

**THE EFFECTS OF CORPORATE GOVERNANCE ON THE FINANCIAL
PERFORMANCE OF PARTIALLY OWNED GOVERNMENT COMPANIES
LISTED IN THE NAIROBI SECURITIES EXCHANGE.**

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DECLARATION

I declare that this work has not been previously submitted and approved for the award of a degree by this or any other University. To the best of my knowledge and belief, the research project no material previously published or written by another person except where due reference is made in the research project itself.

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This research project has been submitted for examination with my approval as the University Supervisor.

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ABSTRACT

The purpose of this research was to analyze the effects of corporate governance on financial performance of partially owned government firm. These specifically examined how financial performance was influenced by size of the board, independence of the board and frequency of board meetings. Research data for this study was gathered from annual reports in the websites. The research data was analyzed using Statistical Package for Social Sciences (SPSS) and the results of the analyses was presented in tabular and chart forms. The performance of firms was measured using the Return on Assets (ROA). The study adopted a descriptive research design. The population included all partially owned government firms listed in NSE. The study used secondary data from audited and published company annual reports. The study found that, board independence did not play an important role in enhancing financial performance, also it showed that frequently held board meetings have an impact on the financial performance. The study confirms that setting up good corporate governance structures is an important factor in financial performance. From the research findings, the relevance of corporate governance structures is practical because it influences financial performance. A better understanding of corporate governance is attained when the governance structures are studied and analyzed separately as compared to when the study is done broadly and generalized.

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Abbreviations/Acronyms

CEO:	Chief Executive Officer
CMA:	Capital Market Authority
NHIF:	National Hospital Insurance Fund
CMC:	Cooper Motor Corporation
SPSS:	Statistical Package for Social Sciences
NSE:	Nairobi Securities Exchange
CBK:	Central Bank of Kenya
IRA:	Insurance Regulatory Authority

CHAPTER ONE:

INTRODUCTION

1.1 Background

The 2008 financial crisis mainly hit the western capitalist countries, but the waves still had an impact on developing countries. Kenya too was not an exception of the world's financial fall down; as an example, Blue Shield Insurance Company comes out as one of the companies that was put under receivership attributed mainly to issues relating to corporate governance. The improvements and innovations of corporate governance practices is widely known together of the foremost crucial elements in strengthening the inspiration for the long-term economic performance of nations and corporations (Ibrahim et al., 2010). Corporate governance has become crucial for companies because it plays the role of minimizing non diversifiable risk within the economy (Kaur et al., 2014). Corporate governance has received new urgency due to the global financial crises and major corporate failures that has had a major impact on financial centers of the world (Imam & Malik, 2007). Due to corporate failures, there has been regulatory initiatives that have placed corporate governance systems under very closer investigation than ever before.

Policies and Management systems of firms in the financial crisis period were put into the tracking system of the analysts. JP Morgan and Bear Steers who were mortgage lenders, Fannie Mae and Freddie Mac who had made investment in banks, demonstrated that corporate governance was among the major causes of the crisis; this led to some decisions which were made, not right when right decisions were really critical at that time. The outcome led to, several countries embarking on to tie the loose ends and policies which were enhanced by authorities. The Basel III Accord was an outcome of this to help prevent the occurrence of another same crisis in the coming dates (Lekaram, 2014). In Kenya, the regulators like Capital Markets Authority, CBK, and the IRA strengthened their policies on corporate governance and measures to avoid such a crisis to occur again in Kenya. Specifically, forming of audit committees with stringent measures to ensure compliance was a requirement by firms to adhere, there was a reduction in the amount of equity held by CEO,

and reporting standards were examined further. It is therefore needful to point out that corporate governance notion of very large firms has been prioritized on the policy agenda in developing market economies for over a decade now. Further to that, the idea is slowly warming itself as a priority in the African continent. Indeed, it is believed that the Asian crisis and the African relatively poor performance of the corporate sector have made the issue of corporate governance a catchphrase in the debate of development (Berglof et al., 1999).

Several events are responsible for the heightened interest in corporate governance especially in both developing and developed countries (Ranti, 2011). Corporate governance became a global business limelight after a string of collapse of high-profile companies such as Enron which shook the business world for the long period, they had practiced illegal and unethical operations. The organizations portrayed that there was a sign of a dangerous iceberg. While US companies' corporate practices were attacked, it emerged that the problem was huge, and the impact was far more widespread. Even the reputable New York Stock Exchange had to get rid of its director (Dick Grasso) amidst the yell of the public over excessive compensation (La Porta, Lopez-de-Silanes, & Shleifer, 1999).

Corporate governance is for long seen to be relating with the agency problem. A relationship between the agent and the principal emerges when owner of a firm is different from manager or the controller. For example, the people funding the company (investors/ shareholders) appoint managers who run the firm on their behalf. Investors require managers who are highly specialized so that they are capable of generating returns and get the value of their money and compensation for the forgoing current consumption, and managers rely on them for funds since they may not be in a position to possess enough capital of their own to invest. Due to the relationship, there is a separate viewpoint between both the investors and the managers of the firms. Bairathi (2009), noted corporate governance is not just about the management of the corporate; but it is something wide which is including a fair, efficient, and transparent administration which will help achieve various objectives which are well-defined.

A country's capacity to achieve its well-being state, which is continuous growth within the economy and social development for a long duration, is dependent upon the decisions about the efficiency which ensures there is not wastages of scarce resources and effectiveness which ensures that the desired outcome is attained in how resources are allocated, utilized, and invested. In global market which have loose restrictions, the ability of a country to create wealth and produce more products and services, is related closely to the process used to allocate, utilize, or invest. Strategic decisions about allocating effectively and using the company resources is what ensures that there is growth in economy which emerge from the invested resources (Centre for Corporate Governance, 2005). Responsible boards help develop and establish corporations that are working efficiently. Indeed, without having business enterprises which are efficient, a country will be unable to create and produce wealth or generate ample opportunities to those unemployed in the country. Without this kind of firms which have high credibility, stability, and sustainability, investors will not commit their funds into productive capacity since they will be afraid of the risk which might arise to their investment. Without investment, business will not grow and hence they will collapse if something is not done to boost them. If corporations collapse, there will be no economic growth due to the country inability to raise revenue from taxes, no employment, no taxes paid, and the resultant impact is neither growth nor development will occur in a country (Centre for Corporate Governance, 2005).

An argument has come up frequently that the how an entity structures its governance, is likely to affect its ability to respond to external and might have an impact on its performance (Donaldson, 2003). Well-managed firms widely are seen to perform better, and good corporate governance is vital when it comes to firms' prosperity (Miring'u & Muoria, 2011).

1.2.1 Corporate Governance in Kenya

In 2002, the CMA introduced guidelines of corporate governance for all public listed companies in the NSE. CMA Act Section 12 derive guidelines which directs the CMA to formulate rules and regulations which are necessary for it to regulate operations of the stock market. Principles of corporate governance in Kenya, are enforced through the compliance in

the capital markets or the explain principle. The importance of the principle is to ensure compliance with rules set by CMA. Hence if the firm do not comply, it should clearly justify why it did not comply, through its directors who governs it, or the company is at risk of facing serious sanctions. For instance, it is a requirement of all listed companies and brokering firms to have the authority to act as agents for filing annual returns on their financial base by CMA. Failure to comply, the company will be represented by its directors who will give valid reasons for their non-compliance to file the returns and submit the dues on time and failure to do so, then the company or the agent is likely to be suspended from engaging in activities at the stock market until it complies (Capital Markets, Regulations, 2011).

