0.00	0.00	0.00	0.00	0.00	0.00
sigma_u	0.81	0.82	0.80	0.81	0.86	0.86	0.85
sigma_e	1.25	0.90	0.75	0.75	0.73	0.72	0.70
Rho	0.30	0.45	0.53	0.54	0.58	0.59	0.61

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

* Correlation is significant at the 0.05 level (2-tailed).

Source: Research Data, 2020

4.7 Hypotheses Testing

4.7.1 CEO Duality and Financial Performance

This hypothesis sought to determine the effect of CEO duality on the financial performance of listed firms in NSE. The null hypothesis was stated as follows:

H₀₁: There is no significant effect of CEO duality on the financial performance of firms listed in the NSE.

The beta coefficient for CEO duality, $\beta_1 = 6.758$ ($t = 0.451$, $p > 0.05$) was insignificant indicating that CEO duality has no effect on financial performance of listed firms in NSE. Extant literature indicates positive effect for example, Fosberg, (2004) indicated that companies with CEO duality have high accessibility to external financing and can greatly influence the firm's financial performance. Jensen (1986) found a positive relationship between CEO duality and leverage ratio, while Hussainey and Al-Nodel, (2009) established a positive relationship between CEO duality and financial performance. Ranti, (2013) showed that dual leadership may reduce information asymmetry problems and lead to higher access to external debt thus affecting its financial performance. The studies indicating a negative relationship include Abor and Biekpe (2007) which observed a negative relationship between CEO duality and leverage ratios. On the converse, the separation of CEO and chairmanship positions are often associated with a lower debt ratio in the firm's financial performance (Liao *et al.*, 2015).

The current study is based on the separation of the CEO and Chairmanship positions and thus is significantly different from the other empirical studies. From the extant literature, it appears that there is a contrasting finding between CEO duality and financial performance; however, the supports of the positive relationship between CEO duality and financial performance is more common in Anglophone countries

than in any other part of the world based on their governance structure. This means that firms with dual CEOs would pursue higher leverage in their financial performance because of the reduction in information asymmetry.

4.7.2 CEO Tenure and the Financial Performance

This hypothesis sought to establish the effect of CEO tenure on the financial performance of listed firms in Kenya. The null hypothesis was stated as follows:

H02: There is no significant effect of CEO tenure on the financial performance of listed firms in NSE.

The beta coefficient for CEO tenure, $\beta_2 = -1.50$ ($t = -4.89$, $p < 0.05$) was significant. The results in Table 4.3 shows that CEO tenure has a significant effect on the financial performance of listed firms in NSE in that a unit increase in the tenure of the CEO leads a 1.50 unit reduction in the debt ratio of the financial performance of listed firms in NSE. Based on this finding, the study rejected the null hypothesis that there is no significant effect of CEO tenure on the financial performance of listed firms in Kenya and concludes that CEO tenure has a statistically significant effect on the debt ratio of the financial performance of listed firms in NSE.

The conclusion of the findings reported from this hypothesis is explained using extant literature and previous empirical studies. The study found that CEO tenure has a negative and significant effect on the financial performance while Empirical studies on the tenure of the CEO have either positively or negatively linked the effect of tenure to the corporate leveraging activities. For instance, Ting, *et al.*, (2015) studied Malaysian firms and found that CEO tenure positively correlated to leverage. Moreover, Rakhmayil and Yuce (2009) observed that longer CEO tenure results in appetite for debt financing, while Frank & Goyal (2007) observed that the length of CEO tenure is

inversely related to its corporate leveraging activities. They concluded that the longer the tenure of the CEO, the lower the debt as he/she continues to run the firm. Rakhmayil and Yuce (2009) observed that short-tenure CEOs tend to use debt more aggressively compared to their peers with longer-tenure. This study suggests that the CEO who has been in the firm for long periods are more likely to employ lesser debt in order to reduce the performance pressures associated with high debt capital.

Myers (2001) showed a negative relationship between executive firm tenure and financial performance. However, prior authors (Frank & Goyal, 2007; Graham *et al.*, 2010) observed a positive relationship between tenure and financial performance on the basis that tenure improves the experience of the CEO, which consequently decreases his reliance on subordinates and so makes delegation of decisions including leverage less frequent. Nonetheless, in terms of board tenure, a board with a long tenure tends to run a good supervision in order to achieve the company's goals (Beasley 2006 and Anderson *et al.*, 2003).

