CORPORATE GOVERNANCE AND PERFORMANCE OF OIL MARKETING COMPANIES IN KENYA: CASE OF LIBYAOIL KENYA

BY

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UNITED STATES INTERNATIONAL UNIVERSITY-AFRICA

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A Project Report Submitted to Chandaria School of Business in Partial Fulfillment of the Requirement for the Degree of Masters in Business Administration (MBA)

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DECLARATION

I, the undersigned, declare that this is my original work and has not been submitted to any other college, institution or university other than the United States International University in Nairobi for academic credit

Signed: ___________________________ Date: ___________________________

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This Research report has been presented for examination with my approval as the appointed supervisor.

Signed: ___________________________ Date: ___________________________

Supervisor: Fred Newa

Signed: ___________________________ Date: ___________________________

Dean, Chandaria School of Business
DEDICATION

To my family and friends as a source of inspiration for their future academic endeavors.
ACKNOWLEDGEMENT

I wish to express my sincere gratitude to all those who contributed in one way or another to the successful completion of this project. In particular I wish to thank my supervisor for his discerning guidance and support that has enriched the results of this study.

Profound thanks and appreciation goes to my college mates for their invaluable contribution to this research and my colleagues at work. I also wish to thank and sincerely appreciate my friends and my family members for their encouragement, assistance and professional guidance both directly and indirectly at all stages of the project. I wish them all the best in their endeavors.
ABSTRACT

The purpose of this study was to examine the relationship between corporate governance and performance of the oil marketing companies in Kenya. The study was guided by the following research questions: What is the relationship between board size and performance of oil marketing companies in Kenya? What is the relationship between CEO duality and performance of oil marketing companies in Kenya? What is the relationship between board composition and performance of oil marketing companies in Kenya?

This study made use of the descriptive research design while the population was Oilibya Kenya employees. This study used the stratified random sampling technique. In this study the various departments within Oilibya formed the subgroups. Primary data was collected using a structured questionnaire. Descriptive statistics such as measures of central tendency and dispersion was used to analyze the data. Inferential statistics in form of regression analysis was used to examine the relationships between variables. Data was presented in the form of figures and tables.

The study revealed there was a positive significant relationship between board size and performance of oil marketing companies in Kenya with a beta value of 0.543. The study further established that majority of the respondents agreed that there is a relationship between CEO Duality and Performance. It was also revealed that there is a relationship between CEO tenure and performance additionally it was revealed that there is a relationship between CEO turnover and Performance. The study also established that CEO duality can challenge a board’s ability to monitor executives, and finally CEO duality plays an important role in affecting the value of a firm.

The study established that indeed a relationship between board composition and Performance, while also establishing that there is a relationship between board independence and Performance. Similarly it was established that there is a relationship between directors’ independence and Performance. Finally it was established that there is relationship between
the proportions of outside directors and performance and also there is a relationship between
the composition of the board and the value of the firm

The study concludes there is a positive significant relationship between board size and
performance of oil marketing companies in Kenya. The study concludes that there is a
relationship between CEO Duality and Performance. It was also concluded that there is a
relationship between CEO tenure and performance additionally. Further the study
concludes that there is a relationship between CEO turnover and Performance. The study
also concludes that CEO duality can challenge a board’s ability to monitor executives, and
finally CEO duality plays an important role in affecting the value of a firm.Finally the study
concludes that indeed a relationship between board composition and performance, while
also establishing that there is a relationship between board independence and performance.
Similarly it can be concluded that there is a relationship between directors’ independence
and Performance. Finally it can be conclude that there is relationship between the
proportions of outside directors and performance and also there is a relationship between the
composition of the board and the value of the firm.

The study recommends the need to have large boards given that expropriation of wealth by
the CEO or inside directors is relatively easier with smaller boards since small boards are
also associated with a smaller number of outside directors. The few directors in a small
board are preoccupied with the decision making process, leaving less time for monitoring
activities. The study recommends that organizations should discourage CEO duality given
that it creates a CEO/Chairman who both directs BOD meetings and executes the same
policies which may have him unrestrained from acting in his own self-interest in the absence
of separation of powers. This automatically undermines the oversight power and functions
of the BOD and endangers checks and balances which are essential ingredients of internal
control and good corporate governance.