Wachudi and Mboya (2009), argue that corporate governance is seen to be prominent in Kenya as it is also prominent in other countries. This is because of corporate failure and increasing deteriorating performance of public and private firms (Barako et al., 2006). Kenya advocates for corporate governance framework by the Centre for Corporate Governance. 1999 is when there was a first attempt to put into place the corporate governance framework in Kenya when the Centre for Corporate Governance Kenya developed a framework which companies could adopt willingly. In 2002, CMA further took the framework as a draft of corporate governance practices for publicly owned companies in Kenya. Later, Capital Markets Authority demanded those companies to adopt practices of corporate governance. These practices mainly required the firms to consider the board compositions, the audit committee, separation of the roles of the CEO and chair of board, along with the right of shareholders.

Independence of directors ensures there is a smooth performance as they oversee what is happening and drive long-term strategic vision and focus. They will ensure the auditors selected are independent, and this will avoid their opinion being influenced, hence portray the true and fair view of the firm, also transparency will increase, and shareholders rights will be respected, and they will have adequate rights to vote for the provisions. These elements should be enhanced for the betterment of the firm's performance (Dionne & Chun & Triki, 2019).

Board size is more likely to determine how diversified the board is. Hence large boards are very likely to accommodate people who are diversified in terms of skills, talents, abilities,

and expertise unlike the small boards though small boards also have their advantages, like saves on cost but in regard to corporate governance for better management of resources a larger board is more preferred (Harman, 2006).

Frequent board meetings ensure there is an opportunity to solve problems together, and ability to get everyone feel included, time to get everyone aligned about a topic and solve problems as soon as they occur, and this ensures risks are mitigated as early as possible (Vafeas, 1999).

Partially owned government entities means that the government have a partial ownership in them. On the shares of those entities and that those entities share are also privatized. (Gupta, 2005).

1.2 Problem Statement

A number of studies have attempted to unearth array of effects of corporate governance issues, such as Barako, Hancock, and Izan (2006), where the author's main concern was the voluntary disclosure. Wachudi and Mboya, (2009) investigated what are the effects of board gender diversity on the performance of commercial banks specifically in Kenya. The variables showed that corporate governance has substantial impact on the overall wellbeing of economic system in a country, since they have reached ramifications on the result and performance of the companies studied by far. Amba (2013), also found the same about corporate governance and financial performance and reported about it.

Several studies have dwelt more on banking sector, more so in Kenya. Wanyama et al., (2013), investigated Effects of Corporate Governance on Financial Performance of Insurance Firms which are listed in Kenya. The external environment demanded the most out of the arrangements of corporate governance; boards had a key role to play in defining strategies to be adopted by companies in a rapid changing framework as they are held responsible for both new opportunities and challenges from the market. Kenya has a significant portion of firms which are partially owned by the government, and they serve the local market and external to which play a pivotal role in the country and also contribute to the growth of the economy. Despite the importance of corporate governance and the partially owned government firm being key in a country's growth, there is limited information about studies in this area that has been done specifically on corporate governance of the partially owned government firms listed in the NSE. Those who formulate policy in Kenya, appreciate that quickened

investments are required in firms which are partially owned by the government and that it is the ability of the board to ensure that the firms' profits are instrumental if the country is to reach its targets for Vision 2030.

1.3 Research Objectives

The general objective is to examine the effects of corporate governance on the financial performance of partially owned government firms listed in the NSE in Kenya. To meet the above objective, the specific objectives of the study are as follows:

1. To examine the effect of board size on the financial performance of partially owned government firms.
2. To establish the effect of frequent board meetings on the financial performance of partially owned government firms.
3. To examine the effect of independent board of directors on the financial performance of partially owned government firms.

1.4 Research Questions

1. What is the effect of board size on financial performance of partially owned government firms?
2. What is the effect of frequent board meetings on the financial performance of partially owned government firms?
3. What is the effect of board independence on financial performance of partially owned government firms?

1.5 Significance of the study

This study is of great value to the Institutions regulators, investors, academics, and other relevant stakeholders in the following ways. Boards of directors will find the information of value in benchmarking the financial performance of their Institutions against that of their peers. It will also enable the board to establish the role of corporate governance on the performance of partially owned government institutions; this will help the shareholders to control and reduce the agents (managers) and principals (owners) conflicts facing the institution. The study will also benefit investors to be in a position to know to what extent the governance they will put in place affect their investment decisions and the ability to earn future cash flows. The research will provide the management of entities with useful insights

into the decision-making process and the impacts of their decisions. These insights can be used by the entities while formulating their strategies. The results from this study will form part of the database for future similar studies to be conducted.

1.5.1 Investors

Investors will be in a position to know to what extent the governance they will put in place affect their investment decisions and their ability to earn future cash flows.

1.5.2 Academics

For those in academia, they will benefit by getting insights on how to do their research and further know what they will study or improve based on my findings. They can also use it as a reference for their research.

1.6 Scope of the study

This study focused on factors that influence financial performance in the partially owned government firms in Kenya and specifically on corporate governance factors like board independence, frequent board meetings and board size. The target population was made up of the six partially owned government firms. The six were a reflection of the shareholding held by the government in those entities. Those are the only entities that showed that the government have a share which means it is represented on the board meeting where critical decisions are made. The study was conducted between July 2021 and February 2022.

CHAPTER TWO: LITERATURE REVIEW

2.1 Introduction

The literature review involves reviews and analysis of literature related to effects of corporate governance to financial performance of entities partially owned by the government. The main sections in this chapter include a theoretical review of corporate governance, empirical literature review, summary of knowledge gaps and the conceptual framework. Literature review is an evaluation that provides a description, summary and evaluation of literature concerned with the area of study (Baglione, 2012).

2.2 Theoretical review

The theoretical framework introduces and describes the theories that explain why the research problem under study exists. Swanson (2013) posits that the theoretical framework is the structure that can hold or support a theory of a research study. The following Section reviews the theoretical perspectives of the board's accountability that is material for this research, drawn on several theories like agency theory, stewardship theory, stakeholder theory and resource dependency theory as main corporate governance theories.

2.2.1 Agency Theory.

Agency theorists originates back from the economics and finance varsity (Davis et al., 1997). Agency relationship is a relationship that arise from a contract between the owners of the firm and the managers. The owners who are the shareholder, involves managers who are the agents, to make decisions on their behalf.

Agency theories have three problems which might arise as a result of the relationship between principal and the agent which might affect the value of the firm as literature addresses. The problems are as follows: effort problem- from the managers' end, the assets use problem and differential risk preferences/acceptance problem. Effort problem seeks to

check if managers are applying efforts to manage resources with the motive of maximizing the wealth of shareholders. Issues arise because the owners are not able to really ascertain whether managers are doing their work effectively. Managers are highly unlikely to put effort when they are managing other people resources as compared to if they were managing their firms. The use of assets issues might arise due to insiders who manages the assets. They may misappropriate the assets which might lead to inconveniencing the shareholders. The differential risk preferences problem arises due to the difference in the way, owners and agents perceive things. This is mainly because both, they have different risk appetite and managers may decide to make their own decisions without considering those of the owners. Due to the problems that arises in the agency relationship, there was a need to factor in corporate governance so that the problems can be mitigated, for the best interest of shareholders. (Jensen & Meckling, 1976).