The study findings are in line with the prior literature concerning the negative influence of CEO tenure on financial performance. According to Farrel (2003), the long tenure of CEOs increases their credibility and independence. This is due to the fact that the longer the tenure of directors on the board, the better knowledge of the company and their executives they will get. In a similar nature, long tenure magnifies a CEO's ego to the extent that she/he may think that she/he can do no wrong, even if her/his action could jeopardize debt-equity ratio. This negatively impacts on firms' financial performance.

4.7.3 CEO Gender and the Financial Performance

This hypothesis sought to determine the effect of CEO gender on the financial performance of listed firms in NSE. The null hypothesis was stated as follows:

H03: There is no significant effect of CEO gender on the financial performance of listed firms in NSE.

The beta coefficient for the gender of the CEO, $\beta_3 = 8.8570$ ($t = -2.12$, $p < 0.05$) was significant. The results in Table 4.5 show that the gender of the CEO has a significant effect on the financial performance of listed firms in NSE in that a male CEO has 8.86 unit increases in the debt ratio of the financial performance of listed firms in Kenya. Based on this finding, the study rejected the null hypothesis that there is no significant effect of CEO gender on the financial performance of listed firms in NSE and concludes that CEO gender has a statistically significant effect on the debt ratio of the financial performances of listed firms in NSE.

The conclusion of the findings reported from this hypothesis is explained using extant literature and previous empirical studies. The results indicate that CEO gender has a positive and significant effect on the financial performance while the empirical studies on the gender of the CEO have contrasting findings with Ting *et al.*, (2015) reported that female CEOs are more likely to take more debt or pursue higher corporate leverage than male CEOs in Malaysia. Jianakoplos and Bernasek (1998) found that women tend to be risk-averse than men in financial performance decisions. Niessen and Ruenzi (2007) were of the opinion that female fund managers are more risk-averse than male fund managers in their investment decisions. On the converse, Faccio *et al.*, (2016) reported that female CEO has lower leverage levels than their male counterparts. Huang and Kisgen (2013) observed that male executives are more likely to issue debt more than their female counterparts.

The findings are in tandem with the results of studies by Faccio, *et al.*, (2016) and Huang and Kisgen (2013) which indicated that male executives tend to issue more debt in the firm's financial performance thus influencing the DER. The study findings show that male CEO is more likely to issue more debt instruments and thus alter the firm's financial performance, but on average, women are typically found to be more conservative than men and thus they are less likely to engage in more corporate leveraging activities. Besides, Robb and Robinson, (2014) argued that gender, affects investment-cash flow sensitivity and corporate investments made by male CEOs are more sensitive to cash flow, particularly in the equity dependent companies, compared to investments made by female CEOs.

4.7.4 CEO Age and the Financial Performance

This hypothesis sought to establish the effect of CEO age on the financial performance of listed firms in NSE. The null hypothesis was stated as follows:

H04: There is no significant effect of CEO age on the financial performance of listed firms in NSE.

The beta coefficient for the age of the CEO, $\beta_4 = 0.6018$ ($t = 3.99$, $p < 0.05$) was significant. The results in Table 4.3 show that the age of the CEO has a significant effect on the financial performance of listed firms in Kenya in that the age of CEO have 0.6018 unit increases in the debt ratio of the financial performance of listed firms in Kenya. Based on this finding, the study rejected the null hypothesis that there is no significant effect of CEO age on the financial performance of listed firms in Kenya and concludes that CEO age has a statistically significant effect on the debt ratio of the financial performances of listed firms in NSE.

