BOARD CHARACTERISTICS, FOREIGN OWNERSHIP AND FIRM PERFORMANCE OF LISTED FIRMS AT THE NAIROBI SECURITIES EXCHANGE IN KENYA

BY

MUREITHI PETER KARURIA

A RESEARCH PROJECT SUBMITTED TO THE SCHOOL OF BUSINESS AND ECONOMICS IN PARTIAL FULFILMENT OF THE REQUIREMENTS FOR THE AWARD OF MASTER OF BUSINESS ADMINSTRATION DEGREE IN FINANCE

MOI UNIVERSITY

2024

DECLARATION

Declaration by Candidate

This is my own original work and has never been presented to any institution of higher learning for academic purposes. No part of this report may be reproduced without my permission or that of Moi University.

Signature……………………………………….Date……..……………….

MUREITHI P. KARURIA

MU/MBM/011/14

Declaration by the Supervisors

This Research has been submitted for examination with our approval as University Supervisors.

Signature……………………………………….Date……..……………….

Prof. Daniel K. Tarus,

Department of Accounting and Finance,

School of Business and Economics,

Moi University, Kenya.

Signature……………………………………….Date……..……………….

Dr. Robert Odunga,

Department of Accounting and Finance,

School of Business and Economics,

Moi University, Kenya

DEDICATION

I dedicate this project to my wife- Akline, and children -Mary, Mercy, Michael and Mark for their patience especially when I had to leave them to ensure that the work came to a successful completion as well as my parents and siblings for their prayers, encouragement and support and above all to the Almighty for seeing me through the entire course.

ACKNOWLEDGEMENT

First is Glory to God for life, strength, and His Graciousness for making it this far. To my parents,, siblings and friends who egged me on, thanks for your encouragement and being there for me through your prayers.

I'd like to thank my supervisors, Professor Daniel Tarus and Dr. Robert Odunga, for their constructive criticism and wise advice throughout the study process. The University's August 2015 Research Workshop was well regarded for its insightful remarks and recommendations.

I am thankful to my classmates in the Master of Business Management Programme for sharing inspiring ideas and facilitating two years of successful and enjoyable learning. The support and unconditional affection of my family are priceless.

He has glorified His marvelous deeds; the Lord is generous and full of mercy (Psalm 111:4).

ABSTRACT

The majority of studies on Board characteristics acknowledges the Board's role as a board characteristics tool. Researchers have sought to determine the relationship between board composition characteristics and a performance measure. This was done in order to determine the important board composition variables and the consequences of adding or removing some of these variables throughout the process of forming successful boards. The objective of the study was to determine the moderating effect of foreign ownership and the relationship between board characteristics constructs and firm performance in Kenya. Specifically, the study sought to determine the moderating effect of foreign ownership on board independence, board size, board diligence, board expertise, and gender diversity on firm performance. The research was premised on agency theory, resource dependence theory, stewardship theory and social contract theory. The study used panel data research design, with a target population being all the firms that were active for the period 2012-2016. Secondary data was gathered from the information included in the Capital Markets Authority and Nairobi Securities Exchange Hand Books as well as the yearly financial statements of the companies. Multiple linear regression model was used to yield outputs for hypothesis testing; in addition diagnostic tests, that is, normality, linearity, multicollinearity, unit root, homoscedasticity and autocorrelation and data transformations were carried out using STATA v. 14.1. Descriptive and inferential statistics were also obtained. Only board competence was statistically significant at a 5% level of significance in determining the performance of NSE-listed enterprises, according to the study findings. It was also discovered that board foreign ownership has no moderating effect on the governance and firm performance components. This study therefore recommends a re-evaluation of members engaged at the board level through expertise by emphasizing a considerable package for remuneration to be in tandem with the structures of their day to day operations of the firm. Areas for further studies should include the inclusion of the larger East African Community with consideration of the extrinsic factors of political interference/instability and corruption as well as other performance measures such as Tobin Q and Return on Assets to explore the moderating effect of foreign ownership on firm performance.

TABLE OF CONTENTS

DECLARATION ii
DEDICATION iii
ACKNOWLEDGEMENT iv
ABSTRACT v
TABLE OF CONTENTS vi
LIST OF FIGURES x
LIST OF TABLES xi
OPERATIONAL DEFINITION OF TERMS xii
ABBREVIATIONS AND ACRONYMS xiv
CHAPTER ONE 1
INTRODUCTION 1
1.0 Overview 1
1.1 Background of the Study 1
1.1.1 The Kenyan Context 3
1.1.2 CMA Board characteristics Guidelines 5
1.1.3 The Mwongozo Code of Conduct 6
1.1.4 Overview of Nairobi Securities Exchange and Foreign Investors 7
1.2 Statement of the Problem 9
1.3 Objectives of the Study 11
1.3.1 General Objectives of the Study: 11
1.3.2 Specific Objectives 11
1.4 Research Hypothesis 12
1.5 Significance of the Study 13
1.6 Scope of the Study 15
CHAPTER TWO 16
LITERATURE REVIEW 16
2.0 Overview 16
2.1 The Concept of Board characteristics 16
2.1.1 Concept of board independence 16
2.1.2 Concept of board size 18
2.1.3 Concept of board diligence 19
2.1.4 Concept of board financial expertise 20

2.1.5 Concept of board gender diversity 21
2.1.6 Concept of firm performance 22
2.2 The Concept of Board characteristics 23
2.3 Theoretical Perspectives of Board characteristics 25
2.3.1 Agency Theory 25
2.3.2 Resource Dependence Theory 27
2.3.3 Stewardship Theory 28
2.3.4 Social Contract Theory 29
2.4 Components of Board characteristics 30
2.4.1 Board Independence and Firm Performance 30
2.4.2 Board Size and Firm Performance 32
2.4.3 Board Diligence and Firm Performance 33
2.4.4 Board Expertise and Firm Performance 35
2.4.5 Gender Diversity and Firm Performance 37
2.5 Firm Financial Performance 38
2.6 Foreign Ownership and Firm Performance 39
2.7 Conceptual Framework 41
CHAPTER THREE 43
RESEARCH METHODOLOGY 43
3.0 Overview 43
3.1 Research Design 43
3.2 Target Population 45
3.3 Inclusion/Exclusion criteria 45
3.4 Data Collection Method 45
3.5 Measurement of Variables 46
3.5.1 Explained Variable: 46
3.5.2 Independent Variable: 46
3.5.3 Moderating Variable: 47
3.6 Data Analysis 47
3.6.1 Analytical Model 48
3.6.2 Estimation and Diagnostic Tests 48
3.7. Ethical Consideration 49

CHAPTER FOUR......50
DATA ANALYSIS, FINDINGS AND DISCUSSIONS......50
4.1 Overview......50
4.2 Descriptive Statistics......50
4.3 Estimation of the moderating effect foreign ownership on board characteristics and firm performance in Kenya......52
4.3.1 Correlation Analysis......53
4.3.2 Unit Root Test......54
4.3.3 Hausman Specification Model......55
4.4 Regression Results for Random Effects Model......56
4.5 Discussion of the Findings from Random Effects Model......60
4.5.1 Moderating effect of foreign ownership on board independence and financial performance......61
4.5.2 Moderating effect of foreign ownership on board size and financial performance......61
4.5.3 Moderating effect of foreign ownership on board diligence and financial performance......62
4.5.4 Moderating effect of foreign ownership on board expertise and financial performance......63
4.5.5 Moderating effect of foreign ownership on gender and financial performance......64
CHAPTER FIVE......65
SUMMARY, CONCLUSION AND RECOMMENDATIONS......65
5.1 Overview......65
5.2 Summary of the Study Findings......65
5.3 Conclusions of the Study......66
5.4 Recommendations......67
5.4.1 Managerial recommendations......67
5.4.2 Policy recommendations......69
5.4.3 Theoretical recommendations......71
5.5 Limitation of the Study......72
5.6 Areas for Further Study......73
REFERENCES......74
APPENDICES......84

Appendix 1: List of Listed firms at NSE..84
Appendix 2: Foreign Ownership of Listed Firms at NSE...85

LIST OF FIGURES

Figure 2.1: Conceptual Framework 42
Figure 4.1: Performance of Listed Firms in NSE as at December 2016......................52

LIST OF TABLES

Table 1.1: Investor Equity Holdings 9
Table 4:1: Summary Statistics 51
Table 4.2: Correlation Matrix 53
Table 4.3: Levin-Lin-Chu Unit-Root Test 55
Table 4:4: Test for Model Selection: FEM versus REM 56
Table 4.5: Results for Random Effects Regression Model 58
Table 4:6: VIF Test 60
Table 4.7: Test for Normality 60

OPERATIONAL DEFINITION OF TERMS

Board Diligence This represents the number/occurrence of meetings the board has during a financial period (Foo & Zain, 2010).

Board Expertise Is the presence of directors who hold academic/professional credentials and/or who hold considerable experience in their field of practice (Hashim & Abdul, 2011).

Board Independence Indicates the number of non-executive directors having no conflicts of interest with the firm (Liu, Miletkov, Wei & Yang, 2015).

Board Size The total board number of directors who affect the effectiveness of board functions in an organization in a period of one year (Vaidya, 2019).

Board characteristics It is the structure and technique through which the Board of Management, top executives, and other stakeholders collaborate to accomplish the objectives of guaranteeing accountability and boosting performance (Vitolla, Raimo & Rubino, 2020).

Firm Performance The return on investment or the profits derived from an organization from its operations (Pucheta-Martínez & Gallego-Álvarez, 2020).

Foreign Ownership Ownership/control of a business in a country by individual/company whose headquarters are not East African community partner state (Carney, Estrin, Liang & Shapiro, 2019).

Gender Diversity The number of female directors who may or not hold shares in a company (Brahma, Nwafor & Boateng, 2021).

ABBREVIATIONS AND ACRONYMS

BoD:	Board of Directors
CEO:	Chief Executive Officer
CMA:	Capital Markets Authority
CMC:	Cooper Motor Corporation
COSO:	Committee of Sponsoring Organizations
FEM:	Fixed Effects Model
ICPAK:	Institute of Certified Public Accountants of Kenya
NSE:	Nairobi Securities Exchange
OECD:	Organization for Economic Cooperation and Development
REM:	Random Effects Model
ROE:	Return on Equity
SOE:	State Owned Enterprises
TMT:	Top Management Team

CHAPTER ONE

INTRODUCTION

1.0 Overview

The section deploy the background to the study, the statement of the problem, the objectives, research hypothesis and also the significance and scope of the study.

1.1 Background of the Study

Regulation bodies and the general public have paid increased attention to company governance since corporate fraud and the subsequent global financial crisis. There has been a rise in both awareness of and need for internal assurance on board characteristics processes as a result of legislative initiatives focused on strengthening disclosure obligations related to board characteristics. The worldwide economic crisis of 2008-2009 has prompted scholars and policymakers to reconsider the impact of board characteristics failures on business results. It also provides them with another opportunity to reform board characteristics (Yii, 2010).

Problems with board characteristics are especially common in developing nations like Kenya, where many established businesses operate under the jurisdiction of moderately financial, regulatory, and accounting infrastructures. There is empirical evidence linking more advanced stock markets, lower levels of concentrated share ownership, and greater values for minority shares to nations with more robust minority shareholder legislation safeguards (Porta & Lopez-de-silanes, 2014).

The OECD revised its rules for board characteristics in 2004 and placed a far greater emphasis on the role that good board characteristics plays in improving a company's bottom line and overall success. Board characteristics, or the framework for regulating the board of directors', management's, and shareholders' interactions, has

been shown to have a significant impact on a company's financial results. The principles in question stated, in particular, that there are two parts to a board characteristics system: the governance structure and the governance process. The governance structure of a company is its fundamental framework, and it consists of the ownership structure and the board structure. Through the governance system, governance players engage in an ongoing conversation. Accordingly, the efficiency and effectiveness of the board characteristics process, in turn, impact the performance of the business, are determined by the structure of board characteristics.

Companies and their shareholders often look to their boards of directors as a means of protection. For this reason, they perform a essential role in the framework of board characteristics. There has been a lot of research on boards, but contradictory empirical results show that researchers need to account for other moderating variables that will affect the conduct of boards of directors and thus weaken the correlation between board characteristics and business performance (Ongore, 2011).

Increasing a company's value, good governance practices demonstrate that the company's leaders are dedicated to doing the right thing by its employees and customers. Companies with a high market value tend to occur to implement effective governance procedures, which is why they are correlated with higher firm value. Company values rise when insiders believe that better board characteristics norms will lead to more value creation or serve as a signal of superior management.

There is an extensive array of board characteristics models in use across the globe. In the United Kingdom, for instance, the common law system affords the greatest security to property owners and creditors (Porta & Lopez-de-silanes, 2014). Germany offers less protection for investors but somewhat better protection for creditors. As a

former colony of the United Kingdom, Kenya has decided to imitate its methods. There has been a growing body of study on the correlation between business ownership and performance. It has been argued that agency expenses drop as the level of shareholder involvement in the company rises.

1.1.1 The Kenyan Context

According to agency theory, the main issues with Kenyan board characteristics may be broken down into two categories: management incentives and management monitoring. However, the board of directors and the chief executive retain the ability to hire and fire the company's top executives. It is the interplay between these two levels of control that is key to understanding the challenges associated with board characteristics.

East African Portland Cement Company Limited, where a dispute between other investors and government shareholding was at variance in the board nominees, caused the company's value to drop at the NSE in 2013, is an example of how political control may lead not just increased political costs but also to ineffective management interference, hence raising agency costs. Therefore, the introduction of nongovernmental institutional owners, such as fund/nominee shareholders and private shareholders, may help minimize political expenses and agency costs by separating government from companies.

It was suggested by Lipman and Hall (2008) that the value that a board of directors adds to a company is directly proportional to the amount of money it is paid Gong, (2007) and Miyienda *et al.,* (2012). The remuneration has not always yielded the desired results as directors have awarded themselves huge perks despite poor performance alluding to greed and or weak governance by shareholders, Miyienda *et*

al., (2012). In 1995, the Greenbury Report recognized the need of restoring shareholder trust by regulating executive compensation in order to strike a fair balance between pay and performance. Sarbanes-Oxley was passed in 2002 in response to high-profile incidents involving companies like Enron and Worldcom in an effort to rein in executive pay and strengthen board characteristics (2012). It's often assumed that a board of directors' primary role is to increase a organization’s financial success.

The Kenyan quoted companies have a significant concentrated ownership structure dominated by corporate oligarchs across the sectors of the economy. The state also holds some significant shareholding as well as fund managers held shares such as the National Social Security Fund, Genafrica Fund Managers and Sanlam Investments East Africa Fund Managers. While there are legal entities that own shares, such as the central government or allied ministries, natural individuals hold the majority of the shares in publicly traded companies. With "large" shareholders frequently manipulating most firm activities and leading to internal personal control, the Berle and Means model of distributed ownership is excellent for board characteristics. As seen by the controversy surrounding CMC, which ultimately led to its suspension from trading, listed firms face major challenges when a single shareholder has a disproportionately high number of shares.

Kenya has a weak set of laws and regulations (Tarus, 2015). A case in point is the corporate failures of three banks in quick succession culminating in their cases being managed by a receiver (The Kenya Deposit Insurance Protection). Despite the CMA's incorporation and adoption of the board characteristics principles and the Central Bank of Kenya's engagement, this has occurred. In 2002, Gakeri, a Kenyan politician, launched efforts to formalize the concepts of board characteristics for publicly traded

corporations (2013). The governance canon was inspired by the United Kingdom's Combined Canon and adopted by Hong Kong, Singapore, and Malaysia (Mulili and Wong, 2010).

Board characteristics has largely been led by guidelines of the large firms that initially operated as family owned businesses or business groups which practiced a philosophy of promoting the market with minimum interference through voluntary or moral persuasion to excel through sound business practice. Out of this practice the listing of firms commenced out of a desire to freely exchange shares/stocks through an intermediary to what is today known as the NSE. When the NSE was established, authorities at the London Stock Exchange (LSE) agreed to recognize it as a foreign exchange (1953). The Nairobi Stock Exchange (NSE) is a nonprofit organization established in 1954 under Kenya's Societies Act that is in charge for fostering the growth of the securities market and enforcing industry standards in the capital market.

To establish the CMA, the Capital Markets Authority Act was passed in 1990. (Cap 495A). The Capital Markets Authority was established so that Kenya would have a centralized regulatory agency responsible for fostering the growth of a well-functioning capital market. New disclosure criteria for listed firms were announced by the CMA in 1998. The disclosure rules applied to a wide range of situations, including public offers of securities and ongoing reporting commitments.