Referring to the research objectives, agency theory was adopted since it focused on the board of directors as an instrument that has dominated the firm's literature revolving around corporate governance. The study intended to further explain the relationship between the principals and the agent.

2.2.2 Stewardship Theory.

Stewardship theorists originates to the varsity of human relations management (Hung, 1998), organization theory (Clarke, 1998) and therefore the disciplines of psychology and sociology (Muth et al., 1998). The theory assumes that managers are responsible to take care of principal's property and that they tend to behave the way the principals would want them to, unlike agency theory. The theory argues that mangers tend to draw motivation from organizational theory. Managers are seen as loyal to the firm and interested in achieving greater performance (Davis et al., 1997). The main reason managers want to have a good performance, is their urge to accomplish their objectives. Mainly managers want to gain satisfaction through handling work, which is difficult, so that they can put into practice, their power, and responsibilities. And hence, acquire their pride from fellow peers. Therefore, there is a non-financial motivation for managers.

According to Davis, Schoorman and Donaldson (1997), the theory states that organizations need a structure which will promote harmony between the owners of the firm and agents.

Stewardship theory applies in a corporate governance setting and it can explain the role and behaviour of directors. The relevance of stewardship theory to corporate governance is that managers need to be accorded clear roles. The organizational structure should be in a position to give and support acceptable authority, power and worth to the management.

2.2.3 Stakeholder Theory.

Stakeholder theorists trace their origins back to the theory of management, politics, and law and in corporate governance (Hung, 1998). Literature tends to concentrate in the coordinating role of the board within the pursuit of interest of stakeholders (Clarke et al., 1998). The theorists state that corporate governance provides a means for coordinating the interest of stakeholders (Evan & Freeman, 1988). Corporate governance provides structures where owners of the firm can present their case, which will lead to reduction of knowledge which agents possess and hence their rights are protected. (Bonnafeous-Boucher, 2005; Donaldson & Preston, 1995; Turnbull, 1997). Stakeholder theory challenges the assumptions of agency theory about the primacy of shareholder interests. It puts forward the argument that a corporation should be managed and operated within the best interest of the stakeholders.

The relevance of the theory to corporate governance is to find how managers are treating their stakeholders for them to achieve the performance since performance is a contribution of every stakeholder in place who ensures that they do not fail in their duties.

2.2.4 Resource Dependency Theory.

Resource dependency theorists trace their origins to the varsity of sociology (Clarke, 1998). These theorists tend to link the role of the board to other firms (Hung, 1998). The essential premise of resource dependency theorists as stated by Hung (1998, p. 104) is that: Corporations tend to have dependency between each other for their resources. Thus, seek to determine links in an effort to manage their interdependence. Fundamental argument of resource dependence theory is the necessity to link the company with its internal and external resources. Due to the fundamental argument, managers aim to link the firm with external factors which are only necessary for it to survive.

This means that boards of directors are very crucial mechanism when it comes to absorbing critical elements of environmental uncertainty into the firm. Thus, the linkage with the

environment could lead to a reduction in transaction costs related to environmental interdependency (Aharoni & Segev, 1981).

2.3 Empirical Review

Corporate governance is regarded a provision which is systemic in nature as a measure of control over the actions of agents like subcontractors and managers (L'Huillier, 2014).

In this study, corporate governance is considered to consist of the following elements: board size, independent directors, and how regularly meetings are held, with the aim of finding their relationship to the financial performance.

Chhaochharia and Grinstein (2005), claim that good governance structure depends on firms' ability to monitor costs and benefits associated with various governance mechanisms. Despite the fact that there is a variation across firms and over time, good governance should be different in terms of the structure. Two dimensions of governance differences are identified: the cross-sectional dimension and time series dimensions. Besides the cross-sectional dimension, organizations are likely encounter various agency problem levels due to firm's features. Thus, they develop different levels of corporate governance to satisfy their monitoring needs. Hence, firms whose levels of governance are high, do not necessarily have a good performance as compared to those with lower levels

Along the time series dimension, governance structure is probably going to vary in response to changes in conventional wisdom or legal requirements. The idea for Kenyan governance reform is that the strengthening of internal governance structure would scale back potential agency problems which are likely to arise. Improving the governance level will result to more efficient operation, less management expropriation, and thus there will be higher operating performance and market value. Therefore, the advantages of improving corporate governance will be more than the costs associated with the changes.

The financial measure of performance which was used was return on asset which showed how the organization was able to utilize the assets it had to earn profit. Which is key since assets are used to measure and indicate poor performance in some ratios if they are not used well. This was used to determine the organization performance and how it was fairing and the future and if it will exist or not.

2.3.1 Board Independence

The argument that boards are independent is important draws from agency theory which states that outside directors on board provide important monitoring in an attempt to resolve, or at least mitigate agency problems between management and stakeholders (Bathala & Rao, 1995). This means that the more the board members are externally sourced the more the quality of monitoring over management increases (Pincus et al., 1989; Samaha et al., 2012), and consequently the board would improve the financial performance. This is because independent members do not have inherent self-interests as such and are instead guided by the interests of the stakeholders who appointed them (La Porta et al. 1999). For this reason, a greater percentage of independent members in the boards should promote positive performance.

Berghe and Baelden (2005) examined the issue of independence as an important factor in ensuring board effectiveness through the monitoring and strategic roles of the directors. The ultimate factor for the board independence is by acquiring enough numbers of the independent directors on board. They stated that the director's ability, willingness, and board environment might lead to the independent attitude of each director.

Ararat, Orbay, and Yurtoglu (2010) conducted a study on board independence in Turkish managed enterprises and discovered three critical conclusions. The first study revealed that board independence and equity issues had no meaningful impact. Furthermore, in Turkey, independent directors were less effective at preventing related-party transactions. They also discovered a negative and non-relationship between independent directors and the firm's performance. The results were due to the fact that independent directors of Turkey's listed companies were not truly independent. The independent directors had personal, financial, and social ties with the dominant shareholders, and this influenced their independent judgement, thus jeopardizing their functioning as independent directors. The study on board independence and firm performance showed mixed results; either positive, negative or no relationship with firm performance. Firm performance is studied by using market-based measures or accounting based measures. The accounting-based measure through Return on Assets (ROA), Return on Investment (ROI), earnings per share and profit measures. Meanwhile, market-based measures are carried out in many studies by using Tobin's q for market value.

A study conducted in India showed that having board independence did not guarantee to enhance performance of the firm due to independent directors poor monitoring roles (Garg, 2007). One of the vital roles of independent directors is to monitor the company's performance and operation. Effective monitoring mechanisms in the firm could reduce agency problems. Thus, the company should appoint independent directors who could exercise proper oversight function in monitoring governance, internal control, and risk management.