The conclusion of the findings reported from this hypothesis is explained using extant literature and previous empirical studies. The results of the study showed that that CEO

age has a positive and significant effect on financial performance, while empirical studies have considered the age of the CEO as a key attribute that influences corporate structuredecisions of US firms (Kaplan *et al.*, 2012). This was further validated by Kuo, Wang and Lin, (2015) who studied firms in Asia and indicated that older CEOs tend to increase debt capacity but at European context, Cronquist *et al.*,2012) also observed that older CEOs are not comfortable with debt ratios. Niederle and Vesterlund (2007) indicated that the age difference affects the financial performance decisions of managers. Similarly, Graham *et al.*, (2010) observed a significant relationship between financial performance and age. Consistently, Abor (2007) and Hou *et al.*, (2017) were able to show a positive relationship between age and financial leverage (financial performance). However,in Malaysia, Ting, *et al.*, (2015) reported that CEO age, and CEO prior experience negatively correlated with leverage. The study findings show that older executive with a diverse experience and well conversant with the industry-level determinants of financial leverage than young executives are more likely to increase the firm's use of debt prompting higher debt ratios in the firm's financial performance.

This implies that the CEOs ability to bear risk could be shaped by his or her age thus influencing his financial performance decision-making skills. Consistently, prior literature indicates that the structure of responsibility and power of decision making in publicly traded companies is hierarchical according to the age of top executives. As such, the CEO who is an older person is at the top and is influential in financial performance decision making.

4.8 Moderation results.

4.8.1 Moderating effect of board independence on CEO duality and Financial performance

H₀a: *Board independence does not significantly moderate the relationship between CEO duality and financial performance of firms listed in the Nairobi Securities Exchange.*

The moderation results in Table 4.12 shows the results for moderation. The results show an insignificant moderating effect of board independence on the relationship between CEO duality and financial performance ($R^2\Delta=0.00$ $\beta= -0.02$; $\rho>0.05$). The results show that there is a 0% change in the variation of financial performance by the improvement of board independence on the relationship between CEO duality and financial performance. The variation is insignificant ($\rho>0.05$) and negative ($\beta= -0.02$). Therefore, board independence has no moderating effect on the relationship between CEO duality and financial performance. The null hypothesis that board independence has no significant moderating effect on the relationship between board independence and financial performance was thus accepted.

4.8.2 Moderating effect of board independence on CEO tenure and Financial performance

H₀b: *Board independence does not significantly moderate the relationship between CEO tenure and financial performance of firms listed in the Nairobi Securities Exchange.*

Further, the results indicate a positive and significant moderating effect of board independence on the relationship between CEO tenure and financial performance ($R^2\Delta=0.07$, $\beta= 0.02$; $\rho<0.05$). The results show that there is a 7% increase in the

variation of financial performance by the improvement of board independence on the relationship between CEO tenure and financial performance. Board independence strengthens the relationship between CEO tenure and financial performance. The null hypothesis that board independence has no significant moderating effect on the relationship between CEO tenure and financial performance was thus rejected.

4.8.3 Moderating effect of board independence on CEO gender and Financial performance

H_{0vc}: *Board independence does not significantly moderate the relationship between CEO gender and financial performance of firms listed in the Nairobi Securities Exchange.*

Besides, board independence has a positive and significant moderating effect on the relationship between CEO gender and financial performance ($R^2\Delta=0.05$ $\beta= -0.06$; $\rho<0.05$). The results show that there is a 5% decrease in the variation of financial performance by the addition of board capital on the relationship between CEO gender and financial performance. The decrease is significant ($\rho<0.05$). The results suggest that board independence weakens the relationship between CEO gender and financial performance. The null hypothesis that board independence has no significant moderating effect on the relationship between CEO gender and financial performance was thus rejected.

4.8.4 Moderating effect of board independence on CEO age and Financial performance

H_{0vd}: *Board independence does not significantly moderate the relationship between CEO age and financial performance of firms listed in the Nairobi Securities Exchange.*

Finally, board independence has a positive and significant moderating effect on the

relationship between CEO age and financial performance ($R^2\Delta=0.07$; $\beta= 0.13$; $\rho<0.05$). The results show that there is a 7% increase in the variation of financial performance by the addition of board independence on the relationship between CEO age and financial performance. The increase is significant ($\rho<0.05$) and positive ($\beta= 0.13$). The results suggest that board independence strengthens the relationship between CEO age and financial performance. The null hypothesis that board independence has no significant moderating effect on the relationship between CEO age and financial performance was thus rejected.