The study recommends the need for organizations to have independent directors because
independent directors are important because inside or dependent directors may have no
access to external information and resources that are enjoyed by the firm's outside or
independent directors.
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CHAPTER ONE

1.0 INTRODUCTION

1.1 Background of the Study

Good corporate governance shields a firm from vulnerability to future financial distress (Bhagat and Jefferis, 2012). The argument has been advanced time and time again that the governance structure of any corporate entity affects the firm's ability to respond to external factors that have some bearing on its financial performance. In this regard, it has been noted that well governed firms largely perform better and that good corporate governance is of essence to firm’s financial performance. According to Demsetz and Villalonga, (2012), a well-functioning corporate governance system helps a firm to attract investment, raise funds and strengthen the foundation for firm financial performance.

It is believed that good governance generates investor goodwill and confidence. Again, poorly governed firms are expected to be less profitable. Claessens et al. (2012) argue that weak corporate governance does not only lead to poor firm financial performance and risky financing patterns, but are also conducive for macroeconomic crises like the 1997 East Asia crisis. Other researchers contend that good corporate governance is important for increasing investor confidence and market liquidity. Among the many claimants on firm’s cash flows, equity shareholders have always claimed a special attention may be because of the residual nature of their claims. Parker (2014) paradigm of the separation of shareholder ownership and management’s control explained that agency problem occurs when the principal (Shareholders) lacks the necessary power/information to monitor and control the agent (manager) and when the compensation of the principal and the agent is not aligned.

Corporate governance has received much attention in the accounting literature, with studies focusing on the impact of corporate governance and the financial performance of the firm. Brown and Caylor (2014) provide insights to relationships between good corporate governance and corporate performance. Research indicates that companies with better corporate governance guarantee, the payback to the shareholder and limit the risk of the investment. Contrast results are seen in Gompers et al. (2013) who found no significant relationship between firms governance and operating performance. They also find negative
correlation between board size and profitability when using sample of small and midsize Finnish firms. Mak and Yuanto (2013) re-echo the above findings in firms listed in Singapore and Malaysia when they found that firm valuation is highest when a board has five directors, a number considered relatively small in those markets. According to Cho and Kim (2003), company would enhance their corporate governance when the company's performance is poor because changes in corporate governance structure are expected to bring out positive result on their performance.

Even though corporate governance principles have always been important for getting good rating scores for large and publicly-held companies, they are also becoming much more important for investors, potential investors, creditors and governments (Gompers et al., 2001). Corporate governance therefore, receives high priority on the agenda of policymakers, financial institutions, investors, companies and academics. A number of studies have sought to investigate the relation between corporate governance mechanisms and financial performance. Most of the studies have shown mixed results without a clear-cut relationship. Corporate governance practices positively influences the profitability of the organization while MacAvoy and Millstein (2013) found that board composition does not have any effect on financial performance. Further, the limited studies in the area have focused mainly on developed economies. It is crucial to examine the relationship in the context of a developing economy.

Management scientists view performance as the degree to which actual results have met the expected standards and taking corrective measures if not. Marketers view performance in quantitative and qualitative terms. Sales revenue and inventory turnover are regarded as quantitative measures while qualitative measures include skills and perceived share markets. Accountants judge performance by how much well a firm is achieving set standards in terms of profitability. Economists on their part look at performance in terms of sufficiency (Hersey and Blanchard, 1998).

Organizational performance refers to efficiencies and effectiveness in terms of utilization of resources as well as the accomplishment of its goals. Organizational performance is probably then widely used dependent variable, in activities the ultimate variable of
management yet it remains vague and loosely defined (Richardetal, 2009). The definition for organizational performance is an open question with few studies using consistent measures.

Performance has multiple meanings depending on the discipline and the context of the discussion. They regard sales growth, productivity, employment and capacity utilization and export performance as proxy for performance. Although performance plays a key role in strategic management research, there is considerable debate on appropriateness of various approaches to the utilization and measurement of performance. The complexity of performance is perhaps the major factor contributing to the debate (Hersey and Blanchard, 1998).

Corporate Governance has gained prominence in Kenya as is the case in other countries. This has been the case as a result of companies performing dismally. This has been as a result of corporate issues that have appeared to influence decisions made by the board of directors. In most cases the corporate governance issues that have been under discussion include board size, board composition as well as the CEO duality. In most cases studies have been conducted to establish how these factors affect performance of firms. This study therefore sought to examine how corporate governance relates to performance of oil marketing companies in Kenya. This study however focused on Libya oil Limited in Kenya.