2.3.2 Frequent Board Meetings

Lipton and Lorsch (1992) stated that boards that hold meetings more frequently have an improvement on corporate governance. Conger et al. (1998) and Vafeas (1999) also have the same opinion that an increase in board meetings will increase the effectiveness of their operations and that directors on board that meet regularly are likely to perform their duties in line with the stakeholders' interest. This is because they are able to identify mistakes regularly and work on them before they become a menace. This ensures that they formulate policies and strategies that will help them achieve their desired performance, hence increase the performance.

Khanchai (2007), opined that a board that meets regularly is a replica of a well-functioning and active board. Board meetings are proved to possess a huge positive impact on firm performance (Al Farooque et al., 2020). This outcome suggests that board monitoring is done regularly, strategic decision is also made more regularly. Elsewhere, there was no significant relationship which was found between number of board meetings and corporate performance (Bhatt et al., 2015).

In Malaysia, Ahmed (2014) reported significant negative association between board meetings and market performance for the post MCCG (2007) data. The pre-MCCG (2007) data did not indicate any significant relationship between firstly the board meetings and secondly the firm performance. Present conducted studies have suggested otherwise. That board meetings have a negatively association, which implies that regularly conducted board meetings might have a bad impact to corporate performance. This outcome, which is according to studies by Lopez-Quesada et al. (2018) show that board meetings have proved to be costly in financial terms and in signaling that things are not well within the company, and thus a need arises to hold

meetings more frequently. The findings within the present study also provide support to earlier held studies (Ahmed et al., 2014) which documented that there is a significant negative association that exist between board meetings and firm performance after implementation in Malaysia.

2.3.3 Board Size

Some scholars argue that smaller boards are more effective than oversized boards (Al-Bassam et al., 2015). From another perspective larger boards could have a more positive impact to investors, because the greater diversity and representation of stakeholders, contributes legitimacy and performance (Ntim & Soobaroyen, 2013).

Yermack (1996) found that there is an inverse relationship that exists between board size and profitability, utilization of asset, and Tobin's Q ratio. Anderson (2004) shows large boards have a low value cost of debt, because creditors view these firms as which have a more effective monitors of their financial accounting processes. Brown and Caylor (2004) increase this literature by exhibiting that firms which have a board size of between 6 and 15 members have a higher return on equity and better margins of net income as compared those firms of other board sizes. Sanda, Mikailu, and Gurba (2005) acknowledged that within a particular range, the bigger the board size is, the more the performance. Needless to say, a bigger board is very likely to possess people who are experts in different fields and would be of benefits when it comes to matters advising the CEO, hence better management. Hermalin and Weisbach (1991) while looking into companies listed at the Stock Market of Singapore found out that board size and performance are significantly related, and it is very sensitive to the tactic of estimation. They were able to also conclude that board size features a significant relationship with performance, which cannot exist in reality. On the contrary, Booth and Deli (1999) showed that firms whose board sizes are large have a lower debt to asset ratio. Therefore, the size of the board of directors is a vital in considering the composition of the board. A board which is reasonably sized portrays a higher expectation to be in a position of monitoring and giving direction to the management more effectively which is a statutory function.

2.4 Research gap

Association between a spread of governance mechanisms and firm performance spread have been examined by several studies. Though results are mixed. Some researchers only looked into the impact of a single governance mechanism on the performance, while others studied the influence of several mechanisms together on performance. There is a niche to the present extent since the bulk of them consider banking (Wachudi et al., 2009). Suffice to say that all sectors are directly or indirectly supported by partially owned government entities, it is therefore important to ensure that investigations on how they are governed is completed. Hence there is a need to study since the government invests in these companies, more so because they are vital in the provision of services to its citizens. Hence people are keen to follow and know what is really happening and in case their performances deteriorate, it becomes a rhetorical question on people's mind, since no one answers to satisfaction.

There is a need to investigate the corporate governance in those entities as there will be other emerging entities and the research may help them to thrive in case they are faced with the same issues. Thriving of the entities ensures the economy is boosted because they also pay taxes like other entities in operation, and they provide goods and services at cheaper prices which leads to easing the burden to consumers. First and foremost, before looking into other variables, it is needful to look at the top management and find whether corporate governance mechanisms which they have put in place affect performance. It is against this background that a need arises to conduct studies on the association of corporate governance of the partially owned government firms listed in the Nairobi Stock Exchange arises.

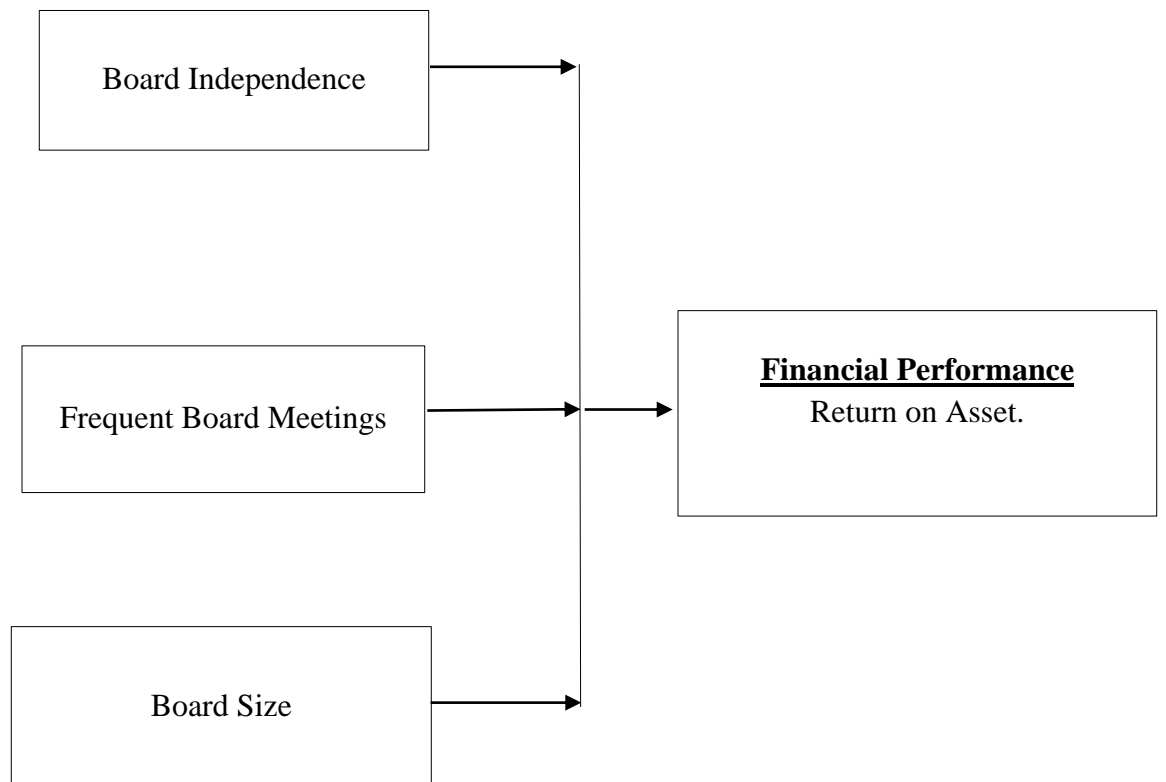
2.5 Conceptual framework

The conceptual framework is a diagrammatic illustration of the relationship between variables (dependent, and independent). The independent variables in the study are Board size, board independence, and frequent board meetings. The dependent variable (Firm Performance) appears on the right side of the framework. According to the framework, the independent variables influence the dependent variable.