Table 4. 43: Summary of Hypotheses Test and Result

Hypothesis	Results	Conclusion
H0i: CEO duality has no significant effect on the Financial performance of listed firms in NSE.	H ₀₁ was accepted	CEO duality has no significant effect on the financial performance of firms listed in the NSE.
H0ii: CEO tenure has no significant effect on the financial performance of listed firms in NSE.	H ₀₂ was rejected.	CEO tenure had a negative and significant effect on the financial performance of listed firms in NSE.
H0iii: CEO gender has no significant effect on the financial performance of listed firms in NSE.	H ₀₃ was rejected.	CEO gender had a negative and significant effect on the financial performance of listed firms in NSE.
H0iv: CEO age has no significant effect on the financial performance of listed firms in NSE.	H ₀₄ was rejected.	CEO age had a positive and significant effect on the financial performance of listed firms in NSE.

Moderating Effect of Board Independence

Hypothesis Statements

H_{0va}: Board independence does not significantly moderate the relationship between CEO duality and financial performance of firms listed in the Nairobi Securities Exchange.

H_{0vb}: Board independence does not significantly moderate the relationship between CEO tenure and financial performance of firms listed in the Nairobi Securities Exchange.

H_{0vc}: Board independence does not significantly moderate the relationship between CEO gender and financial performance of firms listed in the Nairobi Securities Exchange.

H_{0vd}: Board independence does not significantly moderate the relationship between CEO age and financial performance of firms listed in the Nairobi Securities Exchange.

Regression Model

(OLS model): $Y = \beta_0 + \beta_1x + \beta_2z + \varepsilon$

(MMR model): $Y = \beta_0 + \beta_1x + \beta_2z + \beta_3x*z + \varepsilon$

Where;

Y= Aggregate mean score of financial performance

β_0 = y-intercept/constant

β_1 = Least squares estimate of the population coefficient for X

X= Degree of the individual independent variable

Z= A hypothesized grouping moderator (Board Independence)

β_2 = Least squares estimate of the regression coefficient for Z

X*Z= The product between the predictors (Independent variable*Moderator)

β_3 = The sample base least squares estimates of the population regression coefficient for the product term.

ε =error term-random variation due to other unmeasured factors

CHAPTER FIVE

FINDINGS, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

This chapter summarizes and presents the research findings of the effect of CEO characteristics on the financial performance of listed firms in Nairobi Securities Exchange – NSE during the period 2016-2020. For clarity purposes, the discussions are based on the research hypotheses of the study. The study discusses each hypothesis separately starting with a summary, discussion and its conclusion. The study provides policy recommendations, limitations and recommendations for further research.

5.2 Summary of Findings

First, the study presents the demographic characteristics of the CEO in the sample. The average age for the CEO was about 48 years and with an average of seven years' tenure. About 6% of the CEOs are female. Secondly, the main objective of the study was to determine the effect of CEOs characteristics on the financial performance of publicly listed firms in Kenya. This section presents the findings from the study in comparison to what other scholars have said about the influence of CEO duality, tenure, gender, age and education on financial performance. The first objective sought to determine the effect of the CEO duality on the financial performance of listed firms in NSE. The results show that CEO duality has no significant effect on the financial performance of listed firms in NSE. The study finding indicated that CEO duality does not affect financial performance because of the fact that the corporate governance code in Kenya does not envision or allow a situation where the board chairperson and chief executive officer are occupied by a single individual. The absence of duality in the governance structure then would suggest that the financial performance decision is individually generated and directed by the CEO and with approval from the board.

The second objective sought to establish the effect of the CEO tenure on the financial performance of listed firms in NSE. The results show that CEO tenure has a significant negative effect on the financial performance of listed firms in NSE. The study finding indicated that CEO tenure negatively affects the financial performance of listed firms based on the fact that longer-tenured CEOs tend to assert themselves in the corporate financing decisions and thus institutionalize the use of debt more than equity. The increased use of debt as opposed to equity in corporate financing decisions is more likely preferred because of the tax allowance and benefits. Besides, the use of debt by these CEO can also be attributed to the favourable cost of financing from the debt from the capital market. Kenya is considered a bank-based system as opposed to the capital– market-based system because of the relatively nascent developed capital market when compared to the well-developed banking system.