1.1.2 CMA Board characteristics Guidelines

In 2002, Gazette Notice No. 3362 detailed the CMA's efforts to disclose the board characteristics procedures of publicly traded corporations. Principles of sound board characteristics processes, including the appointment and removal of directors, the

Chairman's and CEO's roles and responsibilities, and their connection with shareholders, as well as issues of accountability, auditing, and suggested best practices, are included. As part of their fiduciary duty to the shareholders, board members must take on the additional duty of promoting the company's long-term commercial interests. In discharging the duties outlined in guideline 3.1.1, directors are tasked with, among other things: defining the company's mission, risk policy plans, goals, strategy, and objectives, and approving its yearly budgets. They are also tasked with supervising corporate management and operations, major capital expenditures, management accounts, and compliance with the company's policies and procedures.

The Kenyan market is fairly regulated and monitoring has borne some mixed reactions. On the positive side, more companies have been more responsive and compliant with regard to accountability and disclosure. On the flip side, the CMA has given the green light for companies to raise equity from the market, only to collapse or be subjected to receivership, cases in point are the cash call of Uchumi Supermarkets, and Imperial Bank’s Bond issue.

1.1.3 The Mwongozo Code of Conduct

Easy identification of State Corporation governance issues is possible. The political will to make changes must be made very apparent. For instance, a lack of transparency in the nomination process contributes to a lack of diversity and expertise on the boards of state businesses. If a state-owned company has a competent and impartial board of directors, it will be better able to avoid political influence, improve its operations via clearer strategy, and provide more value to its owners, who are the general public.

State enterprises have been granted operational autonomy and insulation from political meddling, but the government as owner has stated its general expectations and set directives. The government's oversight agencies now have a greater responsibility for monitoring, consolidating, and sharing data across the board. Appointing professional boards with clearly defined skill sets, conducting board induction and assessment, and mandating regular performance reports are among Mwongozo's top recommendations for enhancing board characteristics. Therefore, the shift toward smaller boards with a greater proportion of independent members has significant implications for governance.

Mwongozo discusses issues including board efficiency, openness and disclosure, responsibility, handling of risks, establishing and maintaining internal controls, leading with integrity, and being a good corporate citizen. In Article 232 of the Constitution of Kenya from 2010, the ideals and principles of Public Service are established. It's a great way to get everyone involved and make sure everyone gets what they need. Most significantly, it will make state-owned businesses models of efficiency, productivity, and quality in management. It is intended that by implementing it, state-owned companies would become more efficient and transparent in their dealings with their shareholders, ultimately benefiting those owners.

1.1.4 Overview of Nairobi Securities Exchange and Foreign Investors

Foreign investors can be classified as individual or corporate. The study will concentrate on corporate foreign investors who held 20.44% of the NSE equity holdings as depicted in Table 1 as opposed to 1.03% held by individual foreign investors.

Foreign investors are regulated by the CMA Act (CAP 485A) under Section 36 where Legal Notice No. 134 spells out The Capital Markets (Foreign Investors) Regulations, 2002 which among others requires -under Regulation 6(1)) that.. “Once the percentage of ordinary stock owned by oversee investors exceeds the specified foreign ownership under regulation 3, a listed firm must promptly notify the securities market on which it is listed (2).” Regulation 3(2) confers to the Cabinet Secretary power to prescribe a maximum foreign shareholding in an issuer or listed company. The 75% threshold of foreign ownership was abolished in June 2015 in line with the Capital Markets Master Plan; hence, a foreign investor can own 100% of a locally listed company along such other countries as Uganda, Rwanda, Tanzania, South Africa and Egypt. This was intended to make Kenya a desirable investment location for financial services and a gateway to East and Central African capital markets. Certain businesses in South Africa, including banking, insurance, and broadcasting, have explicit legislative limitations on the proportion of shares a foreign shareholder may hold.

The fourth quarter CMA Quarterly Statistical Bulletin 2015, reported that there was a net foreign inflow during the fourth quarter of 2015 of Kes 61 million, compared to 2,348 million net inflow in Q3/2014. The annual net inflow for 2015 stood at Kes 916 million, with February, August, September and October recording net inflows.

The following table depicts the investor equity holdings as at Quarter 4 of 2015:

Table 1.1: Investor Equity Holdings

Account Type	Category Of Investor	No. of Investors	No. of Shares Held	% of Shares Held
EACI	East African Corporate	256	633,672,432	0.78
EAI	East African Individuals	7,695	100,117,582	0.12
FCI	Foreign Corporate	640	16,850,838,534	20.69
FII	Foreign Investors (Individuals)	7,695	845,654,418	1.04
LCI	Local Corporate	42,762	20,584,690,569	25.27
LI	Local Individuals	1,219,113	42,441,872,406	52.10

Source: CDSC, 2015

1.2 Statement of the Problem

Scholars and policymakers were reminded of the importance of shortcomings and failures in board characteristics to business performance during the 2008-2009 global financial crisis, providing yet another chance to reorganize board characteristics in order to improve its efficacy. It is generally known and recorded that numerous extra-large financial frauds and management failure instances happened around the turn of the new century, such as Enron and WorldCom in the United States; the study aims to take up this problem by learning more about board characteristics standards. Closer home, the collapse of commercial banks and stock brokerage firms really affected investor confidence at the Nairobi Securities Exchange. Other notable examples include the Anglo Leasing Scandal of 2005, Grand Regency Scandal of 2008 and the Triton Oil Scandal of 2009. Recently, two commercial banks were closed in quick succession and one of them had already been given the go ahead to issue a corporate bond by the two respected regulators that is the CBK and the CMA. The performance of listed firms at the Nairobi Securities Exchange is pivotal for the nation's economic development and growth (Ndunda, 2016). However, there is a notable lack of

comprehensive research that investigates the intricate relationships between board characteristics, foreign ownership, and firm performance within this specific market (Rashid, 2020). This knowledge gap is a pressing concern as it hinders our ability to develop and implement effective governance practices that can foster economic stability and competitiveness. Furthermore, the issue is compounded by the evolving nature of corporate governance expectations and the increasing participation of foreign investors in the Kenyan market. As the Kenyan economy continues to attract foreign capital, it becomes imperative to discern the impact of foreign ownership on board dynamics and, consequently, on firm performance (Munyoki, 2021). This is particularly relevant given that the preferences, expectations, and investment strategies of foreign investors may differ significantly from those of domestic shareholders. A comprehensive understanding of the relationships between board characteristics, foreign ownership, and firm performance in the Kenyan context is necessary to ensure that regulatory and corporate governance frameworks are aligned with the country's economic aspirations.

As the world's financial markets have become more integrated, several nations have progressively opened theirs to overseas investors (Bekart & Havey, 2000; Dahqust et al., 2003). As a consequence, foreign investors are now crucial players in the local ownership structure systems, as well as contributors to the growth of the capital market and economies of developing nations (Claessens, 1993; Errunza, 2001; Ahmadjian & Robbins, 2005). Therefore, in many nations, the topic of whether or not foreign equity ownership correlates with improved firm-level performances remains a contentious one. There may be incentive (monitoring) and entrenchment (private benefit pursuit) consequences of substantial shareholdings, according to the theory of board characteristics (Sheifer and Vihny, 1997; Claessens et al., 2002). Some research

shows a curved connection between the percentage of foreign ownership and the degree of performance for a certain company (Khanna and Palepu, 1999; Ferris and Park, 2005).

This research will assess the link between board characteristics and business performance, as well as the moderating effect of foreign ownership, among companies listed on the Nairobi Securities Exchange.

1.3 Objectives of the Study

1.3.1 General Objectives of the Study:

The main objective of the current study is to establish the moderating effect of foreign ownership on the link between board characteristics and firm performance of Kenyan listed firms at the Nairobi securities exchange

1.3.2 Specific Objectives

The study was set:

The study had several specific objectives as show below.

a) To determine the effect of board independence on firm performance among listed firms in Nairobi securities exchange
b) To determine the effect of board size on firm performance among listed firms in Nairobi securities exchange
c) To determine the effect of board diligence on firm performance among listed firms in Nairobi securities exchange
d) To determine the effect of board financial expertise on firm performance among listed firms in Nairobi securities exchange
e) To determine the effect of board gender diversity on firm performance among listed firms in Nairobi securities exchange

f) To establish the moderating effect of foreign ownership on the relationship between;

i. Board independence and firm performance among listed firms in the Nairobi securities exchange
ii. Board size and firm performance among listed firms in the Nairobi securities exchange
iii. Board diligence and firm performance among listed firms in the Nairobi securities exchange
iv. Board financial expertise and firm performance among listed firms in the Nairobi securities exchange
v. Board gender diversity and firm performance among listed firms in the Nairobi securities exchange

1.4 Research Hypothesis

H_{o1}: Board independence has no significant effect on firm performance among listed firms in the Nairobi security exchange

H_{02}: Board size has no significant effect on firm performance among listed firms in the Nairobi security exchange

H_{03}: Board diligence has no significant effect on firm performance among listed firms in the Nairobi security exchange

H_{04}: Board financial expertise has no significant effect on firm performance among listed firms in the Nairobi security exchange

H_{05}: Board gender diversity has no significant effect on firm performance among listed firms in the Nairobi security exchange

H_{06}: Foreign ownership does not moderate the relationship between;

H_{06a}: Board independence and firm performance among listed firms in the Nairobi security exchange

H_{06b}: Board size and firm performance among listed firms in the Nairobi security exchange

H_{06c}: Board diligence and firm performance among listed firms in the Nairobi security exchange

H_{06d}: Board financial expertise and firm performance among listed firms in the Nairobi security exchange

H_{06e}: Board gender diversity and firm performance among listed firms in the Nairobi security exchange

1.5 Significance of the Study

The composition and characteristics of a company's board of directors are central to effective board characteristics. Research in this area may provide insights into how board characteristics influence the governance of listed firms in Kenya. This can lead to the development and implementation of governance best practices, which are essential for fostering transparency, accountability, and ethical behavior within organizations.

Investors, both local and foreign, often rely on the composition of a company's board as a key indicator of its governance and management quality. Understanding how board characteristics affect firm performance may aid investors in making more informed decisions, which can, in turn, impact the allocation of capital and the overall performance of the Nairobi Securities Exchange.

The findings from this research may help policymakers and regulators in Kenya refine and strengthen the regulatory framework governing board composition and foreign

ownership. Effective policies in this regard may create a more stable and investor-friendly business environment, attracting both domestic and foreign capital.

The performance of listed firms plays a pivotal role in the overall economic development of a country. A well-functioning and efficient stock market may contribute to economic growth, job creation, and increased opportunities for local businesses. Understanding how board characteristics and foreign ownership impact firm performance is crucial for fostering a conducive environment for economic development in Kenya.

Different board characteristics may be associated with varying levels of risk in a company. By exploring these relationships, the research can help investors and firms identify risk factors and adopt strategies to manage and mitigate these risks more effectively. Improved board characteristics, driven by a better understanding of board characteristics, can enhance the competitiveness of Kenyan firms in both domestic and international markets. Firms with strong governance structures may be better equipped to attract investment and foster innovation.

This research contributes to the academic literature by expanding our understanding of the role of board characteristics and foreign ownership in firm performance. It adds to the body of knowledge in the field of board characteristics and provides a foundation for further research and scholarly work. An effective board can influence the adoption of sustainable and socially responsible business practices. Understanding how board characteristics influence such practices can lead to greater corporate social responsibility and a positive impact on the environment and society.

1.6 Scope of the Study

The research looked at the board characteristics, performance, and foreign ownership of companies listed on the NSE from 2012 to 2016. They range from agricultural to banking to commercial to construction to energy to investment to manufacturing to telecommunications to technology. The study investigated the correlation between board characteristics characteristics (such as board independence, board size, board diligence, board competence, and gender diversity), moderating factors (foreign ownership), and business performance (measured by return on equity).

This study used of longitudinal and explanatory research design. Data was secondary in nature on the study variables for the period between 2012 and 2016 was collected by use of a data collection schedule. Explanatory research designs were used to ascertaining the status and nature of board characteristics and establishing causal relationships between the independent and dependent variables respectively. The results of hierarchical multiple regression was used to test the moderating effect of foreign ownership on financial performance of listed firms in the Nairobi security exchange.

CHAPTER TWO

LITERATURE REVIEW

2.0 Overview

In this chapter, the current study delve into the overview of board characteristics and its theories, review of past studies in the area and gaps in research area identified. The chapter is divided into review of theoretical literature, review of the components of board characteristics, and foreign ownership and firm performance and finally the conceptual framework.

2.1 The Concept of Board characteristics

2.1.1 Concept of board independence

The concept of board independence plays a pivotal role in shaping the financial performance of a company (Lefort & Urzúa, 2008). Board independence refers to the degree to which a company's board of directors is composed of individuals who are free from any conflicts of interest or undue influence, enabling them to make decisions in the best interests of the company and its shareholders. This concept is not merely about the composition of the board but the mindset and actions of independent directors (Fuzi, Halim & Julizaerma, 2016). The financial performance of a company is deeply influenced by the level of board independence, as it impacts various critical aspects of corporate governance and strategic decision-making. Independent directors bring objectivity to the boardroom. They are typically not involved in the day-to-day operations of the company and are free from personal or financial ties to the organization. This independence allows them to make unbiased and impartial decisions regarding the company's financial strategies, investments, and resource allocation. By avoiding conflicts of interest, independent directors can make decisions that are solely focused on enhancing the company's financial health and value.

Another crucial aspect is accountability. Independent directors are responsible for overseeing the activities of the company's management (Liu, Miletkov, Wei & Yang, 2015). Their independence ensures that the financial information provided to shareholders and regulatory authorities is accurate and reliable. This transparency and accountability contribute to investor confidence, which, in turn, can positively influence the company's financial performance. Shareholders are more likely to invest in companies where they believe their interests are safeguarded. Furthermore, independent directors play a significant role in risk management (Uribe-Bohorquez, Martínez-Ferrero, & García-Sánchez, 2018). Their diverse experiences and expertise can help in identifying and addressing financial risks effectively. By offering an unbiased evaluation of risk factors, financial statements, and business strategies, independent directors can contribute to the company's financial stability and performance by ensuring that risks are managed and mitigated appropriately.

A key element of board independence is the alignment of interests with shareholders (Rashid, 2018). Independent directors are expected to act in the best interests of shareholders, representing their interests in the boardroom. This alignment can lead to value creation for shareholders, which is typically reflected in the financial performance of the company. By prioritizing shareholders' welfare, independent directors contribute to long-term financial success. In addition to these aspects, board independence encourages corporate strategy and innovation. Independent directors often bring fresh perspectives and insights to the table, challenging conventional thinking and encouraging strategic creativity. Their ability to think independently can lead to innovative approaches to corporate strategy and operations, ultimately impacting the financial performance through the identification of growth opportunities and cost-saving measures. Furthermore, companies with a high level of

board independence are more likely to attract investors, including institutional investors, who seek assurances that their investments are being managed with diligence. This can enhance the company's access to capital and reduce the cost of capital, both of which can have a positive impact on financial performance

2.1.2 Concept of board size

The concept of board size, or the number of directors serving on a company's board, is a critical element of corporate governance, and it can significantly influence a company's financial performance (Guest, 2009). The size of a board impacts the dynamics of decision-making, oversight, and governance within an organization. The relationship between board size and financial performance is a subject of ongoing debate and research in the field of corporate governance (Garg, 2007). A larger board typically involves a greater diversity of opinions, experiences, and expertise. A more extensive array of perspectives can potentially lead to more thorough and well-informed decision-making, which can positively impact a company's financial performance (Larmou & Vafeas, 2010). A larger board may bring a wider range of skills and knowledge to the table, enabling better strategic planning, risk management, and innovation. However, this potential benefit of board size depends on effective communication and collaboration among directors.

Conversely, a larger board can also introduce challenges in terms of coordination and decision-making efficiency. With more directors, it may become harder to reach a consensus or make decisions promptly (Pucheta-Martínez & Gallego-Álvarez, 2020). Lengthy board meetings and a proliferation of viewpoints can hinder agility and responsiveness to changing market conditions, which could have a negative effect on financial performance, particularly in dynamic industries where quick decision-making is essential. Moreover, the size of a board can impact its ability to exercise

effective oversight and control over management. In larger boards, it may be more challenging for directors to maintain an in-depth understanding of the company's operations and financial affairs. This could potentially lead to lapses in corporate governance and reduced accountability, which might have detrimental consequences for financial performance. Smaller boards, on the other hand, may be more cohesive and better equipped for direct supervision of management. The relationship between board size and financial performance can also be influenced by the industry and context in which a company operates (Kanakriyah, 2021). In some industries, a larger board with diverse expertise might be more beneficial, while in others, a leaner and more focused board could be advantageous. The optimal board size may vary depending on the company's specific needs, market conditions, and strategic objectives (Rashid, 2020).