2.5.1 Conceptual framework

Independent Variable

Dependent Variable



Source: Author (2021)

CHAPTER THREE:

RESEARCH METHODOLOGY

3.1 Introduction

This chapter highlights how the researcher gathered, organized, compiled, and analyzed data in relation to the research problem. This chapter tackles the research methodology that was used during the period of conducting research. The chapter holds research design, population of the target, sample size, sampling design, data collection methods/instruments and the data analysis methods used.

3.2 Research Design

Research design is a plan of research study that constitutes guidelines of how to collect and analyze data. The plan entailed what the researcher did from the start of the research, which involved writing hypotheses and their operational implications to analysis of data which is the final process. Descriptive research design was the method used for the study, which describes a phenomenon associated with a subject population or to estimate proportions of the population that have certain characteristics (Cooper & Schindler, 2008). The study looked into all the listed partially owned government firms in the NSE. In line with the objectives, the study involved evaluation of the elements in the annual financial performance reports of the firms submitted at the CMA as mandated by law to determine effects of governance mechanisms as evident in the reports. In line with these past conducted studies, regression analysis was used to analyze the association of the corporate governance surrogate on the listed partially owned government firm's performance. The purpose was to generate detailed information regarding key aspects of the study (Mugenda & Mugenda, 2003).

3.3 Target Population

Burns and Grove (2009) state that target population consists of all the elements which will be incorporated in research. Mugenda and Mugenda (2006) say that target population is all elements that meet the basis for incorporation in a study. It refers to the group that the research will manipulate in order to get the information. Population of the study comprised of all the listed partially owned government firms which were a total of six companies in the

NSE from 2017-2021 (see appendix 1). The time frame considered the period after the new CMA regulations on corporate governance and after the new regulations were enforced in 2010. This was also intended to see the effect of the policy stance of the new regulations of 2010. The period is believed to acts as a highlight to some lessons which were learnt from the insights of corporate governance during the financial crisis.

3.3.1 Sampling

Sampling refers to a process of selecting respondents, who are identified as representatives of the target population in this study. Sampling is usually recommended for large populations where it is not practically possible to gather data from the whole population. But in cases where the population is small, the census method is used, and data is gathered from every member of the population. (Mugenda & Mugenda, 2003). This study used the census method where the whole population was taken as the sample. This is because the firms were few, and when all items are covered, no chance which is left and the highest accuracy is obtained, (Kothari, 2004).

3.4 Data Collection Methods

There are two major sources of data used by researchers: primary and secondary sources. The research used secondary data which was sourced from the listed firms. Audited and published annual reports deposited with the Capital Markets Authority was used to gather information needed since they are credible sources to source data as the law stipulates. Information which was not available in the CMA library, was sourced from company's website or the NSE website. The data covered a period of four years (2017-2020).

3.4.1 Variables used in the study and their respective measurement

Variable	Measurement
Return on Assets	Net Income/ Average Total Assets.

Board membership	Total number of members in the board.
Board Independence	Percentage of external members to the total members in the board.
Board meetings	Frequency of their board meetings.

3.5 Data Analysis Methods and Presentation

With the aim of determining the impact that corporate governance have on the financial performance of partially owned government firms as the overall objective, the study used regression analysis. The different governance practices regarding board independence, board size, and frequent board meetings were analyzed using descriptive statistics, such as the mean, median, standard deviation, and other measures of central tendency, as well as inferential statistics, correlation, and multiple regression. The data was analyzed using the SPSS version 16 statistical programs.

3.5.1 Analytical Model

Analysis was done mainly using multiple regression analysis which demonstrated the association that exists between corporate governance and financial performance of partially owned government firms. The validity of the model involved doing a multicollinearity test. This was used to check whether the independent variables were correlated.

The representation of the model was given in the equation below: The general representation of the equation above was as follows:

$$Y = \beta_0 + \beta_1X_1 + \beta_2X_2 + \beta_3X_3 + \epsilon_t$$

Where:

Y = Represents financial performance determined by ROA.

Where, ROA = Net Income/ Average Total Assets

β_0 = Constant.

$\beta_1 - \beta_3$ = regression coefficients.

X1=Board size.

X2=Board Independence.

X3=Frequent board meetings.

ϵ_t = Error term.

3.5.2 Test of Significance

T-tests was used to determine if there was a huge variance between sets of two means. Hence t-tests was employed in this study using SPSS regression outcome. The normality of the data had to be maintained when doing the t-tests. The significance of the relationship between variables was tested using the P values of the regression analysis' results. 5% level of significance was used. P-value of less than 0.05 showed a significant relationship exists.

3.6 Reliability and Validity

The extent to which a research instrument is consistent. A reliable research instrument will yield consistent results after repeated trials or when used by other researchers they would make the same conclusions. Number of different steps were taken to ensure the reliability of the study; existing information about the data was reviewed, which included performing simple analysis on the sample of data, and tracing to and from source documents, (Cooper & Schindler, 2013).

Validity is a degree to which a test or measuring instrument measures how well a test or a meaning instrument fulfills its function (Jesse, 2012). For quality control, a pre-test of the research instruments is done to establish their validity. To ensure validity of the research instrument, the researcher used expert raters and the opinion of the research supervisor.

As a way of determining the reliability and validity, a pilot test was undertaken. Piloting involved conducting a preliminary test of data collection tools and procedures to identify and eliminate problems, allowing the researcher to make corrective revisions to instruments and data collection procedures to ensure that the data that was collected was reliable and valid.

3.7 Ethical Issues

The research did not entail any ethical practices which includes invasion of privacy, or conflict of interest. Honest reporting was done, and no duplication was done of other publications and citations of other referenced work was used.

CHAPTER FOUR:

PRESENTATION OF RESEARCH FINDINGS

4.1 Introduction

This chapter shows the analysis of secondary data obtained from the entity integrated reports. The reports contains both financial and non-financial information of the partially owned government entities and they are presented in their websites. The data from these sources are presented using tables and charts outlining the descriptive statistics. Data analysis using E-Views is covered in this chapter. Descriptive statistics and inferential analysis were both employed in the analysis of data. Descriptive statistics is important to describe the relevant aspects of the phenomena under investigation and to provide detailed information about each relevant variable.

4.2 Descriptive analysis

The study looked at the study variables' mean and standard deviation.

Table 1 shows the findings of the study.

Table 1: Descriptive Statistics on Financial Performance of partially owned government Firms listed at the NSE.