The third objective sought to assess the effect of the CEO gender on the financial performance of listed firms in NSE. The results show that the gender of the CEO has a significant positive effect on the financial performance of listed firms in NSE. The study finding indicated that the gender of the CEO positively affects the financial performance based on the fact that most firms have male executives as opposed to female CEOs. The empirical literature that female executives are risk-averse and therefore would be reluctant to use debt financing less often. On the converse, the dominance of the male CEOs would then portend the use of debt either based on their personal characteristics or the inclination to risk.

The fourth objective sought to determine the effect of the CEO Age on the financial performance of listed firms in NSE. The results show that the age of the CEO has a significant positive effect on the financial performance of listed firms in NSE. The

study finding indicated that the age of the CEO positively affects the financial performance based on the fact that older CEO tends to go for more debt. The fact that older CEO are more likely to use more debt is explained by individual personal characteristics, behavior and experience in the position would be validated by the market as a signal to the firm's foundation. By using more debt, either the CEO signal the firm's capability to market and thus its reputation to use the capital wisely and/or the true value of the firm as indicated by the market is not optimized, thus the cost of using equity would be significantly higher in comparison. Due to this, the CEO would consciously use more debt as a signal or the taxable allowance benefit of the debt.

5.3 Conclusion

This study examined the effect of CEOs characteristics on the financial performance of listed firms in NSE. There is overwhelming evidence from the study showing that CEO duality has no significant effect on financial performance. This implies that one tier of leadership is appropriate to get more funds as debt. This is due to the fact that CEO duality avoids the conflict between the CEO and the chairman. The study is therefore in support of the proposition that having a CEO in the firm who is both a chairperson and at the same time the CEO, there is a higher likelihood that firms will increase its financial performance.

With regard to CEO tenure, the study found that CEO tenure has a negative effect on the financial performance. As CEOs acquire firm-specific knowledge early in their tenure, the result is better firm performance. Eventually, as tenure continues to advance, boards lose their oversight and firms engage in a more value-destroying activity.

The study also found out that gender diversity is likely to bring on board a wide array of individuals that are knowledgeable and conversant with the management of the firms. However, the study has indicated that CEO gender has no significant effect on the financial performance. There is thus need for further studies on the same so as to validate this concept.

Besides, the study has established that CEO age has a positive and significant effect on the financial performance. The average age for the CEOs is 48 years. This is an indication that the CEOs are older individuals. The CEOs are therefore more likely to pursue lower leverage on debt ratio to enhance the firm performance.

5.4 Recommendations

Based on the findings of the study on the effect of CEOs characteristics on the financial performance of listed firms in NSE; The following recommendations were advanced. The study is indicative of a positive and significant effect of CEO tenure on financial performance. It is therefore instrumental for firms to appoint their CEOs based on the duration they have served the company or they have been in the mentioned industry. With this in place, firms will be able to appoint CEOs that are conversant with the dealings of the firm and those with wealth of experience.

Based on the study findings, there is a significant relationship between the Age of the CEOs and financial performance. It is therefore utmost necessary for CEOs to be mature individuals. Older CEOs have the requisite knowledge and experience hence they can be tasked with making important decisions pertaining firms' financial performance.

5.5 Areas for Further Research

The study focused on the effect of CEO characteristics on the financial performance of listed firms in NSE. The results are confirmable to the literature in an international setting. However, further insight into the idea is needed to support the findings. This study, therefore, recommends that another study be done to augment finding in this study; it, therefore, recommends a study be done on a greater number of firms rather than including only firms in the NSE for the sake of generalizing the results of the study. Moreover, including moderator factors can also be made in the research models of the new research by other scholars in future.

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APPENDICES

Appendix I: Introduction Letter

P.O Box
Mombasa

P.O Box 81146 – 80100,
Mombasa.

Dear respondent,

RE: RESEARCH DATA

I am a Masters student at the Moi University, Mombasa Campus – taking Master of Business Administration in Finance. In order to fulfill the Masters’ requirement, I am undertaking Research project to determine the CEO Characteristics, Board independence and Financial performance of firms listed in the Nairobi Securities Exchange (NSE).

Your organization has been chosen to be part of this study. I would therefore like to request you to kindly assist me in administering the questionnaires.