2.1.3 Concept of board diligence

The concept of board diligence is integral to a company's financial performance. Board diligence refers to the commitment and thoroughness with which a board of directors fulfills its responsibilities, including oversight of the company's management, decision-making, and risk management (Yameen, Farhan & Tabash, 2019). Diligent boards actively engage in monitoring and governance, ensuring that the company's strategies align with its financial objectives. Their diligence in reviewing financial statements, scrutinizing performance metrics, and assessing potential risks contributes to informed decision-making, which, in turn, can have a profound impact on a company's financial health (Almoneef, & Samontaray, 2019).

A diligent board is more likely to identify financial irregularities or inefficiencies in a timely manner and take corrective actions, which can lead to improved financial performance. It also fosters transparency and accountability within the organization,

which enhances investor and stakeholder confidence (Khatib & Nour, 2021). The due diligence exercised by the board helps in maintaining the company's financial integrity, which is essential for sustainable growth and long-term success. Furthermore, diligent boards are more likely to make strategic decisions that align with the company's financial goals, resulting in prudent resource allocation, cost management, and revenue generation, all of which have a direct influence on financial performance (Kyere & Ausloos, 2021).

2.1.4 Concept of board financial expertise

The concept of board financial expertise is a critical element of corporate governance, with a direct impact on a company's financial performance (Musallam, 2020). Board financial expertise pertains to the presence of directors with a deep understanding of financial matters, including accounting, finance, and risk management. Directors with this expertise are essential for comprehending complex financial statements, evaluating financial strategies, and making informed decisions that can optimize a company's financial health (Nugraha, 2023). Their ability to provide strategic guidance and assess the financial implications of various business initiatives is invaluable in steering the company toward improved financial performance (Tuffour, Amoako & Amartey, 2022).

Companies benefit from board financial expertise in several ways. Financially astute directors can identify potential financial risks and opportunities more effectively, enabling the board to make informed decisions that minimize financial vulnerabilities and capitalize on growth prospects (Pucheta-Martínez & Gallego-Álvarez, 2020). They can provide critical insights into capital allocation, investment strategies, and cost management, contributing to enhanced financial performance (Minton, Taillard & Williamson, 2014). Additionally, their expertise in financial reporting and

transparency can bolster investor confidence and facilitate access to capital, further supporting the company's financial well-being (Güner, Malmendier & Tate, (2008).

2.1.5 Concept of board gender diversity

The concept of board financial expertise is a vital component of corporate governance that has a profound impact on a company's financial performance (Reguera-Alvarado, De & Laffarga, 2017). It encompasses the presence of board members who possess a comprehensive understanding of financial matters, including accounting principles, financial reporting, risk management, and strategic financial planning (Galbreath, 2018). Board members with financial expertise are invaluable assets as they can critically assess the company's financial statements, budgets, and investment decisions, helping to optimize financial performance. Their ability to interpret complex financial data, identify financial risks, and make informed financial strategies equips the company to navigate challenges and seize opportunities effectively (Campbell & Mínguez-Vera, 2008).

Companies with board financial expertise tend to exhibit enhanced financial performance in several ways (Manyaga, Muturi & Oluoch, 2020). These board members can provide valuable insights into cost optimization, capital allocation, and investment priorities, contributing to greater operational efficiency and profitability. Their ability to scrutinize financial statements and ensure transparency builds investor trust and often results in improved access to capital at favorable terms, which is essential for sustaining and expanding the company. Moreover, their guidance in financial risk management and prudent financial decision-making can help protect the company from economic downturns and uncertainties, further stabilizing and bolstering financial performance. In essence, board financial expertise is a powerful driver of financial performance, fostering a strong financial foundation and creating

opportunities for growth and sustainability (Chijoke-Mgbame, Boateng & Mgbame, 2020).

2.1.6 Concept of firm performance

Financial performance is a critical measure of an organization's effectiveness and efficiency in managing its financial resources to achieve its strategic goals and objectives (Omondi & Muturi, 2013). It encompasses various financial metrics and indicators that assess the company's profitability, liquidity, solvency, and overall financial health. These metrics include net income, earnings per share, return on investment, and various financial ratios like the debt-to-equity ratio, current ratio, and gross margin (Vătavu, 2015). Financial performance evaluation is not limited to a single period but often involves the analysis of historical financial data as well as future financial projections to gauge the company's ability to sustain and grow its operations (Gharaibeh, 2015).

High-quality financial performance is a fundamental goal for businesses and other organizations as it not only reflects the success of their operations but also impacts their long-term viability (Lassala, Orero-Blat & Ribeiro-Navarrete, 2021). Companies that consistently demonstrate strong financial performance are better equipped to attract investment, access capital at favorable terms, and reinvest in growth initiatives. Conversely, poor financial performance can result in financial distress, hamper investment opportunities, and lead to challenges in meeting financial obligations. In summary, financial performance is a comprehensive assessment of an entity's financial health and capability to generate sustainable profits, and it holds significant importance for stakeholders, including investors, creditors, and management (Müller, 2014).

2.2 The Concept of Board characteristics

Because managers are conscience, risk-averse, and seek their own interests which may vary from those of the stakeholders, researchers have invented board characteristics methods to penalize management out over last several decades by supervision as well as mentoring by the board of directors. Therefore, we anticipate a substantial increase in company performance as a consequence of strong board characteristics. Researchers have demonstrated that board characteristics improves capital management efficiency, hence enhancing a company's success. From a reputation-building perspective, there have also been discussions on the connections between board characteristics and financial performance; for instance, Durnev and Kim (2005) discovered that companies with an enhanced governance and openness rating were more highly valued on the stock market.

The link between board characteristics and business success is controversial among scholars. Researchers Cremers and Ferrell (2009) showed a negative association between good board characteristics and company profits. Overall, the empirical findings on the effects of board characteristics on business performance were contradictory.

In a market system, the engagement among corporate managers and entrepreneurs (corporate insiders) and investors is governed by both public and private institutions, such as legislation, policies, and recognized business strategies; this relationship is referred to as "board characteristics" (Yusoff & Alhaji, 2012). Generally, when people talk about "Board characteristics," they're referring to the systems put in place to assure the safety of the company's outsiders and the smooth operation of its internal systems. There exist a favorable correlation between good Board characteristics and CSR and corporate value, according to empirical research.

This indicates that over time, the market mechanism should be able to allocate more resources to the businesses that are most effective at achieving a generic measure of profitability. The corporate scandals that rocked the financial world in early 2000 evoked a debate on whether the bad behavior was associated with bad mechanism of Board characteristics or Corporate Social Responsibility or both. Organizations have the challenge of trying to overcome such episodes.

There were demands for significant changes to the roles and duties of management, board characteristics and external auditing, after the major accounting scandals and an alarming number of earnings restatements. According to Beltratti, (2005), the separation between owners and managers creates agency difficulties that Board characteristics seeks to address. He claims that managers employ available resources inefficiently (from the owners' perspective) when certain situations are not restricted precisely by the contracts they signed. The most fundamental example of a board characteristics issue is when an outside investor wants to exercise authority in a way that runs counter to the intentions of the management in charge of the organization.

A company's board of directors is made up of members elected by the company's common shareholders. The members are in charge of the company's management and are able to hire and fire top executives. This gives shareholders a voice in corporate decision-making, performance evaluation, and the allocation of surpluses.

Florea & Florea, (2013) noted the modern trends in board characteristics and reaffirmed the board's duty to guarantee the efficiency of the company's internal control system.

2.3 Theoretical Perspectives of Board characteristics

Different interpretations of the disciplinary approach exist depending on how contracts are shown and how the value generation process is analyzed. In this case, the financial or shareholder perspective is contrasted with the stakeholder view.

2.3.1 Agency Theory

In order to comprehend the capital structure, the model is connected to agency theory, which considers the company as a contracting center and links it with the whole community of resource suppliers. This creates a connection between managers and shareholders and managers and creditors. Currently, most normative research and reflection focuses on shareholders as principals and managers as actors. Nonetheless, the conventional subset of agency theory is the usual foundation for shareholder models. The shareholders are depicted as the only owners, and management as the only agents.

According to the agency theory, effective governance requires a vigilant monitoring role, with special emphasis on the monitors' autonomy from the administration. Due to the government's limited role in regulating businesses, top executives have a tremendous deal of power, which may sometimes even eclipse the authority of the board, prompting calls for more transparency and responsibility (Crane and Matten ,2007). It's also possible that management's job as supervisors of subordinate workers contributes to this outcome. It is a fact that management through the Chief Executive Officer has always had an upper hand in the running of the affairs the organisation and especially those organization’s whose Chief Executive has had a long tenure as they tend to personify the organisation.

The work of Achian and Demetz (1972) and Jesen and Mekling (1983) laid the groundwork for agency theory, which continues to be the most widely accepted theory of board characteristics (1976). Different from traditional economics, this theory sees the business as a productive function and coordinates its operations through market exchanges, and it explains the firm's production as the result of an ongoing contract among a collection of Individuals who seek to enhance their personal utility. Learmount (2002). Information systems, outcomes uncertainty, incentives, and risks all benefit from the unique insight provided by agency theory. It was developed by Eisenhardt (1989) and is often used to studies of boardroom dynamics.

Two issues that emerge from agency relationships are central to agency theory. One is the agency problem, which happens when the principle and the agent have competing interests and the principal has a hard time checking in on the agent to see whether the objectives are being met. The second issue arises when principals and agents have divergent risk preferences, as a result of the risk sharing that results from their divergent risk attitudes (Eisenberget al, 1998a; Eisenhardt, 1989). Because of this, agency costs occur when principals push managers to prioritize the principals' wealth above their own.

In particular, the principal might impose incentive mechanisms to curb irregular behavior by covering the expense of monitoring. Similarly, agents will have to pay for bonds to ensure they won't do anything to hurt their principals' interests. Residual loss is the amount of money lost when agent and principle make conflicting decisions and the wealth of the principal’s decreases as a result. The agency cost is therefore defined as the total of the costs incurred by the principals for monitoring, the costs incurred by the agents for bonding, and the residual loss. "Jensen & Meckling" (1976). With the

use of incentives and procedures for keeping tabs on how their agents are doing, principals may shape their behavior and keep agency costs to a minimum, according to agency theory.

2.3.2 Resource Dependence Theory

The primary idea behind resource dependence theory is that organizations must establish ecological connections to external resources in order to function effectively. Directors, in this view, facilitate communication between the company and the outside world, allowing it to tap onto vital resources. The Board of Directors (BoD) serves as a vital organizational structure for mitigating the impact of key aspects of environmental uncertainty. It is possible to lower the transaction costs of environmental reliance through the establishment of environmental links or through network governance. To prevent unfavorable impacts on their operations, mining companies, for example, must include locals in their workforce and win over local leadership.

The board of directors' analytical footing in board characteristics may be traced back to the resource dependence theory. The size of an organization's board, for instance, might be seen as an indicator of how well it is able to establish external connections to vital resources necessary to ensure the organization's continued success. Some scholars argued that a larger board may help a company manage with the environmental uncertainty generated by asymmetry of knowledge and volatility, as well as boost its capacity to extract essential resources like external capital and leverage. Alternately, independent directors might give entry to resources that can boost a company's efficiency and effectiveness. In the same way that a director from a bank may help a company get access to credit, a director from a legal firm can

provide advice on how to best safeguard a business's assets (Boyd, 1990; Hillman & Dalziel, 2003).

Effective management of uncertainty is critical to the survival of any business, and Directors may have a role in linking external resources to the company in order to solve a challenge. This clarifies the presence of the same names and faces in various directorships. The most important reason is because they are in close proximity to essential resources like financial backers or have access to crucial information that supports the organization's long-term objectives. Directors' knowledge, expertise, connections, and authority are all assets that help mitigate risk in accordance with the resource dependency theory rule. According to Gales and Kesner (1994) in light of this principle, directors should be appointed to serve on many boards so that they may get exposure to new opportunities and expand their professional network.

2.3.3 Stewardship Theory

Contrary to the agency theory, this approach to management assumes that managers would look out for their company's best interests at all times. Stewardship theory's foundations may be traced back to social psychology research on CEO behavior. According to Martin and Butler (2017), a steward's actions are pro-organizational and collectivist, and are more useful than an individual's egocentric behavior. Moreover captain's activities will not depart from the institution's interests since the custodian is motivated by the desire to help the company achieve its objectives.. According to Smallman (2004), if an organization is successful, it will be able to meet the wants of its stakeholders and its stewards will have a defined role to play. He continues by saying that trustees mediate conflicts between various interested parties and the fund's beneficiaries. Since the goal of good stewardship is to achieve a state of dynamic

performance equilibrium where all stakeholders are happy, stewardship theory is an argument advanced in the context of company performance.

According to stewardship theory, managers have a significant effect on a company's success; as a result, stewards have a responsibility to safeguard shareholder capital and boost profits. When most stakeholder groups in an organization's interests are served by an increase in the organization's wealth, a steward who effectively increases performance will have satisfied most of those groups. When a single individual occupies the roles of both CEO and Chairman, that person has ultimate control over the company's direction and destiny. Therefore, stewardship theory emphasizes systems that enable rather than restrict. Therefore, stewardship theory favors appointing a single individual to the dual post of Chairman and CEO and a majority of specialized executive directors rather than non-executive directors (Clarke, 2004).

2.3.4 Social Contract Theory

According to social contract theory, society is based on an interconnected set of agreements made between individuals and the collective. One school of thought holds that a company has a moral and legal duty to its stakeholders. Donaldson and Dunfee (1999) created an integrated social contract theory to help managers make moral choices. This theory takes into account both macrosocial and microsocial contracts. It is their contention that the former relates to the communities as a whole and the public's expectation that businesses would contribute to their well-being, while the latter denotes a more narrowly defined sort of participation.

Byerly (2013) expounded on the role of the social contract theory in the present day situation whereby there are expectations by the society that moral and pragmatic arguments suggest the need for new approaches and specifically on business

objectives, leadership and social responsibility. The inclusion of female directors can also be taken as part of social contract theory since representation of both genders in the firm is about equity and fairness (Keasey *et al*., 1997)

2.4 Components of Board characteristics

Conflicts of interest between shareholders and the management are possible due to the split between ownership and control. Protecting investors from executives' greed and ensuring that managers' priorities are in line with those of investors are two of the primary functions of a well-established board characteristics system (Bele & Mens, 1932; Hat, 1995b). In addition, the ownership structure and the board structure are the most significant disputed topics in board characteristics at the present time since they are seen as the key control mechanisms for monitoring the behavior of management.

Some researchers (Demsetz & Villalonga, 2001; Hermalin & Weisbach, 2003) argue that board characteristics systems are internally determined by trade-offs between the surveillance gains and expenses, hence firm-specific ownership and board arrangements vary.

2.4.1 Board Independence and Firm Performance

Board members who are neither employees nor contractors of the company and who have no conflicting ties to the business are considered "independent directors." Cuomo & Zattoni (2008). According to the 2011 Capital Markets (Board characteristics)(Market Intermediaries) Regulations, an independent non-executive director cannot have worked for the market intermediary in an ability to take charge within the previous five years, nor can he or she be related to any of the market intermediary's advisers, consultants, or senior management.

To prevent management from taking over the company, the board of directors should be made up of mostly outside members (Conyon, 2008; Famma & Jenssen, 1983b; Johson, et al., 1993). Evidence in favor of this view has been offered by policymakers and scholars. Independent directors have been shown to improve company performance by Baysinger and Bulter (1985b). Bozec and Dian (2007) examined the link between board composition and business performance across 14 Canadian SOEs. The study revealed that having a greater percentage of autonomous directors had a beneficial influence on firm performance compared to having a lesser percentage. Majority outside directors was also shown to positively correlate with business performance in a study of UK enterprises conducted by Ezzamel and Watson (1993).

As shown by the agency theory, boards with a higher percentage of autonomous directors are thought to be more effective. Dissociation of ownership and management is central to the agency theory (Eisenardt, 1989; Jenhsen and Mekling, 1976). Managers, thanks to their insider knowledge of the company and their management experience, are seen as having an advantage over shareholders, who are often unfamiliar with the business's day-to-day operations. When doing so, they will likely put their personal needs ahead of those of the stockholders. External directors who are thought to provide "better" performance to the company are the backbone of successful boards, so goes the belief.