	N	Minimum	Maximum	Mean	Std. Deviation
Board Size	6	6	12.5	9.625	2.28992
Board Meetings	6	4.25	25.25	12	7.60263
Board Independence	6	0.4965	0.6969	0.62400	0.071806
Financial performance (ROA)	6	0.009978	0.336845	0.6926	0.131888

Source: Research findings

The table above shows that the average board size was 9.6 members with highest and least board size at 12.5 and 6 respectively. The average board meetings that should be held are 12 board meetings, with 25.25 being the highest and 4.25 being the lowest. The average ratio for

board independence to total members of the board of directors is 0.624 with 0.69 being the highest and 0.49 being the lowest and a standard deviation of 0.718. The average financial performance for partially owned government firms measured by ROA was 0.69264 and standard deviation of 0.13188

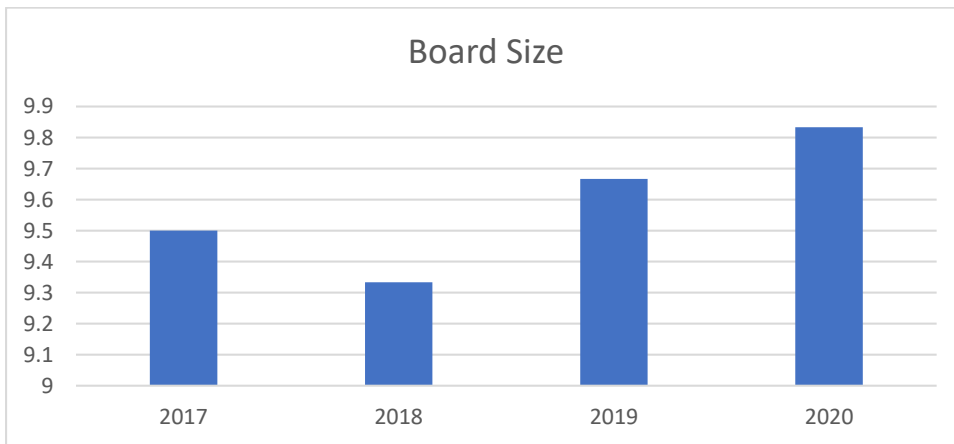
4.2.1 Board Size

Table 2: Board Size

Year	Board Size
2017	9.5
2018	9.333
2019	9.67
2020	9.83

From (Table 2) it is evident that board size for partially owned government firms has been on the rise. The average results shows that a board should have between 9.3 and 9.8 members.

Figure 1: Bar graph showing board size trend



From (Figure 1) it is clear that in year 2020 the board size average for partially owned government firms was 9.83 members while in year 2017 the board size was relatively low at 9.5 members. The reason for increase is attributed to the need to offer leadership to the firms.

4.2.2 Board Independence

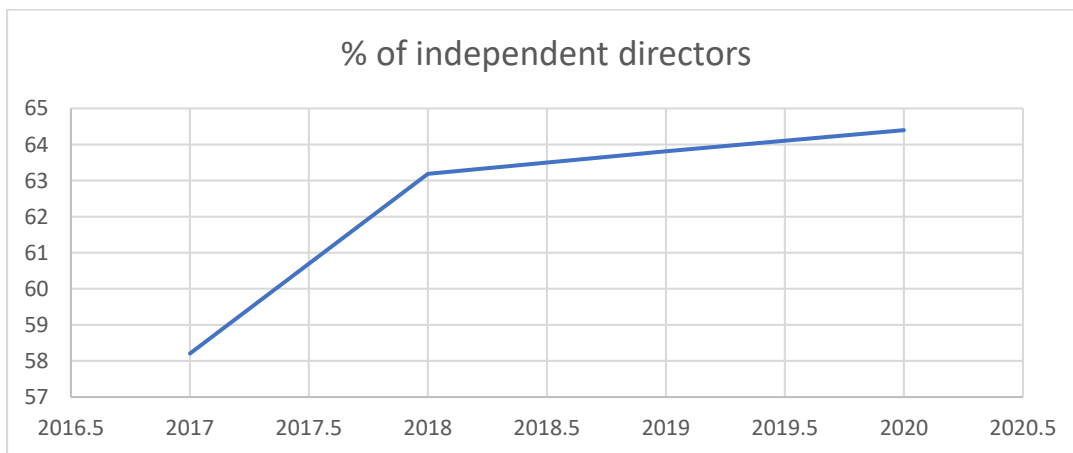
Table 3: Percentage of independent directors on the board

Year	Board Independence
------	--------------------

2017	0.5820
2018	0.6318
2019	0.6382
2020	0.64399

Table 3 shows that the percentage of partially owned government firms with independent members ranged from 64.4 percent to 58.2 percent. Because of the different expertise that independent board members bring to the table, as well as the essential oversight function that they play in managing the firms' vast resources, it was noted that most firms had more independent board members on their boards. Effective governance requires a sufficient number of independent board members and a truly independent mechanism for appointing them (Lekaram, 2014).

Figure 2: Trend of the percentage of independent directors.



From the table above, the percentage of independent directors has been increasing during the years 2017 to 2018, with independent members of the board increasing from 58.2 percent to 63.18 percent. However, the percentage of independent directors has gradually changed in 2019 and 2020.

4.2.3 Board meetings

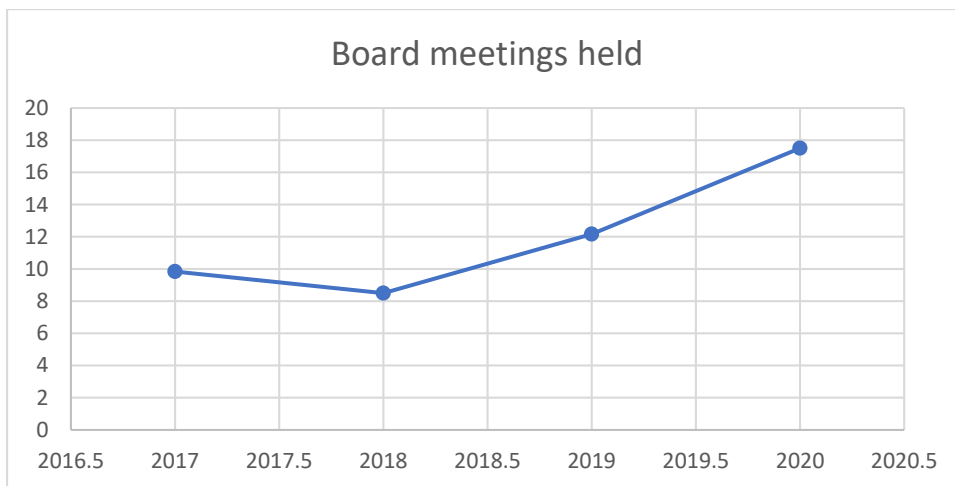
Table 4: Frequency of the board meetings held

Year	Board Meetings
------	----------------

2017	9.83
2018	8.5
2019	12.17
2020	17.5

From table 3 it is evident that board meetings held declined in 2018 from 9.83 to 8.5, but later the number of meetings held, rose from 12.17 to 17.5. The performance of the firms was questioning and it led to increased number of board meetings.

Figure 3: Trend of the number of board meetings held



It is evident that there was a decline in the number of meetings held from 2017 and 2018, but they later increased, and it is seen due to the poor performance that was raised in the firms.