Kenya’s petroleum market has, traditionally, been an oligopoly of four main players; KenolKobil, Kenya Shell, Total, but OiLibya, the fifth largest player, and National Oil have been closing the gap with a steady growth of market share. The OiLibya brand is owned by Libya Oil Kenya Limited. Oilibya has a staff capacity of 180 employees in its company headquarters in Nairobi Muthaiga area. The company markets a range of products that include lubricants, petrol fuels as well as diesel. OiLibya also offers services that complement the products that they sell. This study therefore sought to examine how corporate governance affects performance of OiLibya Kenya.

1.2 Problem Statement
Despite tight regulatory framework, Corporate Governance continues to weaken in Kenya (Mang’unyi, 2011). Bhagat and Black (2012), in their study on corporate governance revealed that there was a relationship between corporate governance and performance of firms. Bonn, Yokishawa and Phan (2014) also established that there was a relationship between corporate governance and performance of firms in Japan. Even though empirical
studies cannot provide an agreed view on a contribution of duality to a firm’s performance, there is an agreement between shareholders, institutional investors, and policymakers that a chairman or chairwoman of a board should not be the same with the chief executive officer. Finally, Adams et al, (2010) Bhagat and Black (2006) found no correlation between the degree of board composition and firm performance. Bhagat and Black (2012) found that poorly performing firms were more likely to increase the independence of their board.

This study sought to examine the true reality in the Kenyan context. This is because there a gap in research on CEO duality and performance. A study by Muriithi (2010) revealed that there are a number of organizations that have been in the headlines for wrong reasons. This is because of the unending scandals that have been linked to directors acting illegally towards their shareholders. None of these studies have focused on the relationship between corporate governance and performance of the oil marketing companies in Kenya. This therefore has created a management research gap. This study therefore sought to fill this gap in research.

1.3 Purpose of the Study
The purpose of this study was to examine the relationship between corporate governance and performance of the oil marketing companies in Kenya.

1.4 Research Questions
1.4.1 What is the relationship between board size and performance of oil marketing companies in Kenya?

1.4.2 What is the relationship between CEO duality and performance of oil marketing companies in Kenya?

1.4.3 What is the relationship between board composition and performance of oil marketing companies in Kenya?
1.5 Significance of the Study

1.5.1 Oil Marketing Companies
The performance of the oil marketing companies in Kenya has a direct effect on Kenya’s economic performance. However it is the top management in these firms that determine the strategic direction of organizations and consequently their performance. This study is intended to significantly shed light on the implications of the corporate governance on the performance of oil marketing companies. In addition, by the study contributing to the understanding on how diversity in top management affects firm performance, it will be contributing to effective human resource recruitment strategies that will inevitably translate to high organization’s performance.

1.5.2 Management Executives
This study will further be relevant to management practice in a number of ways. First, understanding of the antecedents of multiple dimensions of top management team diversity may allow managers to carefully evaluate the trade-offs associated with increasing team diversity while maintaining diversity balance.

1.5.3 Multinational Companies
Finally, the exploration and discussion of the effects of corporate governance will benefit companies in the process of expanding their operations internationally as company success is becoming increasingly dependent on a firm’s ability to deal with the challenges of globalization.

1.5.4 Researchers and Academicians
In addition, the study will address the gaping need for scholarly studies from the emerging economies and in particular Kenya, on the concept of top management and its effect on organization’s performance. Thus this study will aid in further validation of the direction of the relationship between the diversity in corporate governance and organization’s performance.
1.6 Scope of the Study
The study was limited to oil marketing companies in Kenya where the collected data was between May and July 2015. The target population being board members of Libya oil Kenya, or their representatives. The researcher encountered various limitations that tend to hinder access to information sought by the study. The main limitation of study was its inability to include more organizations to participate in this study. This was a case focusing on Oilibya Kenya. The study could cover more institutions across all sectors so as to provide a more broad based analysis. However, time and resource constraints place this limitation.

1.7 Definition of Terms
1.7.1 Oil Marketing Company
An oil marketing firm is one that has a business that affects the distribution and sales of goods and services from producer to consumer; including products or service development, pricing, packaging, advertising, merchandising, and distribution of petroleum products (PIEA, 2014).