There was significant disagreement between academics as to whether or not a company's performance would be boosted by enlarging the proportion of independent directors. Bhagat and Black (2007) found through an examination of 828 American corporations in 1991 that although low-performing companies tend to select more independent directors, doing so would not enhance board characteristics or boost company performance. Hermalin and Weisbach also revealed that there was no

relationship between the number of non-executive directors and a company's profitability (1991). Recent research has shown the importance of having a balanced mix of within and outside directors on a board (Fama and Jensen, 1983b; Baysiger and Butler, 1985b; Baysiger and Hoskinson, 1990). Thus, the composition of boards of directors has not been shown to be significantly connected to firm performance.

2.4.2 Board Size and Firm Performance

The number of board members is a proxy for the board's size. Kyereboah-Coleman, (2007). Because board size may influence board functioning and, by extension, corporate success, it has been the subject of substantial research and policy debate. However, various people have varying opinions on how much of an effect board size has on company performance. To be more precise, some researchers have discovered that smaller boards perform better than bigger ones. Tobin's Q decreases with increasing board size, as discovered by Yermack (1996). Eisenberg et al. (1998a) came to the same conclusion, finding that smaller boards are associated with greater business value because they are more cohesive, productive, and able to efficiently oversee the firm.

Many experts agree that bigger boards are not effective observers due to the high costs of coordination and the pervasive phenomenon of "social loafing." The research of Jensen (1994) and Lipton and Lorsch (1996) (1992). They advocated for a board composition of seven to nine members. As an added bonus, Cheng (2008) discovered that companies with bigger boards had less variation in their performance. According to Vafeas (1999), more board activity is needed to offset higher process losses as board size grows. One of the main points was that CEOs have more power over organizations with smaller boards. The excessive number of directors also increases

the difficulty of coordinating and processing problems, which in turn impacts decision making and the efficiency with which the company operates.

On the other hand, some scholars claim that increased board size improves company performance by providing more diverse perspectives on strategic choices and decreasing the detrimental impact of a dominant CEO. According to Dalton and Daily (1999), a bigger board allows for better monitoring of management's actions and choices. To that end, Agrawal and Knoeber (2009) argued that companies with bigger boards tend to have a more diverse set of perspectives and skillsets available to address any challenges that may arise. They pointed out that introducing the diverse experiences gained over the years by the board members always runs the danger of delaying decisions.

2.4.3 Board Diligence and Firm Performance

Board diligence may be defined as the number of board meetings held over a given fiscal quarter. They're also used to evaluate the frantic nature of board meetings and other value-relevant board qualities, Vafeas (1999). (1999). At least four meetings of the board shall be held each year, with no more than four months between them, as required by the Mwongozo law. Similarly, boards have grown in importance in the business world as a means to represent shareholders' interests. Directors are required to make informed decisions since the board is jointly responsible for the consequences of their votes. Meetings of the board play a crucial role in its advising and oversight roles. The board's monitoring role is shown by the board's meetings, during which problems and potential solutions are discussed and debated (Vafeas, 1999; Conger et al., 1998; Lipton & Lorsch, 1992).

Better governance and enhanced business performance may be attained by increasing the frequency of board meetings through board committees and full board meetings, as suggested by Fama and Jensen (1983b), who use the agency theory as a monitoring approach (Bathula, 2008; Vafeas, 1999). Hahn and others disagree with the stewardship theory's central tenet that board meetings don't matter because of the inherent autonomy of the monitoring process (2007). According to the stewardship idea, board meetings have a detrimental impact on company performance. According to resource dependence theory, board meetings should lead to better company results. Across the board, board meetings have been linked to improved company success in several academic studies (Kang and Kim, 2011; Khanchel, 2007; Hasnah, 2009).

The purpose of the board meetings is to review the progress of the company and address any issues that have come up since the last meeting. Board meeting frequency and its impact on company success has been the subject of research. It has been established that increasing board meetings have a favorable link with business performance, particularly in the absence of expertise and supervision (Brick & Chidambaran, 2010; Tong 2013). This is because enhanced monitoring leads to improved firm performance. More studies have shown that there is no meaningful connection between the two factors (Kyereboah-Colema, 2007; Mohd, 2011).

Increased board involvement in reaction to poor firm performance is associated with better operational performance in the near future, showing the presence of a lag effect, Jackling and Johl (2009). Khanchel (2007) argued, however, that boards should weigh the costs and advantages of meeting less often. The costs and benefits of board participation, as measured by meetings, are analyzed by Vafeas (1999). There are also the expenditures of getting there and back, as well as the salaries of managers and board members. Positive outcomes include improved awareness of company state,

plan formulation, and execution. Conger et al., (1998) suggest putting greater attention on how time is spent in board meetings, calling it "the most significant problem," and adding that "ensuring the benefits exceed the costs" is crucial. This is explained by addressing any concerns that have arisen so far to improve monitoring and output (Carcello et al., 2002).

2.4.4 Board Expertise and Firm Performance

An effective board is one that can engage in fruitful discussion with the CEO regarding the company's operations, customers, and business strategies. Both Vince and Norman (2013). It's common knowledge that the board members, particularly the independent directors, know less about the company's inner workings than the rest of the board. Recruiting and training a new board of directors that is both impartial and well-versed in the company's operations is a difficult challenge that will have no immediate impact on the company's success. As a result, the board tends to focus less on comprehending the business model and more on addressing procedural and compliance problems, such as when to apply particular standards.

Functional knowledge and firm specific knowledge are two categories of important abilities (Hambrick & Manson, 1984; Conger & Ready, 2004; Kor & Sundaramuthy, 2009) claimed are critical for the senior management team of a business, including the company's directors. Financial, accounting, legal, marketing, and economic expertise all fall under the umbrella of "functional knowledge." The term "firm specific knowledge" is used to describe in-depth familiarity with an organization and its processes. Their research showed that companies with board members who had a solid grasp of finance saw a rise in profits as a result of the improved internal controls they implemented.

In order for a board to successfully navigate the complexity, competition, and changes inherent in any organization, it has to have a diverse set of members with relevant experience and expertise. Anderson et al. (2011) looked at the vocational diversity of boards and found that investors valued varied abilities and viewpoints in order to carry out their monitoring and advising responsibilities. According to the results of their research, having a wide range of professional backgrounds helped with problem-solving and strategy development, but it also made coordination and communication more difficult.

When it comes to the experience and education levels that should make up a board of directors, the Kenyan CMA Guidelines on Board characteristics are vague. It is in the best interest of shareholders, according to Guner et al. (2008), for board members to have a firm grasp of accounting concepts and financial statements. Wan Yusoff and Armstrong (2012) performed a research in Malaysia and discovered that, out of eight abilities, financial competence was the most critical.

The functional background of top executives was investigated by Hu et al., (2010), and shown to be a major explanatory factor in business success. One of their main points was that the decision-making and overall success of a company is heavily influenced by the functional backgrounds of its senior executives. The discussion lent credence to the Stewardship Theory, which holds that directors should work to preserve and grow their firms' value for their shareholders. These studies followed publicly traded companies throughout time. Directors with a legal experience on audit committees were linked to better performance, according to research by Krishnan et al., 2011. According to Mahdavikhou and Khatanlou's (2011) research, accountants who take their craft seriously produce more reliable financial statements. Their

research showed that there is a strong connection between directors' professional ethics and business results.

2.4.5 Gender Diversity and Firm Performance

It has been discovered that boards with representation from both sexes are more creative and successful overall (Hermalin & Weisbach, 2003). Female directors and innovative enterprises were not selected for these outcomes in an endogenous manner. There is a higher beneficial impact of gender diversity on innovation in less competitive product markets and with more firmly established management teams, which is consistent with the idea that managers' motivations to innovate would benefit from increasing oversight by women on corporate boards. In addition, they discovered that although gender diversity does not boost firm performance generally, it did boost the performance of businesses where innovation and creativity are crucial.

TMT's ethical works highlight the fact that men and women have distinct motivations for engaging in unethical activity in the workplace. Betz, (1998). (1998). Women, according to the research of Huang et al. (2011), are less likely to engage in unethical behavior like income manipulation, late reporting of financial information, withholding of vital information, and overly optimistic reporting of income because they are more sensitive to establishing communications and helping others. Women, according to Gul et al. (2011), should be included in TMT because of the value they provide in terms of moral judgment and the protection of stockholders' interests. Women's participation in TMT is associated with a rise in the quality of reported earnings, so the theory goes. Financial reporting quality, which is heavily focused on profits or business performance, is enhanced by gender diversity in TMT dealing with accounting, (Gervaies & Odean (2001).

The quality of financial reporting was shown to be significantly correlated with the presence of female CFOs, according to research by Barua et al., 2010. They claimed that women board members are less likely to be decisive when it comes to using their discretion. Their research showed that companies with more women in top positions had worse performance in terms of both absolute discretionary accruals and estimating mistakes.

Marimuthu and Indraa (2009) looked at the effect of TMTs diversity and BoDs diversity on firm performance in non-financial businesses listed in Malaysia. They found that although TMTs diversity had no effect, BoDs diversity did. Financial success is attributed to strong leadership. According to research by Omoro et al. (2015), gender, educational, and functional diversity all have major effects on business success. These results are not surprising given that it is well accepted that women, along with other types of external stakeholders, ethnic minorities, and foreigners, typically provide a new viewpoint on complicated topics that might remove informational biases when developing strategies and addressing problems.

2.5 Firm Financial Performance

There are two main ways to analyze financial performance: accounting and econometrics. According to Kumbirai & Webb, (2010), the econometric strategies may be classified as either non-parametric or parametric. The Income Statement gives an overview of a company's financial health by enumerating the revenue and costs that contribute to its bottom line. Profit from continuing activities is known as operating income. Off-balance-sheet operations, such as royalties, are another potential source of income alongside sales of assets (termed "exceptional income"). The costs spent by a business as a direct result of running its daily operations are

known as operating costs. Expenses such as salary, rent, loan interest, and equipment maintenance may be included.

Managers, shareholders, and regulators all keep a careful eye on the net operating income, which is the difference between the operating income and operating costs, since it is a key indicator of the health of the business on a going concern basis. The capacity to turn a profit off of a particular revenue stream is shown by calculating the cost-to-income ratio.

Though it provides some insight into a company's health, net income is hindered by the fact that it does not account for differences in company size when making comparisons across businesses. The return on assets is a size-adjusted proxy for a company's profitability (ROA). While return on assets (ROA) is a helpful indicator of profitability, shareholders are more interested in the return they are getting on their equity investment (ROE), which is the net income generated per unit of equity capital.

When evaluating a company's success, ROE is the most prevalent metric used. However, ROE skeptics argue that a high ROE isn't always indicative of strong profitability or a plenty of equity capital. Furthermore, the traditional decomposition of ROE measures may have been useful for assessing firm performance in times of relative calm, such as before the global financial crisis, but it has clearly not proven adequate in an environment of much higher volatility, where ROE fluctuations have been caused solely by operational performance.

2.6 Foreign Ownership and Firm Performance

International ownership differs from country to country due to differences in board characteristics processes and the law, but this trend has emerged in the context of greater capital market integration, as many nations have opened their markets to

foreign investment (2001). According to Ahmadjian et al., (2005) foreign investors have emerged as significant players in domestic ownership structure systems. Recent research has focused on the correlation between foreign ownership and a company's financial success (Khanna and Palepu, 1999; Ferris and Park, 2005; Nakano and Nguyen, 2012).

Khanna and Palepu (1999) investigate the function of foreign investors in India, a developing economy, in great depth. The scholar cover a wide range of topics related to India, but they zero in on the market's lack of oversight to highlight a number of problems. According to their findings, foreign investors perform an important function in monitoring the local economy.

According to Ferris and Park (2005), the value of a company in Japan rises exponentially as the proportion of its stock held by non-Japanese investors rises. When the percentage of foreign ownership in a company hits around 40%, the value of the company increases briefly before falling. The authors suggest that foreign manager-owners may experience entrenchment effects due to their increasing ownership and act in favor of their management perks at the expense of other shareholders, using earlier work in board characteristics theory to support their position.

Other evidences on the role of foreign ownership in board characteristics reform are compatible with the monitoring impacts of foreign investors revealed by Khanna and Palepu (1999) and with the beneficial aspects of foreign ownership presented by Ferris and Park (2005). According to research by Kim et al. (2010), foreign investors in Korea may serve as powerful drivers for better board characteristics. Mishra and Ratri (2011) also find a correlation between foreign ownership in China and improved

board characteristics procedures. More specifically, their research suggests that foreign indirect investors in listed enterprises have less of a role while the firms are still under State control.

Finally, the favorable contributions of international board members were affirmed by Oxelheim and Randoy (2003). Foreign board members, they maintained, represent a commitment to more openness and more sophisticated board characteristics. However, Anachotikul (2006) asserts that if a foreign investor's portion of ownership in a corporation is large enough, that person may pursue their possible private profits at the cost of other shareholders in the firm. They may also continue to exercise poor board characteristics with minimal oversight, thereby facilitating circumstances for the expropriation of business advantages. From the above, we may draw some conclusions about the relationship between foreign investment and corporate success.

2.7 Conceptual Framework

Review of the relevant literature reveals that a number of factors influence the link between board characteristics and business performance. The research will investigate the moderating influence of foreign ownership on board characteristics and business performance. The link is shown in figure 2.5, which illustrates the conceptual framework for the research.

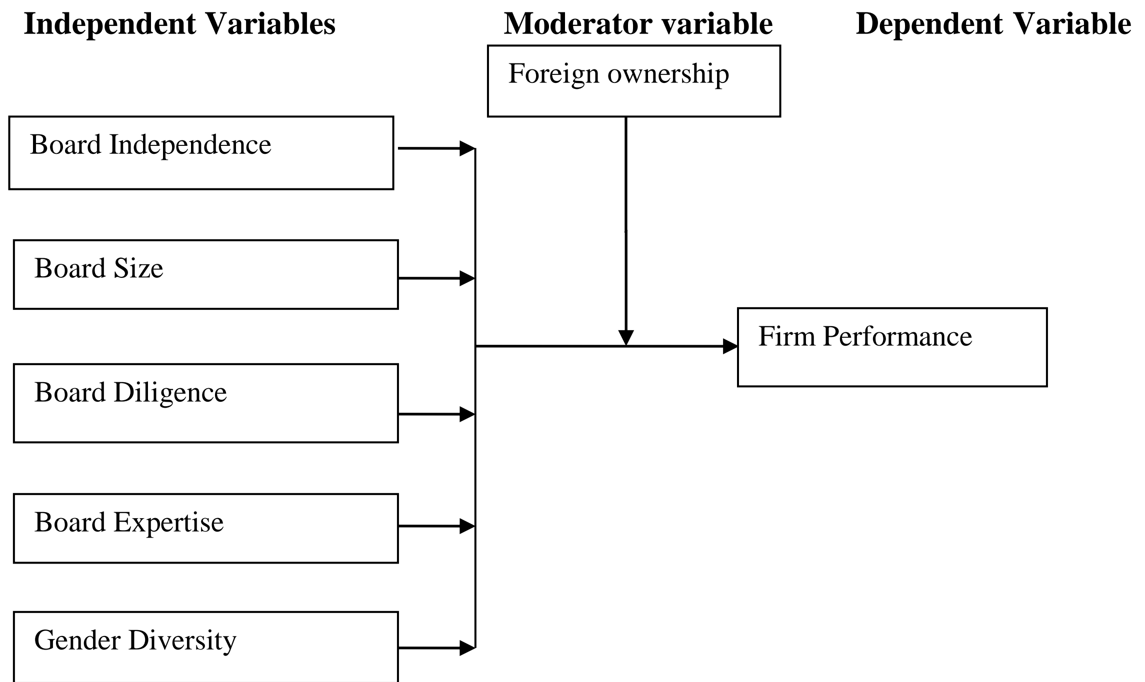

Figure 2.1: Conceptual Framework

Source: Researcher, (2018)

CHAPTER THREE

RESEARCH METHODOLOGY

3.0 Overview

In this section, the study highlights how the research study was conducted so as to attain the desired aim. In attempt to achieve this, the research design was explained, the target population was also outline, moreover the section indicated the sampling design, the research data collection methods and tools were outlined, research procedures and lastly data analysis.

3.1 Research Design

The research design incorporated this study is longitudinal panel data and explanatory. "Panel data" is defined by Baltagi (2005) as "observations from a sample of families, nations, or companies that span two or more time intervals. Jovicic (2010) terms it as a mixture of comparative data and time-series. Greene (2008) expresses a research design as the analysis of time series as well as panel data which provide a rich ground in the developing an estimation techniques as well theoretical results. The focus of the data is more demographic and economic and allows for more data points.