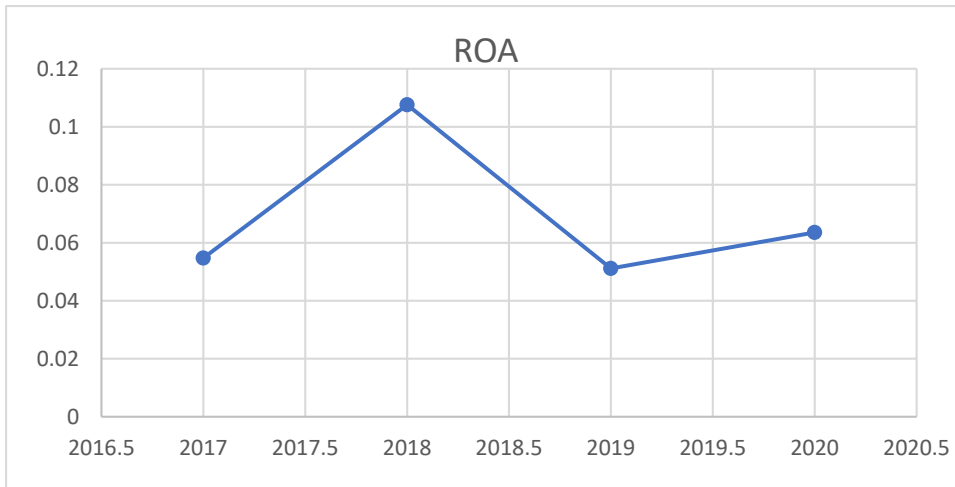
4.2.4 Financial Performance

Table 5: Financial performance of the partially owned government firms

Year	ROA
2017	0.054723
2018	0.107626
2019	0.051146
2020	0.063561

The partially owned government firms exhibited mixed reporting on the ROA their performance based on the return on asset has been fluctuating.

Figure 4: Trend of Return on Assets



The year 2018 saw the highest return on asset for the firms being recorded as it stood at 10.7% after which it declined to 5.1% in 2019 which represented a decrease of 5.6%. In 2020 it began to rise from 5.1% to 6.356%.

4.3 Correlational analysis

The degree of association between the study variables was determined using Pearson correlation.

Table 6: Pearson Product Correlation Coefficients (r)

	Board Size	Board meetings	Board independence	Financial Performance (ROA)
Board size	1			
Board meetings	-0.719	1		

Board independence	-0.37	0.639	1	
Financial Performance (ROA)	0.642	-0.328	-0.53	1

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

Source: Research findings

Board independence and board size had a significant negative relationship ($r = -0.37$, P-value 0.05). The findings show that board independence and board meetings have a substantial positive relationship ($r = 0.639$, P-value 0.05). According to the Pearson correlation coefficient, the following relationships exist: Board meetings and board size had a significant negative relationship ($r = -0.719$, P 0.05). As a result, the number of board meetings is reduced as the board size grows. According to the Pearson correlation coefficient, there was a negative significant relationship between financial performance and board independence ($r = -0.53$, P 0.05), implying that board independence had no effect on financial performance. The size of the board was also found to have a substantial positive relationship with financial performance ($r = 0.642$, P 0.05), whereas board meetings had a negative relationship with financial performance.

4.3.1 Regression Analysis

Table 7: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	0.794a	0.630	0.75	0.12685

a. Predictors: (Constant), % of total members to independent, total number of board members, Number of board meetings

The model summary (Table 7) indicated that there was a strong positive relationship between the dependent and the independent variables. The value of R Square was 0.63 indicating that 63% of the changes in financial performance (ROA) could be explained by the independent variables for the study (board independence, board size, board meetings)

Table 8: Analysis of Variance

Model	Sum of Squares	Df	Mean Square	F	Sig.
1 Regression	0.055	3	0.018	1.135	0.500b
Residual	0.032	2	0.016		
Total	0.087	5			

a. Predictors: (Constant), % of total members to independent members, board size, Number of board meetings

b. Dependent Variable: Financial Performance (ROA)

The Analysis of Variance (ANOVA) reveal that composite effect of the three variables (board independence, board size, and board meetings) on financial performance (ROA) of partially owned government firms in Kenya is significant as indicated by the P values (0.500) i.e. less than 0.05 and F value (1.135).

Table 9: Regression Model

Model	Unstandardized Coefficients		Standardized Coefficient	T	Sig.
	B	Std. Error	Beta		
1 (Constant)	-0.096	0.576	0.576	-0.166	0.883
Board Size	0.094	0.059	1.639	1.612	0.248
Board independence	-1.669	1.686	-0.909	-0.909	0.427
Board Meetings	0.025	0.023	1.432	1.084	0.392

a. Dependent Variable: Financial Performance (ROA)

The regression model becomes:

$$\text{ROA} = -0.096 - 0.094X_1 + -1.669X_2 + 0.025X_3 + \epsilon$$

From the regression analysis Constant = -0.096, shows that if all the independent variables are all rated as zero, the financial performance (ROA) of partially owned government firms in Kenya would rate at -0.096. The level of confidence for the analysis was set at 95%.

Therefore, the P- value less than 0.05 imply that the independent variable is significant. The regression results show that financial performance (ROA) of partially owned government firms is not significantly influenced by board independence ($p=0.427$) and board size ($P=0.248$). However, the regression analysis shows that the board positively impacted financial performance (ROA) ($B=0.094$). Similarly, there was no significant relationship between financial performance and board meetings ($P=0.392$). The P- values presented above are all greater than 5% implying that the relationship was not statistically significant. The type of association between the variables is revealed by the nature of regression coefficients. Negative regression coefficients indicate that the independent and dependent variables have an inverse relationship. In a regression model with a positive coefficient, the independent variables have a direct relationship with the dependent variable. Except for board independence, which exhibited a negative regression coefficient, all of the independent variables had positive regression coefficients. As a result, increased board size and board meetings result in improved financial performance (ROA) for Kenya's partially owned government firms. The board's independence, on the other hand, had a negative impact on the company's financial performance. This meant that as the number of independent board members grew, the financial performance of partially owned government firms deteriorated.

4.4 Summary of the findings

In summary, this study found that implementation of proper corporate governance mechanisms is an important element in the financial performance of partially owned government firms. From the regression equation it was revealed that corporate governance as measured through analysis of Board Size, Board independence, and board meetings to a constant zero, financial performance would stand at -0.096 . A unit increase in board independence would lead to decrease in financial performance by a factor of 1.669 , unit increase in Board size would lead to increase in financial performance by a factor of 0.094 , and a unit increase in Board meetings would lead to increase in performance by a factor of 0.025 . At the 0.05 level of significance and 95% level of confidence, Board size had a 0.248 level of significance; Board meetings had a 0.392 level of significance while Board Independence showed 0.427 level of significance. Therefore, the most significant factor is Board size. Overall Board size had the greatest effect on the financial performance, followed by board meetings and board independence. Board independence had the least effect to the

financial performance. Corporate governance has positive relation with financial performance hence the introduction of various governance mechanisms will improve the financial performance. Many different claims by different authors explaining the impact of corporate governance on performance have been explored and analyzed vis-à-vis the findings of the study. Competing explanations to the various arguments have also been shown .It was not, however possible to state the relationship between financial performance of partially owned government firms and some of the prepositions because of lack of relevant comparative data from other groupings of partially owned government firms.