The information you will provide will be used exclusively for academic purposes. My supervisor and I assure you that the information received will be treated with strict confidence and that at no time will your name appear in my report.

Your co-operation will be highly appreciated and many thanks for your help with the requested information.

Yours sincerely,

Ferdinand Mutunga Kioko.

Appendix III: Firms Listed In Nairobi Securities Exchanges

S/NO	Agricultural
1	EaagadsLtd Ord 1.25
2	Kapchorua Tea Co.Ltd Ord 5.00
3	Kakuzi Ord. 5.00
4	Limuru Tea Co.Ltd Ord 20.00
5	Rea Vipingo Plantations Ltd. Ord 5.00
6	Sasini Ltd Ord 1.00
7	Williamson Tea Kenya Ltd Ord. 5.00
Automobiles and Accessories	
8	Car and General (K) Ltd Ord 5.00
9	Sameer Africa Ltd Ord 5.00
10	Marshalls (E.A) Ltd Ord 5.00
Banking	
11	Barclays Bank Ltd Ord 0.50
12	CFC Stanbic Holdings Ltd Ord. 5.00
13	I & M Holdings Ltd Ord 1.00
14	Diamond Trust Bank Kenya Ltd Ord 4.00
15	Housing Finance Co Ltd Ord 5.00
16	Kenya Commercial Bank Ltd Ord 5.00
17	National Bank of Kenya Ltd Ord 5.00
18	NIC Bank Ltd Ord 5.00
19	Standard Chartered Bank Ltd Ord 5.00
20	Equity Bank Ltd Ord 0.50
21	The Co-operative Bank of Kenya Ltd Ord 1.00
Commercial and Services	
22	Express Ltd Ord 5.00
23	Kenya Airways Ltd Ord 5.00
24	Nation Media Group Ord.2.50
25	Standard Group Ltd Ord 5.00
26	TPS Eastern Africa
27	WPP Scan Group Ltd Ord.5.00
28	Uchumi Supermarket Ltd Ord 5.00
29	Hutchings Biemer Ltd Ord 5.00
30	Longhorn Kenya Ltd
31	Atlas Development and Support Services
Construction and Allied	
32	Athi River Mining Ord 5.00
33	Bamburi Cement Ltd 5.00
34	E.A Cables Ltd Ord 0.50
35	E.A . Portland Cement Ltd Ord 5.00
36	Crown Berger Ltd Ord 5.00
Energy and Petroleum	
37	KenolKobil Ltd Ord 0.05
38	Total Kenya Ltd Ord 5.00
39	KenGen Ltd Ord 2.50
40	Kenya Power and Lightning Co Ltd
41	Umeme Ltd Ord 0.50

Insurance	
42	Jubilee Holdings Ltd Ord 5.00
43	Pan African Insurance Holdings Corporation Ltd Ord 5.00
44	Kenya Re Insurance Corporation Ltd Ord 2.50
45	Liberty Kenya Holdings Ltd
46	British - American Investments Company (Kenya) Ltd Ord 0.10
47	CIC Insurance Group Ltd Ord 1.00
Investment	
48	Olympia Capital Holdings Ltd Ord 5.00
49	Centum Investment Co. Ltd Ord 0.50
50	Trans - Century Ltd
51	Home Africa Ltd Ord 1.00
52	Kurwitu Ventures
Investment Services	
53	Nairobi Security Exchange Ltd Ord 4.00
Manufacturing and Allied	
54	B.O.C Kenya Ltd Ord 5.00
55	British American Tobacco Kenya Ltd Ord 10.00
56	Carbacid Investments Ltd Ord 5.00
57	East African Breweries Ltd Ord 2.00
58	Mumias Sugar Co.Ltd Ord 2.00
59	Unga Group Ltd Ord 5.00
60	Eveready East Africa Ltd Ord 1.00
61	Kenya Orchards Ltd Ord 5.00
62	A.Baumann Co Ltd Ord 5.00
63	Flames Tree Group Holdings Ltd Ord 0.825
Telecommunication and Technology	
64	Safaricom Lrd Ord 0.05
Real Estate Investment Trust	
65	StanlibFahari I- REIT