According to Hsiao (2003) and Klevmarken (1989) panel data has the following advantages;

It gives more information on data in terms of controlling for persons heterogeneity thus avoiding the risk getting spurious results, more efficient results, more variability, less collinearity among the variables and more degrees of freedom. It also control and regulate for individual heterogeneity where it assumes that firms are heterogeneous as opposed to where cross section analysis as well as fail to take it into account.

Moreover, using panel data, we may probe what factors contribute to adjustment success or failure and also able to measure effects that are difficult to detect in pure cross sectional or time series data. Furthermore, panel data enables the development and evaluation of more intricate behavioral models than is possible with either cross-sectional or time-series data alone and as well as allows micro panel data gathered on single constructs which may be better than previous measurements of the same factors at higher tiers. Lastly, with contrast to the variability distribution problems typical of unit root tests in time-series analysis, panel data contain lengthier sequences.

On the flip side, the constraints of panel data involve design and data collecting issues such as insufficient population representation, nonresponse, as well as measurement error anomalies, selectivity problems; shot time-series measurement and cross section dependence. Cross sectional data alone may not give a detail explanation on consistency of its findings such as where it provides that half of the occurrences in a production line are observed to be working are a one time or for all periods of observations. Similarly, cross sectional data may not differentiate economies of scale with technological change. It may only provide the data only on efficiencies of scale and not technological advances. Greene (2008) postulates that cross sectional data provides information economies of scale only but on contrary, time-series will mix-up the two effects, with no prospects of separation. Explanatory research design was adopted because it establishes causal effect among the variables of the study.

Data were acquired from the designated sample through the available information from the NSE and company profiles detailing the data required for the study. The data collected was analyzed and interpreted to identify answers to the research problem. According to Robson, (2002), picking a research question as well as a theoretical framework comes first in the design process. The purpose of this research is to

examine how foreign investment can affect both board characteristics and the performance of companies trading on Kenya's Nairobi Securities Exchange. Paradigms encompass both theories and methods.

3.2 Target Population

The current study focused on a population of 64 companies listed at the NSE drawn from sectors such as manufacturing & allied, banking, agriculture, investment, energy & petroleum, telecommunication, automobile & accessories, investment services, construction & allied, insurance and commercial and services as at 31st December, 2016. The firms were selected for the study because they have clear board characteristics structures as well as firms financial performance and the secondary data required is readily available at the NSE. The firms are also few and represent various sectors of the Kenyan economy.

3.3 Inclusion/Exclusion criteria

The inclusion and exclusion criterion was based on whether the firm was in operation from 2012 to 2016. This period was suitable since it was during this period that NSE enacted regulatory framework requiring listed companies to observe corporate governance in order to safeguard the financial performance. The time period considered was appropriate because the Kenyan listed companies underwent significant regulatory and institutional changes as a result of the global financial crisis.

3.4 Data Collection Method

The research applied secondary information on companies listed on the NSE between 2012 and 2016. An average of 5 years minimized influence of the current year (one-year observations) which could occur through the use of a single year data. Five year

period is considered sufficient to avoid biases of one year point estimates. Attention has been paid to companies who operated throughout the study period; hence, listed companies after 2012 and those banned throughout the period studied were omitted.

The data was collected from a variety financial source, including verified, public income statement of NSE-listed companies the NSE Hand Journals, which are easily accessible now at Nairobi Stock Exchange and Capital market authority libraries. Secondary data on board characteristics, firm performance and ownership will be retrieved or generated using financial statements of publicly traded firms and statements published by Nairobi Stock Exchange and the Capital Market Authority from which applicable ratios were calculated. Data for the explanatory variable -firm performance, independent variable -Board characteristics, and for the moderating variable -foreign ownership was sourced from the above institutions where quarterly reports are available for analysis and drawing conclusions.

3.5 Measurement of Variables

3.5.1 Explained Variable:

Organizational performance was examined by Return on Equity (ROE), which can also be employed to assess the impact of administrative decisions regarding the utilization of resources committed to them.

3.5.2 Independent Variable:

Similarly with Lee and O'Neil (2003), managerial ownership was determined using the ratio of the firm's 10 largest shareholders to share capital. Size of the board was determined as the entire number of board members. According to Calabro et al. (2013) board size influences board tasks such as strategic decision-making. The

proportion of seats held by independent directors was used to calculate board composition (Morellec et al., 2012; Bhagat and Bolton, 2008).

3.5.3 Moderating Variable:

Dahlquist and Robertson (2001) and Kim et al. (2010) evaluated foreign ownership by incorporating the CMA-defined percentage of overseas possession.

The study adopted panel data set estimation techniques; one that monitors a certain group of persons across period, having numerous views on every subject. This is due to the fact that panel data sets for economic study have numerous merits over traditional cross-sectional or time series data sets.

3.6 Data Analysis

Secondary data from NSE reports and the library was assessed for exhaustiveness and uniformity to apply the statistical analysis. In accordance to Mugenda (2003), a relevant report requires that the data be cleansed, transcribed, and correctly analyzed. The NSE data was analyzed using panel data approach. The Excel software was used to prepare the variables into a format appropriate for analysis after which the STATA version 14.1 software was employed for further analysis. The quantitative data about average, variance, and distribution were analyzed utilizing differential statistics. Generally, tables were employed to synthesize responses. The unit of analysis was indeed a publicly traded company on the NSE. Particularly, the study employed multiple linear regression analysis to determine the association between governance features and firm performance, with foreign ownership serving as a moderator, as well as the direction of the association.

3.6.1 Analytical Model

Because they concentrate on the long-term association with the predictor variables, the research enables all independent variable to be incorporated into the models. Using Karl (2002) and Kumbirai & Webb (2010), the empirical model and, consequently, the analytical framework are described as follows;

$$ROE_{it} = \beta_0 + \beta_1 BI_{it} + \beta_2 BS_{it} + \beta_3 BE_{it} + \beta_4 BD_{it} + \beta_5 GD_{it} + \beta_6 FO_{it} + \varepsilon_{it} \ldots\ldots\ldots 1$$

Where:

ROE represents firm performance of the listed companies; **BI** is the Board Independence; **BS** is the Board Size; **BE** is the Board Expertise; **BD** is the Board Diligence; **GD** is Gender Diversity; and **FO** is foreign ownership for firm ***i***, at time ***t***.

β_0 is the constant coefficient and β_1 *to* β_6 are the coefficients for respective variables while ε_{it} is the error term.

3.6.2 Estimation and Diagnostic Tests

Panel data estimation technique has been used given its many benefits. It has a higher degree of freedom as well as less multicollinearity, which makes it easier to get accurate estimates (Hsiao, 2003). It also gives us more freedom to model differences in behavior among the firms being studied, which lets us grip for unobserved heterogeneity. The panel data analysis method is comprised of two principal methods: the Fixed Effects Model (FEM), which claims that disregarded effects specific to cross-sectional units remain constant over time, and the Random Effects Model (REM), which argues that disregarded effects are unpredictable across period. A Hausman test was performed to distinguish among fixed and random effects. It explores the link between the various errors and the predictor variable (Greene, 2008). Therefore, the stated model was evaluated using a statistical tool (STATA), and also the research objects were analyzed with the aid of periodic tests. In addition to the

unit root test, homogeneity of variance, normalcy, as well as the autonomy of the constant variance, other fundamental assumptions were evaluated prior to multiple regression. Prior to evaluating the hypotheses, this study examined the existence of multicollinearity and anomalies. The study utilized the Levine Lin Chu unit root test for the Unit root test.

3.7. Ethical Consideration

The researcher conducted the study in an ethical manner by maintaining honesty and respecting the rights of others. By relying exclusively on the gathered data, the researcher ensured objectivity throughout the data presentation, analysis, and interpretation process. For ethical sanction, the School of Graduate Studies at Moi University assessed the proposal.

Once these approvals were obtained, the researcher approached the National Commission for Science, Technology, and Innovation (NARCOSTI) for authorization to acquire and analyze data. Relevant parties were informed of the study's results through publications in peer-reviewed journals and conferences. The researcher was entrusted with the exclusive responsibility of gathering and evaluating the data necessary to achieve the study's objectives.

CHAPTER FOUR

DATA ANALYSIS, FINDINGS AND DISCUSSIONS

4.1 Overview

This section describes the conclusions derived from the analysis of the NSE data gathered and cleansed throughout the research period (2012-2016). Due to the panel nature of the data, a total of 42 businesses were picked to evaluate the link between foreign ownership and company performance. Full information is used to do a thorough fundamental regression with a view of assessing the nature of the link between the listed businesses and the stock market, as well as the nature of such causality. In accordance with the aims of the research, the findings are displayed using descriptive statistics in the form of tables and graphs.

4.2 Descriptive Statistics

Descriptive data for whole panels were taken into account in the research. The Return on Equity (ROE) shown in Table 4.1 ranges from 0.1697 points on average to 0.8539 points at its highest and lowest values, respectively. As for the percentage of foreign ownership held by a company, the range is from 0.05 to 0.93 points, with a standard deviation of 0.20. Both the average number of board members and the number of independent board members were 10, with a standard deviation of 3 and 2, respectively. There were three members on the board with the fewest members and fifteen members on the board who had the most. Board members come from a diverse set of occupations, with anything from two to eight distinct occupations represented. However, among NSE-listed companies, the median was at least 5. In a similar manner, the findings reveal that the board met an average of six times every year. A total of 33 board meetings were held by the company with the largest number of

meetings, while other companies failed to have even one. Standard deviations and ranges are shown for both within and across enterprises in Table 4.1.

Table 4:1: Summary Statistics

Variable		Mean	Std. Dev.	Min.	Max.	Observations
ROE	Overall	0.169793	.0.164339	-0.695	0.8539	N = 210
	Between		0.123169	-0.115	0.4866	n = 42
	Within		0.110123	-0.528	0.666353	T = 5
Foreign_O	Overall	0.474715	0.200561	0.05	0.929	N = 210
	Between		0.193615	0.1512	0.8746	n = 42
	Within		0.058782	0.16852	0.802715	T = 5
B_Size	Overall	9.004762	2.538691	3	15	N = 210
	Between		2.441306	4	14.6	n = 42
	Within		0.773979	7.00476	12.0048	T = 5
B_Indepen	Overall	5.980952	2.807989	0	14	N = 210
	Between		2.683576	0	11.6	n = 42
	Within		0.906112	1.58095	8.98095	T = 5
B_Diligen	Overall	5.704762	3.564642	0	33	N = 210
	Between		3.278381	2	19.6	n = 42
	Within		1.471256	-5.89524	19.10476	T = 5
B_Experti	Overall	4.290476	1.281598	2	8	N = 210
	Between		1.168866	2	7	n = 42
	Within		0.549902	2.29048	6.69048	T = 5
B_Gender	Overall	1.266667	1.212113	0	5	N = 210
	Between		1.128493	0	3.6	n = 42
	Within		0.469144	-0.13333	3.66667	T = 5

Source: Researcher, (2018)

As previously noted, further return on equity technical analysis is undertaken to explore the trend of NSE-listed companies. Based on the graphic analysis (figure 4.1), it was determined that Limuru Tea, Rea Vipingo, Kenya Airways, KenolKobil Ltd, E.A Portland Cement, Centum Investment Co Ltd, Mumias Sugar Co. Ltd, British American Tobacco Kenya, and Eveready East Africa Ltd possessed similar characteristics such that their performance was atypical over time. In contrast, the remainder of the companies displayed some degree of consistency. For more details, Figure 4.1 and Appendix 2 indicate the trends of performance and foreign ownership respectively of firms at the NSE as at December 2016. See Appendix 1 for respective company names.

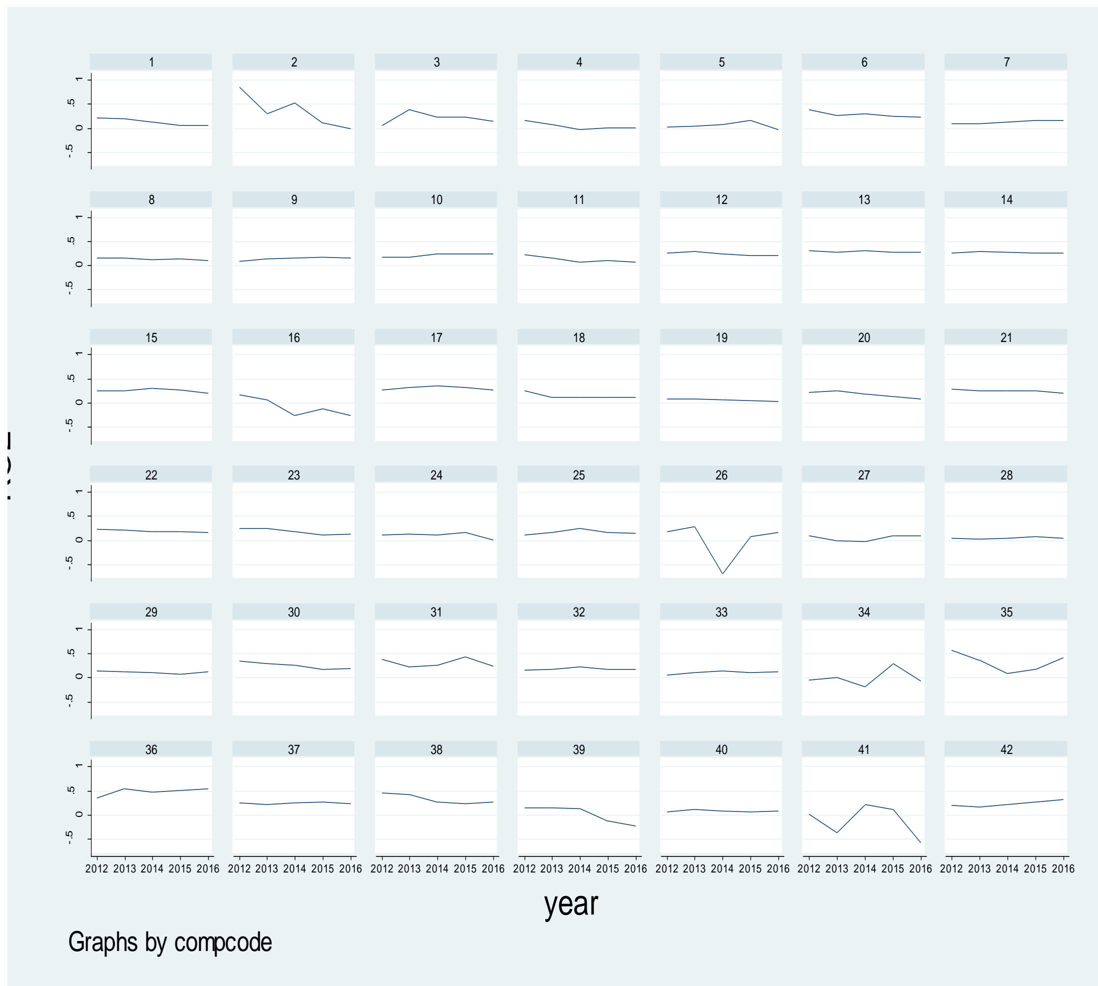

Figure 4.1: Performance of Listed Firms in NSE as at December 2016

4.3 Estimation of the moderating effect foreign ownership on board characteristics and firm performance in Kenya

The main purpose of the study was to determine whether or not foreign ownership moderated the connection between board characteristics and company performance among Kenyan enterprises listed on the NSE. The impact of board composition (e.g., size, independence, experience, diligence, and gender diversity) on NSE-listed company performance is examined. The descriptive statistics demonstrate how differences across panels and between parameters account for this trend. With this aim in mind, the research digs further into examining how the stochastic character of the variables of interest relates with business performance when companies are owned

by foreign investors. Fixed effects regression with multicollinearity pre-estimation, Unit Roots testing, and the Hausman model specification test were used to estimate the conceptual model(s).

4.3.1 Correlation Analysis

The purpose of a correlation analysis is to measure the degree of association between any two predictor variables. The coefficient of determination is the value between +1 and -1 that is used to determine the degree of correlation. Multicollinearity is assumed to be present if there is a perfect linear relationship between the variables in question, which can be predicted further by this finding. The correlation matrix was employed to see if any two explanatory variables were very similar by comparing the correlation coefficients of the two sets of variables.

ROE was only negatively correlated with foreign ownership. The rest of the correlations were positive. When there is a perfect correlation between any two predictor variables, there is a bias. Given that multicollinearity can cause erroneous regression, a correlation coefficient of 0.5 or higher would indicate its presence.