CHAPTER 5:

DISCUSSIONS, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

The chapter summarizes the findings from chapter four, as well as the study's conclusions and suggestions, which are based on the study's objectives. The goal of this study was to see how corporate governance affected the financial performance of partially owned government firms on the NSE.

5.2 Summary of the findings

The study purposed to investigate the effect of corporate governance on the financial performance of partially owned government firms listed in NSE. The study focused on the following key corporate governance practices; board size, board independence, and board meetings, Return on Assets was used to measure financial performance. To investigate whether there was relationship between the variables, Pearson Correlation and regression analysis were used. (i.e. corporate governance and financial performance of partially owned government firms) and also to investigate whether the relationship is significant or not. Corporate governance proxies which were used, are; board size, board independence, and board meetings. In summary the study found that the board independence affected financial performance negatively while all the other independent variables affected the financial performance of partially owned government firms positively. There was a significant relationship between Corporate Governance and financial performance of partially owned government firms.

The findings also support Gompers' quarterly poll (Gompers, 2008), which found a connection. The size of the board of directors and the number of board meetings were found to have a substantial impact on the financial performance of partially owned government companies.

5.2.1 Summary of Board size

Board size had a (P value of 0.248), implying that it was statistically not significant to the financial performance of the partially owned government entities. That means that the size of the board members does not matter when it comes to the financial performance. Unlike a

study conducted which showed that larger boards are more effective and could lead to a more positive performance (Ntim & Soobaroyen, 2013). Anderson (2004) showed that large boards have a low value cost of debt, because creditors view these firms as which have a more effective monitors of their financial accounting processes. The conclusion is that there is no evidence in the research as to whether the size of the board matters to the firm's performance.

5.2.2 Summary of Board Meetings

Board meetings had a (P value of 0.392), which is greater than 5% which imply that the relationship was statistically not significant to the financial performance of the partially owned government firms. This means that the number of meetings held in a financial year does not affect the financial performance. Though it had a positive coefficient which imply that increase in the board meetings, increases the financial performance. Unlike Khanchei (2007), who opinionated that a board that meets regularly was a replica of a well-functioning and active board. Also Al Farooque (2020) found that Board meetings are proved to possess a huge positive impact on firm performance.

5.2.3 Summary of Board Independence

Board meetings had a (P value of 0.427), which is greater than 5% which imply that the relationship was not statistically significant to the financial performance of the partially owned government firms. This means that the number of independent board members does not affect the financial performance. It has a negative coefficient which implies that increase in the number of independent directors would not affect the financial performance. Unlike Berghe and Baelden (2005) who examined the issue of independence as an important factor in ensuring board effectiveness through the monitoring and strategic roles of the directors. Also the following are the main conclusions of Ararat's (2010) study of board independence in Turkish managed enterprises. Board independence and equity problems had no meaningful impact. Furthermore, in Turkey, independent directors were less effective at preventing related-party transactions. They also discovered a negative and non-relationship between independent directors and the firm's success.

5.3 Conclusions

The implications of corporate governance on the financial performance of partially owned government firms were studied in this study. In their operations, corporate governance is

critical. The majority of the companies had a small board of directors, according to the survey. Furthermore, the study found that the board's independence is maintained since the board has a sufficient number of independent directors. Board independence did not have a significant role in improving financial performance, according to the study, which also revealed that frequent board meetings have an impact on financial performance. The study demonstrates that establishing good corporate governance systems is critical to financial performance. According to the conclusions of the study, corporate governance frameworks are important because they influence financial performance. When the governance structures are investigated and analyzed separately rather than in a broad and generalized way, a deeper understanding of corporate governance is gained.

Adoption and adherence to sound corporate governance principles, regardless of size, can considerably aid partially owned government firms by offering improved management practices, robust internal control systems, and more prospects for growth. Corporate governance provides new strategic perspectives through the appointment of external independent directors, which improves a company's competitiveness. In addition to improved performance, good governance systems strengthen investor confidence. Because of lower risk and a stronger assurance of returns on their investment through better financial performance, investors would consider investing more when there is a culture of good corporate governance.

5.4 Recommendations

The study has shown that establishment of good corporate governance structures positively impacts the financial performance of partially owned government entities. Partially owned government firms could benefit from the findings of this study and those performed by other scholars to develop an improved code of regulations that would enhance the financial performance of the partially owned government firms. The board members number in the board should be raised even higher since they provide a more objective oversight over the decision making, expertise and links to markets. The independent members should take the lead role in monitoring activities of the firm's operations. The study found a link between board independence and financial performance that was negative. That is to say, the size of the independent board does not matter, but it should be large enough to include critical skills,

perspectives, and/or expertise. Small enough to allow for active participation from all members and seamless meeting operation.

5.5 Suggestions for further research

The study looked into the impact of corporate governance on the financial performance of Kenyan government firms that are partially owned. The findings of this study should serve as a good starting point for further research in order to arrive at a widely accepted corporate governance approach.

Further research should be conducted on governance methods outside of Kenya, covering various parts of corporate governance processes, as well as studies on partially owned government entities that are not listed on the NSE, as well as other sectors of the economy, such as agriculture. The research on corporate governance structures should include emerging companies and board complications such as stock ownership by executives and board members, block ownership, and executive compensation. Academic institutions, such as universities, and statutory authorities, such as the Capital Markets Authority, should conduct more research on corporate governance practices with the goal of developing a code of conduct or governance framework that is relevant across all industries. A code of conduct like this should be based on scientific research and cover a wide range of disciplines like accountancy, social sciences, and law.

5.6 Limitations of the research

The setting or environment in which the businesses operate may affect corporate governance approaches. This study did not look into these interrelationships. Governance structures such as board size, board independence, and board meetings may be altered by elements such as ownership type and structure, size of the operation, and cross-border territorial aspects, according to observations that were not the study's core aims. The methods for measuring corporate governance processes and financial performance may yield restricted results, and different research methodologies may yield varied outcomes. The researcher ran into a number of roadblocks that were expected to obstruct access to the data needed for the investigation. The research was constrained by time because it was completed in a short period of time, leaving little time for further investigation. The financial statements and reports of the directors were the primary sources of information for the study. Furthermore, social desirability effects may have an impact on the reports, and conclusions must be made

in light of this constraint. Finally, due to factors such as inflation, market competition, and organizational culture, using proxies for actual corporate governance mechanisms and partially owned government firms financial performance outcomes may not accurately capture the actual mechanisms or outcomes experienced by partially owned government firms and as a result, measurement error occurs.

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APPENDIX I: List of partially owned government firms in ascending order.

1. East African Portland
2. Housing Finance Group
3. KCB Group
4. Kengen
5. Kenya Power
6. Safaricom

APPENDIX II–Research timeframe

	Aug 2021				Sept 2021				Oct 2021				Feb 2022			
	1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4
Formulate Research Objectives/questions	■															
Literature Review		■	■													
Compile Research Proposal				■												
Submission of Research Proposal					■											
Revise and Finalize Research Proposal							■									
Defense of proposal										■						
Revision/correction of proposal											■	■				
Data Collection														■		
Data Input and Analysis															■	
Research Report Writing																■
Submission of Project Report																■