Table 4.2: Correlation Matrix

Variables	ROE	Foreign Ownership	Board Size	Board Independence	Board Expertise	Board Diligence	Gender diversity
ROE	1.0000						
Foreign Ownership	-0.1281	1.0000					
Board Size	0.1226	0.2240	1.0000				
Board Independence	0.0237	0.0798	0.7820*	1.0000			
Board Expertise	0.1129	0.1455	0.7216*	0.5786*	1.0000		
Board Diligence	0.0145	0.2087	0.3285	0.2958	0.3791	1.0000	
Gender diversity	0.1323	0.1592	0.6386*	0.4907	0.5413*	0.3516	1.0000

*High correlations

Source: Researcher, (2018)

As shown in Table 4.2, the investigation discovered that some pairs had a correlation greater than 0.5 (starred correlations), which is the threshold that allows such variables to be retained. This issue was addressed by the study's use of step-wise differencing to variables with this characteristic (see Hsiao, 2003; Green, 2008).

4.3.2 Unit Root Test

The use of unit root tests allowed us to evaluate or revealed non-stationarity in all study variables, which may lead to erroneous estimations and temporal fluctuations in estimates if not addressed. Each governance-related variable was subjected to the Levin-Lin-Chu unit-root test in this study. Here, initial differencing or successful lagging is used to correct for bias in the event that non-stationary variables are discovered. When a unit root appears, it creates artificial relationships. The investigation's starting point was predicated on the assumption that the variable in question is either non-stationary or has a unit root, which was the null hypothesis in this case. The following are the hypotheses tested and their alternatives in this study: The alternative hypothesis is that the panels do not move and the null hypothesis is that they contain unit roots. Table 4.3 presents the findings of a Levin-Lin-Chu unit-root test, which shows that the null hypothesis cannot be true since all variables have p-values lower than 0.05 (that the variables had unit root).

Table 4.1: Levin-Lin-Chu Unit-Root Test

Variables	Unadjusted t-statistic	P value at lag(0)
Return On Equity	-63.1550	0.0000
Foreign Ownership	-9.5e+02	0.0000
Size of Board	-20.7370	0.0000
Independence of Board	-17.0413	0.0000
Board Expertise	-15.8846	0.0000
Board Diligence	-6.1223	0.0004
Gender Diversity	-8.8886	0.0011

Source: Researcher, (2018). *Significance pegged at 5% level.*

4.3.3 Hausman Specification Model

The Hausman specification test was used to determine which of the two models—the fixed effects or the random effects—was better at forecasting the future performance of businesses. While under fixed effects all variation in the observed impact is considered to be attributable to sampling error, under random effects it is allowed that some variation in the reported effect may represent true changes in effect of size among businesses (Baltagi, 2005), in this case listed firms under NSE. It was assumed (as the null hypothesis) that estimates do not differ from one another in any way directly. Based on the results of the test, it was concluded that the random effects technique is most appropriate for approximating the effects at the individual level (P value of 34.05%, significance level = 5%).

Table 4:4: Test for Model Selection: FEM versus REM

	Coefficients			
(diag(V_b-V_B)	(b)	(B)	(b-B)	Sq.rt
	Fixed	Random	Difference	S.E.
Foreign Ownership	-0.0795624	-0.122442	0.0428796	0.1202156
Board Size	0.0011869	0.010849	-0.0096621	0.0072203
Board Independence	0.0093952	-0.001919	0.0113142	0.0068813
Board Diligence	0.0007303	0.000572	0.0001583	0.0039266
Board Expertise	-0.0275185	-0.011296	-0.0162225	0.0082822
Board Gender	-0.0015555	0.008031	-0.0095865	0.0117489

Source: Researcher, (2018)

b= consistent under Ho and Ha; obtained from xtreg
B= Inconsistent under Ha; efficient under Ho; obtained from xtreg
Test: Ho: difference in coefficients not systematic

Chi2 (6) = (b-B) `[(V_b – V_B) ^ (-1)] (b-B)
= 6.79
Prob > Chi2 = 0.3405

The Hausman test here favored the random effects model over the fixed effects model because the former does not force researchers to choose between competing estimates of the distributional mean (Hausman, 1978). Therefore, it was important to make sure that the summary estimate accounted for the varying effect sizes that were reported for each of the companies included in the research.

4.4 Regression Results for Random Effects Model

The main objective of this research was to examine the impact of board characteristics on business performance, controlling for the moderating effect of foreign ownership, and this study used a random effects model to accomplish so. The random effects model was chosen as the best for interpretation after a series of pre-estimation diagnostic tests and a model selection test were executed. Take note that no rigorous exogeneity is assumed in this model. The random effects model requires specific

qualities of the time series components, including but not limited to stochastic random error, linearity, consistent variance of error terms across observations, and lack of autocorrelation. However, Waldinger (2011) claims that if a random effects model is used, then the usual regression software (such as STATA) would automatically adjust the standard errors using robust processes in the case of heteroscedasticity and autocorrelation.

Cross-section data, where the magnitude of the response variable and the explanatory power of the model tend to fluctuate between observations, and volatile high-frequency time-series data, such daily observations in financial markets, are both sources of heteroscedasticity, as explained by Greene (2008). Heteroscedasticity also occurs in situations where there is a strong correlation between two independent variables, such as when there is a correlation between. Autocorrelation occurs in time-series data and is often displayed in a "memory" in that variation in the regression function does not depend from period to period. On the other hand, linearity will not apply since the study adopted a non-linear model due to non- normality of the residuals. Furthermore, non-linearity in this setting pertains to the estimating technique used to generate the predictor variables estimates, and not in how they are utilized in the regression function.

Table 4.5 shows that 3.7% of the overall differences in company performance may be attributed to the aforementioned factors, while the remaining percentage may have been influenced by other variables. More specifically, around 3.73 % of the differences can be attributed to explanations for differences in firm performance across the panels, and 2.97% can be attributed to explanations for differences in firm performance within the panels.

All board characteristics variables and moderating variable used in the model were statistically significant at the selected significance levels (0.1, 0.05, and 0.01) in explaining the performance of listed firms at NSE, despite low overall variations in respective panels as expected from the cross sectional component. The estimated model results are shown in Table 4.5.

Table 4.5: Results for Random Effects Regression Model

Random-effects GLS regression				Number of obs =	152
Group variable: compcode				Number of groups =	42
R-sq:	Within	=	0.777	Obs per group: min =	1
	Between	=	0.297	avg =	3.6
	Overall	=	0.373	max=	4
				Wald Chi2 (6) = 13.54	
Corr(u_i,X)		=	0 (assumed)	Prob > Chi2 = 0.0352	

(Std. Err. Adjusted for 42 clusters in compcode)

lnROE	Coef	Robust Std. Err.	z	P >lzl	[95% Conf. Interval]	
Foreign_O	0.6195313	0.5100908	1.21	0.225	-0.3802282	1.619291
B_Size *D1	0.0012649	0.0266752	0.05	0.962	-0.0510176	0.0535475
B_Indepen	0.0200116	0.0335624	0.60	0.551	-0.0457695	0,0857927
B_Diligen	-0.0055228	0.0072921	-0.76	0.449	-0.0198151	0.0087696
B_Experti *D1	-0.1587523	0.0697235	-2.28	0.023	-0.2954079	-0.0220968
B_Gender	-0.0518614	0.0501287	-1.03	0.301	-0.1501119	0.0463891
_cons	-2.141758	0.3809483	-5.62	0.000	-2.888403	-1.395113
Sigma_u	0.59789448					
Sigma_e	0.39920231					
rho	0.6916601	(fraction of variance due to u_i)				

*D1 = First order differencing

Source: Researcher, (2018)

The final estimated model is as indicated below;

$$FP_{it} = -2.1418 - 0.1588 B.EXP_{it} \quad \ldots\ldots 2$$

Further, the results specifically indicated that the coefficients of the board expertise was found to be statistically significant in influencing firm performance at NSE while board size, board independence, board diligence and gender diversity were found to be statistically insignificant in influencing firm performance at NSE since their *t*

statistics were less than critical value of 1.64 on the lower side and some of their confidence intervals included zero. However, we found that foreign ownership did not moderate our results at any of the levels we examined. Furthermore, residuals within groups had a standard deviation of 0.5979, whereas residuals across groups had a standard deviation of 0.3992. The inter-panel differences explained 0.6917 of the total variance. There was so no link between the stochastic term and the explanatory variables.

This means that panel data technique considers the existence of variable variance inside the stochastic terms throughout all observations in the panels, as well as any hypothesized or proven association among random error terms of consecutive time periods. Additional diagnostic tests were performed after the estimates were calculated to ensure their accuracy, since the model modification rendered the linearity test irrelevant.

Thereafter, a VIF test was used to examine multicollinearity. When calculating differences, only sets of variables with an absolute correlation coefficient greater than 0.5 were considered. VIF tests revealed that, contrary to the recommendations of Mukras (1993) and Green (2008), all of them had VIFs of less than 10. What this means is that multicollinearity was effectively dealt with. Other data is provided in Table 4.6.

Table 4:1: VIF Test

Variable	VIF	1/VIF
Foreign_O	4.18	0.239088
B_Size		
D1	1.05	0.950140
B_Independence	5.58	0.179086
B_Diligence	3.94	0.253892
B_Expertise		
D1	1.06	0.946550
B_Gender	3.40	0.294058
Mean VIF	3.20	

Source: Researcher, (2018)

Results from the Shapiro Wilk test for normal data or the distribution of the stochastic random error terms are shown in Table 4.7 of the present research.

Table 4.7: Test for Normality

Shapiro_Wilk W test for normal data					
Variable	Obs	W	V	z	P>z
Residual	168	0.82590	22.331	7.083	0.0000

Source: Researcher, (2018)

According to Table 4.7, when testing against a 5% significance level, the null hypothesis of residuals being normally distributed is rejected since their p-value is smaller than that value. That means the data did not follow a normal distribution. Based on the above pre estimation and post estimation tests which led to non-linear model, the regression model is ready for interpretation and thus discussion.

4.5 Discussion of the Findings from Random Effects Model

The study delves into significant governance variables only as revealed in Table 4.5. The insignificance of governance issues in light of the moderating impact of foreign ownership is examined, but none of these characteristics would contribute to a viable policy in the context of this research. Table 4.5 indicates that if all variables were unchanged, the firm's performance would drop by 214.18 percent.

Foreign ownership was shown to be a minor moderator of governance and business performance among NSE-listed companies. These results contradict those of Kim et al., (2000), who found that foreign investors in Korea are major drivers for enhancing board characteristics. This is comparable to the results of Gut et al. (2010) and Mishra and Ratri (2011), who found that foreign ownership in China correlates with implemented initiatives toward improving board characteristics procedures and, therefore, performance.

4.5.1 Moderating effect of foreign ownership on board independence and financial performance

According to this study's theories, the stewardship theory demonstrates that board independence is a crucial factor in safeguarding true corporate power inside any business (Coleman *et al*, 2007); however, this was found to be statistically insignificant in this study. This is in agreement with the findings of Bhagat & Black (2007) who used the performance measures of Tobin Q, ROA, and long term stock returns. They averred that even with more independent directors on the board, a firm would not improve performance.

Hermalin and Weisbach (1991) also found no correlation between the number of non-executive directors and corporate success. There is no conclusive evidence that increased board independence corresponds with better corporate profitability/value.

4.5.2 Moderating effect of foreign ownership on board size and financial performance

From the study findings board size was shown to be statistically insignificant at all levels. The arguments have always been centered on whether smaller or larger boards are effective in their contribution to corporate performance. In accordance with

(Dalton et al., 1999; Agrawal & Knoeber, 2009), the size of the board was determined to have a beneficial effect on the firm's performance. This observation resonates well with the earlier observation where there was also high correlation between board size and board expertise.

Other researchers have also claimed that board size is influenced by business-specific factors, including Tobin's Q, profitability, and firm size (Boone *et al.,* 2007; Linck *et al.,* 2008; Coles *et al.,* 2008; Lehn *et al.,* 2004). According to the above research, larger boards are associated with larger enterprises, more financial leverage, and greater industry diversity for value maximization purposes. However, the influence of board size may vary across various kinds of businesses.

Whereas there have been arguments about larger or smaller board sizes on effectiveness towards performance, the firms need to optimize their target board size to improve performance. Coles *et al.,*(2008) suggest several transaction costs would prohibit firms from realizing their optimal size within a short time. For instance right sizing of boards may give a negative reputational risk for future appointments.

4.5.3 Moderating effect of foreign ownership on board diligence and financial performance

The frequency with which the company's executives get together to discuss ways to boost productivity is a good indicator of the board's initiative strength, a key board quality. According to the results of the research, board diligence had a negligible impact on company success. In another research on the Amman Stock Exchange, Khaleel et al. (2016) also found identical outcomes despite accounting for endogeneity through the dynamic panel methodology of the generalized method of

moments. In addition, El Mehdi (2007) discovered that board actions do not positively correlate with business success.

The results of this research corroborate a key premise of the stewardship theory: that the frequency with which the board includes representatives is unrelated to its success in fulfilling its governance responsibilities, (Hahn, 2007). There is consensus from scholars on the optimization of board meetings to deliberate on company issues in order to lead to better monitoring and performance.

4.5.4 Moderating effect of foreign ownership on board expertise and financial performance

The expertise of the board members was found to have a significant link by lowering firm performance by 15.88 percent holding other factors constant. This finding was against the apriori expectation. This could also be associated with the high cost of retaining the members of the board who are expensive to hire into the firm and thus drain the organization of the sometimes little profit made and in the long run leads to losses.

(Aldamen, *et al.,* 2012; Christensen, *et al.,* 2010; Gray, *et al.,* 2016) conducted studies that found board expertise has no overall influence on firm performance and that a negative relationship was found between non-business related expertise and performance as measured by ROA. This was after conducting a comprehensive study on diversity on 11 distinct expertise that included accountants, academics, consultants, medical doctors, bankers, engineers, executives and CEO’s, lawyers, politicians and scientists.

4.5.5 Moderating effect of foreign ownership on gender and financial performance

Gender was also revealed to have an insignificant positive relationship on performance of the firm. The findings give a very low representation of female directors at a mean of 1.27 with a standard deviation of 1.2. The maximum number of female directors in a single board was found to be five, thus explaining the insignificance of the variable and the Kenyan culture of board composition being highly patriarchal.

In contrast to the findings of other researchers, who found that gender balance improves outcomes (Erhardt et al., 2003; Campbell and Minguez-Vera, 2008), these researchers found the opposite to be true (Adams & Ferreira, 2009; Ahern & Dittmar, 2012). Not more than two-thirds of members of elected or appointive bodies should be of the same gender, as mandated by Article 27 of Chapter 4 of the Kenyan Constitution. The Kenyan parliament is yet to conclusively enact the relevant enabling laws to entrench the practice.

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Overview

This chapter provides a summary of the study's results and further implications based on the moderating impact of foreign ownership on the link between board characteristics and financial performance. Later, pertinent recommendations and future research topics are presented.

5.2 Summary of the Study Findings

As a globalization of financial markets, several nations have gradually opened their capital markets to overseas investors. Hence foreign ownership not only contributes to the establishment of a capital market and the economic growth of developing countries, but it has also been a major influence in the structure of local ownership. The subject of whether foreign equity ownership corresponds with higher business performance remains hotly debated in a number of countries.

This study delved into different aspects facets of board characteristics dynamics of which most of the studies have demonstrated inconclusiveness with regard to the moderating effect of foreign ownership. This study concentrated on testing empirically the contribution of board characteristics on firm’s performance given foreign ownership as a moderator variable. The board characteristics factors considered included board diligence, board size, board expertise, gender diversity and finally the lastly the board independence. Foreign ownership has no substantial moderating impact on the link between board characteristics and company performance of NSE-listed enterprises, according to the study's findings.

The association was estimated using the Random Effects Regression Model, with an emphasis on the moderating impact as shown by the Hausman specification test. According to the findings, only board expertise has an impact on business success. The findings regarding the expertise of board members can also be viewed in light of the resources dependency theory as well as the stewardship, according to which the number of board members is viewed as a technical resource that increases the firm's value and that board members not only bring resources to the firm, but also acquire the same resources in terms of skills and experience.

The research employed secondary data acquired from NSE records to examine the association at a significance level of 5%. Specifically, board diligence, gender diversity board independence and board size had no statistically significant effect on the performance of companies listed on the NSE. For all hypotheses except board experience, the results indicate that the appropriate conclusion is to fail to reject the null hypothesis and reject the null hypothesis for board experience, as explained below;

5.3 Conclusions of the Study

Despite the presence of a functional framework, the 2016-17 Global Competitiveness Report placed Kenya poorly on competitiveness, and investor protection, governance and accountability, with a score of 4.70 out of 10; this indicates a pressing need to advance board characteristics reform. Board characteristics defines, monitors, and reviews company strategy, management, performance, opportunities and primary risks, pay and personnel, internal controls and compliance, and policies. This research has added empirical evidences to the debate on how foreign ownership modifies the effects on board characteristics and has provided support for current ideas.

The corporations continue to perform poorly in worldwide assessments of governance and competitiveness, indicating that major difficulties with board characteristics exist. Due to this occurrence, the report advocates robust procedures regarding the board's involvement of professionals and their compensations. Based on what we know about managers being self-serving, risk-averse, and pursuing agendas that may not align with shareholder interests, this makes sense.

5.4 Recommendations

5.4.1 Managerial recommendations

Management should ensure a substantial level of board independence by appointing independent directors who are free from conflicts of interest and external influences. Encourage independent directors to actively participate in decision-making processes, monitor management effectively, and provide unbiased guidance. Establish clear board independence criteria and regular assessments to maintain and enhance independence over time. Managers should promote a culture of open and honest communication between independent directors and other board members.

Management should be mindful of board size as it can impact decision-making efficiency. Aim for a balance between a diverse board composition and an efficient decision-making process. Managers should periodically assess the optimal board size for their specific industry and organizational needs. Consider the individual competencies that each director brings to the table and ensure that the board's size is conducive to constructive discussions and effective oversight without becoming unwieldy.

Management should appoint directors with diverse financial expertise, including accounting, finance, and risk management, to enhance the board's ability to evaluate

and guide financial strategies. Managers should encourage continuing education and training for board members to stay current with financial best practices and industry trends. Create opportunities for in-depth discussions on financial matters during board meetings, fostering an environment where directors can utilize their financial expertise to the benefit of the company.

Management should cultivate a culture of diligence among board members, encouraging active engagement in monitoring financial performance, corporate strategy, and risk management. Managers should provide access to timely and accurate financial data and reports to facilitate informed decision-making. Implement regular board evaluations and self-assessments to ensure that directors are fulfilling their oversight responsibilities diligently. Encourage open channels of communication between the board and senior management, promoting a sense of shared responsibility for financial performance.

Management should embrace gender diversity on the board by actively seeking female directors to create a more inclusive and balanced decision-making team. Managers should be proactive in identifying qualified women who can bring unique perspectives and skills to the board. Encourage mentorship and sponsorship programs to support the development of female leaders who can eventually join the board. A diverse board not only contributes to a broader range of perspectives but also demonstrates a commitment to social responsibility and equity.

When considering foreign ownership, managers should assess the potential benefits of attracting foreign investors while remaining vigilant about maintaining control over strategic decisions. It's essential to communicate a clear corporate strategy to foreign shareholders and address their concerns, while safeguarding the interests of local

stakeholders. Managers should regularly engage with foreign shareholders, providing transparent reporting and fostering a relationship built on trust and confidence.

5.4.2 Policy recommendations

Regulators should establish clear and stringent guidelines for board independence, ensuring that a substantial portion of directors are free from any conflicts of interest and external influence. Regulatory bodies should periodically assess and enforce independence criteria. Additionally, they can mandate regular training and development programs for directors to enhance their understanding of independence requirements. Continuous monitoring by regulators can help maintain and strengthen the culture of board independence.

Regulatory authorities should offer guidance on the optimal board size, taking into account the unique needs of different industries and company sizes. While not prescribing a specific number, regulators can provide frameworks for assessing board size relative to a firm's complexity and strategic goals. Companies should be required to disclose the rationale for their chosen board size and regularly report on its effectiveness. This transparency will enable regulators to intervene when board size negatively affects decision-making efficiency.

Regulators should mandate the appointment of directors with diverse financial expertise and require companies to disclose the financial competencies of board members. They can encourage the development of industry-specific financial expertise and risk management training programs. Regulatory bodies should ensure that board financial expertise is not concentrated in a few individuals and promote the dissemination of financial knowledge throughout the board. Robust reporting

requirements can help regulators oversee the financial capabilities of boards effectively.

Regulators should emphasize the importance of board diligence in their governance guidelines. They can require companies to establish diligent practices for board members and senior management. Regulators should consider implementing a regular reporting mechanism on board diligence that assesses the quality and depth of board engagement in financial oversight and strategy. Boards should be encouraged to perform periodic self-assessments to identify areas of improvement.

Regulators can play a crucial role in promoting gender diversity on boards by setting diversity quotas, providing incentives, and creating mentorship programs for women in leadership. These programs can encourage the development of a talent pool for future female board members. Regulators should also ensure that companies are transparent about their gender diversity policies and report on progress toward diversity targets. A commitment to gender diversity in board composition can be enshrined in corporate governance codes.

Regulatory bodies should develop guidelines that strike a balance between attracting foreign investment and protecting the interests of local stakeholders. They can establish reporting requirements for foreign ownership levels and ensure that foreign shareholders are provided with transparent, accurate, and timely information. Regulators should monitor the adherence of foreign investors to domestic laws and regulations and intervene when their actions jeopardize the interests of local shareholders. Robust regulatory oversight can maintain a harmonious relationship between foreign ownership and local control.

5.4.3 Theoretical recommendations

Agency theory suggests that the board's role is to monitor and control managerial behavior. To align board characteristics with agency theory, it is recommended that the board maintain a substantial level of independence, ensuring that non-executive directors, particularly those on the audit and compensation committees, are truly independent and capable of overseeing managerial actions without conflicts of interest. Boards should also focus on diligence by actively monitoring financial performance and risk management. This aligns with the agency theory's emphasis on minimizing information asymmetry and agency costs. Additionally, a diverse board, including gender diversity, can enhance the board's ability to scrutinize management and provide checks and balances.

Resource dependence theory highlights the need for organizations to secure and manage resources effectively. In the context of board characteristics, it is recommended that boards maintain a mix of directors with diverse backgrounds and financial expertise. Boards should strategically leverage their expertise to secure resources and make informed decisions related to financial performance and resource allocation. For firms with foreign ownership, boards should actively engage with foreign shareholders, understanding their resource needs, and ensuring that the company's resource dependencies are met. This aligns with resource dependence theory, which emphasizes the importance of managing external resource interdependencies to enhance financial performance.

Stewardship theory suggests that managers and directors act as responsible stewards of the organization's resources. To align with stewardship theory, firms should emphasize the financial expertise and diligence of board members, as they play a crucial role in responsible resource management. Boards should act in the best

interests of the company and its stakeholders, making decisions that prioritize long-term financial sustainability over short-term gains. They should also actively engage with foreign owners, providing transparent and accountable stewardship of the company's assets. The goal is to ensure that the company's resources are used prudently and ethically, in line with stewardship theory principles.

Social contract theory emphasizes the ethical and societal responsibilities of corporations. Boards should consider the societal impact of their decisions, including the promotion of gender diversity, which aligns with social contract theory's principles of social responsibility. Boards should actively address diversity and inclusion issues, recognizing that a diverse and inclusive workforce is beneficial for both the company and society. Furthermore, foreign ownership should be managed with a commitment to social responsibility, considering the potential effects on local stakeholders. This aligns with the social contract theory's call for corporations to be good corporate citizens, contributing positively to the communities in which they operate.

5.5 Limitation of the Study

The study's findings may be subject to potential endogeneity issues, where causality is difficult to establish. For example, it may be challenging to discern whether board characteristics directly cause changes in firm performance or if better-performing firms attract directors with certain characteristics. Controlling for endogeneity can be complex and might require more sophisticated econometric models.

The study's scope might not capture all relevant factors influencing firm performance. Factors such as industry-specific dynamics, macroeconomic conditions, and market-specific trends could also affect performance but may not be fully accounted for in the

analysis. Therefore, the study's findings should be interpreted with caution and in conjunction with other research and industry-specific considerations. Additionally, while the study explores board characteristics and foreign ownership, there might be other contextual variables specific to the Kenyan market that are not addressed but could have a significant impact on firm performance

5.6 Areas for Further Study

This research focuses primarily on foreign ownership as a moderating variable in the link between board characteristics and performance of corporate entities in Kenya. Similar studies covering particular industries, such as manufacturing, are necessary in East African nations. These will need comparisons about the function of foreign ownership in the different nations.

There is also a need for additional research of the same sort employing additional variables, such as political meddling and bribery, which are more prevalent on the African continent due to its social frameworks and weak judicial. For comparative purposes, it is necessary to use additional metrics (Tobins Q and Return on Assets) of company performance (Tobins Q and Return on Assets) to assess the moderating influence of foreign ownership on the effect of board characteristics on different parameters.

REFERENCES

Adams, R., & Ferreira, D. (2009). Women in the Boardroom and their Impact on Governance and Performance. *Journal of Finance and Economics*, 94, 291-309.

Agrawal, A., & Knoeber, C. (2009). Firm Performance and Mechanisms to Control Agency Problems between Managers and Shareholders. *Journal of Financial Quantitative Analysis*, 31(3), 377-397.

Ahern, K. R., & Dittmar, A. (2012). The Changing of Boards: The Impact on Firm Valuation of Mandated Female Board Representation. *Quantitative Journal of Economics*, 127, 137-197.

Ahmadjian, C., & Robbins, G. (2005). A Clash of Capitalism: Foreign Shareholders and Corporate Restructuring in 1990's Japan. *American Sociological Review*, 70; 451-471.

Alchian, A., & Demsetz, H. (1972). Production, Information Costs and Economic Organization. *American Economic Review*.

Aldamen, H., Duncan, K., Kelly, S., McNamara, R., & Nagel, S. (2012). Audit Committee Characteristics and Firm Performance during Global Financial Crisis. *Accounting and Finance*, 52(4), 971-1000.

Almoneef, A., & Samontaray, D. P. (2019). Corporate governance and firm performance in the Saudi banking industry. *Banks & bank systems,* (14, Iss. 1), 147-158.

Ananchotikul, S. (2006). *Does Foreign Investment Improve Board characteristics? Evidence from Thailand.* Berkeley: University of California.

Anderson, R., Reeb, D., Upadhyay, A., & Zhao, W. (2011). The Economics of Director Heterogeneity. *Financial Management*, 40(1), 5-38.

Baltagi, B. (2005). *Econometric Analysis of Panel Data* (Third Edition). New York: John Wiley & Sons Inc.

Bathula, H. (2008). Board Characteristics & Firm Performance: Evidence from New Zealand. PhD. Thesis.

Baysinger, B., & Butler, H. (1985b). Board characteristics and the Board of Directors: Performance Effects of Changes in Board Composititon. *Journal of Law, Economics and Organization,* Vol.1(1), 101-124.

Baysinger, B., & Hoskisson, R. (1990). The Composition of Boards of Directors and Strategic Control: Effects on Board characteristics. *Academy of Management Journal*, 34, 205-214.

Bekaert, G., & Harvey, C. (2000). Foreign Speculators and Emerging Equity Markets. *The Journal of Finance*, 55(2), 566-571.

Beltratti, A. (2005). The Complementarity Between Board characteristics and Corporate Social Responsibility. *The International Association for the Study of Insurance Economics*, 30, 373-386.

Berle, A., & Means, G. (1932). *The Modern Corporation and Private Property*. New York: The Macmillan Company.

Bhagat, S., & Bolton, B. (2008). Board characteristics and Firm Performance. *Journal of Corporate Finance*, 14(3): 257-273.

Boone, A., Field, L., Karpoff, J., & Raheja, C. (2007). The Determinants of Corporate Board Size and Composition: An Empirical Ananlysis. *Journal of Financial Economics*, 85, 65-101.

Boyd, B. K. (1990). Corporate Linkages and Organizational Environment: A Test of the Resource Dependence Model. *Strategic Management Journal*, 11(6), 419-430.

Bozec, R., & Dia, R. (2007). Board Structure and Firm Technical Efficiency: Evidence from Canadian State Owned Enterprises. *European Journal of Operational Research*, Vol. 177(3). 1734-1750.

Brahma, S., Nwafor, C., & Boateng, A. (2021). Board gender diversity and firm performance: The UK evidence. *International Journal of Finance & Economics*, 26(4), 5704-5719.

Brick, I. E., & Chidambaran, N. (2010). Board Meeting, Committee Structure and Firm Performance. *Journal of Corporate Finance*, Vol. 16, 533-553.

Byerly, R. (2013). Business in Society: The Social Contract Revisited. *Journal of Organisational Transformation & Social Change*, 10(1), 4-20.

Campbell, K., & Minguez-Vera, A. (2008). Gender Diversity in the Boardroom and Firm Financial Performance. *Journal of Business Ethics*, 83, 435-451.

Carcello, J. V., Hermanson, D. R., Neal, T. L., & Riley, R. (2002). Board Characteristics and Audit Fees. *Contemporary Accounting Research,* 365-384.

Carney, M., Estrin, S., Liang, Z., & Shapiro, D. (2019). National institutional systems, foreign ownership and firm performance: The case of understudied countries. *Journal of World Business,* 54(4), 244-257.

Cheng, S. (2008). Board Size and the Variability of Corporate Performance. *Journal of Financial Economics,* 87(1), 157-176.

Chijoke-Mgbame, A. M., Boateng, A., & Mgbame, C. O. (2020, July). Board gender diversity, audit committee and financial performance: evidence from Nigeria. In Accounting Forum (Vol. 44, No. 3, pp. 262-286). Routledge.

Christensen, J., Kent, P., & Stewart, J. (2010). Board characteristics and Company Performance in Australia. *Australian Accounting Review*, 20(4): 372-386.

Claessens, S. (1993). Equity Portfolio Investment in Developing Countries: A Literature Survey. Working Paper Series. The World Bank: International Economics Department.

Claessens, S., Djankov, S., Fan, J., & Lang, L. (2002). Disentangling the Incentive and Entrenchment Effects of Large Shareholdings. *Journal of Finance,* 57, 2741-2771.

Clarke, T. (2004). *Theories of Board characteristics.* New York: Routledge, Taylor & Francis Group.

Coles, J., Daniel, N., & Naveen, L. (2008). Boards: Does One Size Fit All? *Journal of Financial Economics*, 87, 329-356.

Conger, J., & Ready, D. (2004). Rethinking Leadership Competencies. *Leader to Leader*, Vol. 32, pp. 41-47.

Conger, J., Finegold, D., & Lawler III, E. (1998). Appraising Boardroom Performance. *Harvard Business Review*, 136-148.

Conyon, M. (2008). Board Control, Remuneration Committees and Top Management Compensation. *Academy of Management Journal*, Vol.41 (2), 146-147.

Crane, A., & Matten, D. (2007). *Business Ethics* (2nd Ed). Oxford University Press.

Cremers, M., & Ferrell, A. (2009). *Thirty Years of Board characteristics: Firm Valuation and Stock Returns.* Yale School of Management.

Dahlquist, M., & Robertson, G. (2001). Direct Foreign Ownership, Institutional Investor & Firm Characteristics. *Journal of Financial Economics*, Vol. 59, 413-440.

Dahlquist, M., Pinkowitz, L., Stulz, R., & Williamson, R. (2003). Board characteristics and the Home Bias. *Journal of Financial and Quantitative Analysis*, 38(1), 87-110.

Dalton, D., & Daily, C. (1999). What's Wrong with having Friends on the Board? Across the Board. *Academy of Management Journal*, Vol.36, 28-32.

Demsetz, H., & Villalonga, B. (2001). Ownership Structure and Corporate Performance. *Journal of Corporate Finance*, 7: 209-233.

Donaldson, T., & Dunfee, T. (1999). *Ties That Bind. Boston.* Harvard School of Business Press.

Durnev, A., & Kim, E. (2005). To Steal ot not to Steal: Firm Attributes, Legal Environment. *The Journal of Finance*, 60(3), 1461-1493.

Eisenbberg, T., Sundgren, S., & Wells, M. T. (1998a). Larger Board Size and Decreasing Firm Value in Small Firms. *Journal of Financial Economics*, 48(1), 35-54.

Eisenhardt, K. (1989). Agency Theory: An Assessment and Review. *The Academy of Management Review*, 14, 57-74.

El Mehdi, I. (2007). Empirical Evidence on Board characteristics and Corporate Performance in Tunisia. Board characteristics: *An International Review*, 15(6), 1429-1441.

Erhardt, N., Werbel, J., & Shrader, C. (2003). Board of Director Diversity and Firm Financial Performance. *Board characteristics*, 11(2), 102-111.

Errunza, V. (2001). Foreign Portfolio Equity Investments, Financial Liberalization, and Economic Development. *Review of International Economics*, 9(4), 703-726.

Ezzamel, M., & Watson, R. (1993). Organizational Form, Ownership Structure and Corporate Performance: A Conceptual Empirical Analysis of U.K. Companies. *British Journal of Management*, 4(3), 161-176.

Fama, E., & Jensen, M. (1983b). Separation of Ownership and Control. *Journal of Law & Economics*, 26(2), 327.

Ferris, S., & Park, K. (2005). Foreign Ownership and Firm Value: Evidence from Japan. *Advances in Financial Economics*, 11, 1-29.

Foo, Y. B., & Zain, M. M. (2010). Board independence, board diligence and liquidity in Malaysia: A research note. *Journal of Contemporary Accounting & Economics,* 6(2), 92-100.

Fuzi, S. F. S., Halim, S. A. A., & Julizaerma, M. K. (2016). Board independence and firm performance. *Procedia Economics and Finance,* 37, 460-465.

Gakeri, J. (2013). Enhancing Kenya's Securities Markets through Board characteristics: Challenges and Opportunities. *International Journal of Humanities and Social Sciences,* 3(6); 96-117.

Galbreath, J. (2018). Is board gender diversity linked to financial performance? The mediating mechanism of CSR. *Business & Society*, 57(5), 863-889.

Gales, L., & Kesner, I. (1994). An Analysis of Board Director Size and Composition in Bankrupt Organizations. *Journal of Business Research*, 30(3), 271-282.

Garg, A. K. (2007). Influence of board size and independence on firm performance: A study of Indian companies. *Vikalpa,* 32(3), 39-60.

Gharaibeh, A. (2015). The effect of capital structure on the financial performance of listed companies in Bahrain Bourse. *Journal of Finance and Accounting,* 3(3), 50-60.

Gray, S., Harymawan, I., & Nowland, J. (2016). Political and Government Connections on Corporate Boards in Australia: Good for Business? *Australian Journal of Management,* 41(1), 3-26.

Gray, S., Iman, H., & Nowland, J. (2016). Political and Government Connections on Corporate Boards in Australia: Good for Business. *Australian Journal of Management,* 41(1), 3-26.

Greene, W. (2008). *Econometrics Analysis*. New Jersey: Prentice Hall.

Guest, P. M. (2009). The impact of board size on firm performance: evidence from the UK. *The European Journal of Finance*, 15(4), 385-404.

Gul, F., Srinidhi, B., & Ng, A. (2011). Does Board Gender Diversity Improve the Informativeness of Stock Prices? *Journal of Accounting and Economics*, 51, 314-338.

Guner A., B., U., M., & G., T. (2008). Financial Expertise of Directors. *Journal of Financial Economics*, Vol. 88, 323-354.

Güner, A. B., Malmendier, U., & Tate, G. (2008). Financial expertise of directors. *Journal of financial Economics,* 88(2), 323-354.

Hahn, P. (2007). *Vanishing Board Meetings: Has Governance Doomed the Board Meeting.* London: Cass Business School Research Paper.

Hambrick, D. C., & Manson, P. (1984). Upper Echelons: The Organization as a Refelection of its Top Managers. *Academy of Management Review*, Vol.9, No. 2, pp193-206.

Hart, O. (1995b). Board characteristics: Some Theory and Implications. *The Economic Journal,* 105(430), 678-689.

Hashim, U. J., & Abdul Rahman, R. (2011). Board independence, board diligence, board expertise and impact on audit report lag in Malaysian market. In Finance and Corporate Governance Conference.

Hermalin, B. E., & Weisbach, M. S. (2003). Boards of Directors as an Endogenously-determined Institution: A Survey of the Economic Literature. *Financial Management, Economic Policy Review* 9, 7-26.

Hillman, A. J., & Dalziel, T. (2003). Boards of Directors and Firm Performance: Integrating Agency and Resource Dependency Perspectives. *Academy of Management Review,* 50(4), 941-952.

Hu, H. W., Tam, O., & Tan, M. (2010). Internal Governance Mechanisms and Firm Performance in China. *Asia Pacific Journal of Management*, 27(4), 727-749.

Jackling, B., & Johl, S. (2009). Board Structure and Firm Performance: Evidence from India's top companies. Board characteristics. *An International Review*, 17(4): 492-509.

Jensen, M. (1994). The Modern Industrial Revolution, Exit, and the Failure of Internal Control Systems. *Journal of Applied Corporate Finance*, Vol. 6(4), 4-23.

Jensen, M., & Meckling, W. (1976). Theory of the Firm: Managerial Behavior, Agency Costs and Ownership Structure. *Journal of Financial Economics*, 3(4), 305-360.

Johnson, R., Hoskisson, R., & Hitt, M. (1993). Board of Director Involvement in Restructuring: The Effects of Board versus Managerial Control and Charactersitics. *Strategic Management Journal*, Vol.14 (1), 33-50.

Kanakriyah, R. (2021). The impact of board of directors' characteristics on firm performance: a case study in Jordan. *The Journal of Asian Finance, Economics and Business,* 8(3), 341-350.

Kang, S., & Kim, Y. (2011). Does Earnings Management amplify the Association between Board characteristics and Firm Performance? Evidence from Korea. *International Business & Economics Research Journal*, 10(2), 53-67.

Karl, V. (2002). Equity Ownership and Firm Value in Emerging Markets. *The Journal of Financial and Quantitative Analysis*, 57-85.

Keasey, K., Thompson, S., & Wright, M. (1997). *Board characteristics: Economic, Management, and Financial Issues*. Oxford: Oxford University Press.

Khaleel, I. D., Siti, Z., & Shamharir, A. (2016). Board Meeting and Firm Performance: Evidence from the Amman Stock Exchange. Corporate Board: *Role, Duties and Composition,* 12(2), 126-130.

Khanchel, I. (2007). Board characteristics: Measurement & determinant Analysis. *Managerial Auditing Journal,* 22(8), 740-760.

Khanna, T., & Palepu, K. (1999). Emerging Market Business Groups, Foreign Investors, and Board characteristics. *National Bureau of Economic Research,* Vol 15, 219-228.

Khatib, S. F., & Nour, A. (2021). The impact of corporate governance on firm performance during the COVID-19 pandemic: Evidence from Malaysia. *Journal of Asian Finance, Economics and Business*, 8(2), 0943-0952.

Kim, I., Kim, J., Kim, W., & Byun, S. (2010). Foreign Investor and Board characteristics in Korea. *Pacific - Basin Finance Journal,* Vol.18, 390-402.

Kim, P. S. (2011). Performance Management and Performance Appraisal in the Public Sector. CEPA Conference, (pp. 6-23). New York.

Kor, Y. Y., & Sundaramuthy, C. (2009). Experience -Based Human Capital and Social Capital of Outside Directors. *Journal of Management*, Vol. 35, No.44, pp.981-1006.

Kumbirai, M., & Webb, R. (2010). A Financial Ratio Analysis of Commercial Banks in South Africa. *African Review of Economics and Finance,* 38-46.

Kyere, M., & Ausloos, M. (2021). Corporate governance and firms financial performance in the United Kingdom. *International Journal of Finance & Economics,* 26(2), 1871-1885.

Kyereboah-Coleman, A. (2007). Board characteristics and Firm Performance in Africa: A Dynamic Panel Data Analysis. International Conference on Board characteristics in Emerging Markets (pp. 3-21). Instanbul, Turkey: Global Board characteristics Forum and Asian Institute of Board characteristics.

Larmou, S., & Vafeas, N. (2010). The relation between board size and firm performance in firms with a history of poor operating performance. *Journal of Management & Governance,* 14, 61-85.

Lassala, C., Orero-Blat, M., & Ribeiro-Navarrete, S. (2021). The financial performance of listed companies in pursuit of the Sustainable Development Goals (SDG). *Economic Research-Ekonomska Istraživanja*, 34(1), 427-449.

Learmount, S. (2002, June). Theorizing Board characteristics: New Organizational Alternatives. Working Paper No. 237 . ESRC Centre for Business Research, University of Cambridge.

Lefort, F., & Urzúa, F. (2008). Board independence, firm performance and ownership concentration: Evidence from Chile. *Journal of business research*, 61(6), 615-622.

Lehn, K., Sukesh, P., & Zhao, M. (2004). Determinants of the Board Size and Structure of Corporate Boards. Working Paper, Katz Graduate School of Business, 1935-2000.

Linck, J., Netter, J., & Yang, T. (2008). The Determinants of Board Structure. *Journal of Financial Economics*, 87, 308-328.

Lipton, M., & Lorsch, J. (1992). A Modest Proposal for Improved Board characteristics. *Business Lawyer*, 59-77.

Liu, Y., Miletkov, M. K., Wei, Z., & Yang, T. (2015). Board independence and firm performance in China. *Journal of corporate Finance*, 30, 223-244.

Manyaga, C. B., Muturi, W., & Oluoch, O. (2020). Board gender diversity and financial performance of commercial banks in Kenya. *Journal of Finance and Accounting,* 8(1), 1-10.

Marimuthu, M., & Indraa, K. (2009). Can Demographic Diversity in Top Management Teams Contribute for Greater Financial Performance? An Empirical Discussion. *Journal of International Social Research*, 2(8), 3-25.

Martin, J. A., & Butler, F. C. (2017). Agent and Stewardship Behavior: How do they Differ? *Journal of Management and Organization*, 1(1), 1-14.

McConnell, J., & Servaes, H. (1990). Additional Evidence on Equity Ownership and Corporate Value. *Journal of Financial Economics*, 38, 163-185.

Minton, B. A., Taillard, J. P., & Williamson, R. (2014). Financial expertise of the board, risk taking, and performance: Evidence from bank holding companies. *Journal of Financial and Quantitative Analysis*, 49(2), 351-380.

Mishra, A., & Ratri, R. (2011). Governance, Monitoring and Foreign Investment in China Companies. *Emerging Market Review*, 6(2), 50-62.

Mohd, A. (2011). The Effect of Implementation of Malaysia Code of Board characteristics (MCCG) 2007 on Board characteristics Attributes and Financial Performance. PH.D Dissertation, University of Utara, Malaysia.

Mulili, M., & Wong, P. (2010). Board characteristics in Developing Countries. *Kenya International Journal of Business Administration,* 11(3), 33-45.

Müller, V. O. (2014). Do corporate board compensation characteristics influence the financial performance of listed companies? Procedia-Social and Behavioral Sciences, 109, 983-988.

Munyoki, D. I. (2021). The Effect of corporate governance structures on firm performance among family-owned businesses in Nairobi County Kenya (Doctoral dissertation, Strathmore University).

Musallam, S. R. (2020). Effects of board characteristics, audit committee and risk management on corporate performance: evidence from Palestinian listed companies. *International Journal of Islamic and Middle Eastern Finance and Management*, 13(4), 691-706.

Vaidya, P. N. (2019). Board size and firm performance: A study on BSE 100 companies. *Journal of Management (JOM),* 6(3).

Nakano, M., & Nguyen, P. (2012). Foreign Ownership and Firm Performance: Evidence from Japan's Electronics Industry. *Applied Financial Economics*, 39(1), 39-80.

Ndunda, A. (2016). Effect of macro-economic factors on the performance of the equity market of Nairobi securities exchange (Doctoral dissertation).

Nugraha, A. P. (2023). The Influence of Director Expertise and Executive Expertise on Firm Performance (An Empirical Study of the Two-tier Board System in Indonesia). International *Journal of Accounting & Finance in Asia Pacific (IJAFAP)*, 6(1), 53-69.

Ojera, P. (2011). Belief Control Practices and Organisational Performance: A Survey of Sugar Industry in Kenya. *Africa Research Review*, 21: 1-17.

Omondi, M. M., & Muturi, W. (2013). Factors affecting the financial performance of listed companies at the Nairobi Securities Exchange in Kenya. *Research journal of finance and accounting*, 4(15), 99-104.

Oxelheim, L., & Randoy, T. (2003). The Impact of Foreign Board Membership on Firm Value. *Journal of Banking and Finance*, 39(1), 33-86.

Pucheta-Martínez, M. C., & Gallego-Álvarez, I. (2020). Do board characteristics drive firm performance? An international perspective. *Review of Managerial Science,* 14(6), 1251-1297.

Rashid, A. (2018). Board independence and firm performance: Evidence from Bangladesh. *Future Business Journal,* 4(1), 34-49.

Rashid, M. M. (2020). Ownership structure and firm performance: the mediating role of board characteristics. Corporate Governance. *The International Journal of Business in Society,* 20(4), 719-737.

Reguera-Alvarado, N., De Fuentes, P., & Laffarga, J. (2017). Does board gender diversity influence financial performance? Evidence from Spain. *Journal of business ethics,* 141, 337-350.

Robson, C. (2002). *Real World Research* (2nd Edition). Blackwell: Oxford Press.

Saunders, M., Philip, L., & Thornhill, A. (2009). *Research Methods for Business Students, Fifth Edition*. Harlow, England: Pearson Education.

Shleifer, A., & Vishny, R. (1997). A Survey of Board characteristics. *Journal of Finance,* 42, 737-783.

Smallman, C. (2004). Exploring Theoretical Paradigms in Board characteristics. *Internal Journal of Business Governance and Ethics*, 1(1), 78- 90.

Tarus, D. (2015). Board Composition and Capital Structure: Evidence from Kenya. *Management Research Review*, 5-28.

Tong, S. J. (2013). A Comparison of Chinese State-Owned Enterprise Firms Board and Private Firm's Board. 23rd International Business Research Conference, (pp. 27-59). Melbourne, Australia.

Tuffour, J. K., Amoako, A. A., & Amartey, E. O. (2022). Assessing the effect of financial literacy among managers on the performance of small-scale enterprises. *Global Business Review,* 23(5), 1200-1217.

Uribe-Bohorquez, M. V., Martínez-Ferrero, J., & García-Sánchez, I. M. (2018). Board independence and firm performance: The moderating effect of institutional context. *Journal of Business Research*, 88, 28-43.

Vafeas, N. (1999). Board Meeting Frequency and Firm Performance. *Journal of Financial Economics*, 53 (1), 113-142.

Vătavu, S. (2015). The impact of capital structure on financial performance in Romanian listed companies. *Procedia economics and finance,* 32, 1314-1322.

Vince, B., & Norman, T. (2013). Leveraging Board Expertise: Strategy Mapping as a Teaching Tool. *Journal of Business Strategy*, Vol. 3(4), 3-10.

Vitolla, F., Raimo, N., & Rubino, M. (2020). Board characteristics and integrated reporting quality: An agency theory perspective. *Corporate Social Responsibility and Environmental Management*, 27(2), 1152-1163.

Wan Yusoff, W. F., & Armstrong, A. (2012). What Competencies should Directors Possess? Malaysia Perspective. *International Journal of Business Management*, Vol. 7, pp 142-149.

Yameen, M., Farhan, N. H., & Tabash, M. I. (2019). The impact of corporate governance practices on firm’s performance: An empirical evidence from Indian tourism sector. *Journal of International Studies,* 12(1).

Yermack, D. (1996). Higher Valuation of Companies with a small Board of Directors. *Journal of Financial Economics*, 40(2), 185-212.

Yusoff, W., & Alhaji, I. (2012). Insight of Board characteristics Theories. *Journal of Business Management*, 1(1), 52-63.

Zattoni, A., & Cuomo, F. (2008). Why Adopt Codes of Good Governance? A Comparison of Institutional and Efficiency Perspectives. Board characteristics: *An International Review,* 16(1), 1-15.

APPENDIX

Appendix 1: List of Listed firms at NSE

Company Code	Company
1	Kakuzi
2	Limuru tea
3	Rea vipingo
4	Sasini
5	Sameer Africa
6	Barclays
7	CFC stanbic
8	Car and general
9	Housing Finance
10	KCB
11	NBK
12	NIC Bank
13	Standard Chartered
14	Equity Bank
15	Coop Bank
16	Kenya Airways
17	NMG
18	Standard Group
19	TPS East Africa
20	Scangroup Ltd
21	Diamond Trust
22	Athi River Mining
23	Bamburi Cement Ltd
24	Crown Berger Ltd
25	E.A.Cables Ltd
26	KenolKobil Ltd
27	Total Kenya Ltd
28	KenGen Ltd
29	Kenya Power & Lighting Co
30	Jubilee Holdings Ltd
31	Pan Africa Insurance Holdings
32	Kenya Re-Insurance Corporation Ltd
33	BOC Kenya
34	E.A Portland Cement
35	Centum Investment Co Ltd
36	British American Tobacco Kenya
37	Carbacid Investments Ltd
38	East African Breweries Ltd
39	Mumias Sugar Co. Ltd
40	Unga Group Ltd
41	Eveready East Africa Ltd
42	Safaricom Ltd

Appendix 2: Foreign Ownership of Listed Firms at NSE