1.7.2 Performance
Organizational performance refers to efficiencies and effectiveness in terms of utilization of resources as well as the accomplishment of its goals (Steers, 1982). There are three common approaches to large organization performance measurement, namely; the objective measures that tend to be quantitative, the subjective measures that tend to be qualitative therefore, judgmental and usually based on perception of respondent, and triangulation. Objective measures focus on end results while subjective measures focus on the process or means by which ends results are achieved (Cohen, 1993).

1.7.3 Corporate governance
La Porta, Silanes and Shliefer (2000) defined corporate governance as a set of mechanisms through outside investors (shareholder) protect themselves from inside investors (managers).

1.7.4 CEO Duality
CEO duality means that the position of a CEO and chairman of the board are served by the same individual. CEO Duality occurs when the CEO is equally the Chairman of the company or Board of Directors. Since the position of a CEO is a critical element of corporate governance of a company, a combination of the roles of CEO and chairman of the company could have far reaching implications on stewardship accounting and corporate governance and by extension corporate performance (Morin and Jarrell, 2011).

1.7.5 Board Size

This refers to the how large or small a board of any particular organization is (Cohen, 1993).

1.7.6 Board Composition

Board composition is measured in terms of different degrees of heterogeneity. Common assessments of board composition are usually, insider/outsider director ratio, executive/non-executive directors’ ratio, age and gender diversity among board members and board size (Shah et al., 2011).

1.8 Chapter Summary

Chapter one has provided an introduction of the study. The main components of the study included the background of the study as well as the problem statement. The third subsection of the study was on the objectives of the study which was followed by the significance of the study. The chapter also presented the scope of the study as well as the significance of the study. Chapter two presents the review of literature. This review was based on how board size influence performance, followed by literature on how CEO duality influence performance, then how board composition influence performance, thereafter how top management team influence performance and finally how ownership structure influence performance. Chapter three will look at research methodology. The design nature will determine data presentation. Chapter five presents findings in chapter four reporting a knowledge not reported by any other literature.
CHAPTER TWO

2.0 LITERATURE REVIEW

2.1 Introduction
This chapter is focused on a discussion of the literary works of various scholars and studies that are found to be related to the topic and are considered to be helpful in addressing the research questions. The literature will be reviewed to identify the loopholes in the existing literature that can be addressed during the course of the research, majorly, using the results from the primary research and addressing the problems. Furthermore the loopholes identified during the literature review will also be highlighted in the last chapter that would help other researchers to select the topics for their research.

2.2 The Relationship between Boards Size and Organizations Performance
Management scientists view performance as the degree to which actual results have met the expected standards and taking corrective measures if not. Marketers view performance in quantitative and qualitative terms. Sales revenue and inventory turnover are regarded as quantitative measures while qualitative measures include skills and perceived share markets. Accountants judge performance by how much well a firm is achieving set standards in terms of profitability. Economists on their part look at performance in terms of sufficiency (Hersey and Blanchard, 1998).

Organizational performance refers to efficiencies and effectiveness in terms of utilization of resources as well as the accomplishment of its goals. Organizational performance is probably then widely used dependent variable, in activities the ultimate variable of management yet it remains vague and loosely defined (Richardetal, 2009). The definition for organizational performance is an open question with few studies using consistent measures.

Performance has multiple meanings depending on the discipline and the context of the discussion. They regard sales growth, productivity, employment and capacity utilization and
export performance as proxy for performance. Although performance plays a key role in strategic management research, there is considerable debate on appropriateness of various approaches to the utilization and measurement of performance. The complexity of performance is perhaps the major factor contributing to the debate (Hersey and Blanchard, 1998).

2.2.1 Large Board Size and Performance

There are three common approaches to large organization performance measurement, namely; the objective measures that tend to be quantitative, the subjective measures that tend to be qualitative therefore, judgmental and usually based on perception of respondent, and triangulation. The objective and subjective approaches can also be differentiated in terms of ends and means. Objective measures focus on end results while subjective measures focus on the process or means by which ends results are achieved (Cohen, 1993).

In relation to a relationship between the size of a board and a firm’s performance, there are two distinct schools of thoughts. The first school of thought argues that a smaller board size will contribute more to the success of a firm. However, the second school of thought considers that a large board size will improve a firm’s performance (Coles, 2008). These studies indicate that a large board will support and advise firm management more effectively because of a complex of business environment and an organizational culture.

2.2.2 Small Board Size and Performance

Jenson (2010) indicated that a value relevant attribute of corporate boards is its size. Organizational theory indicated that larger groups took relatively longer time to make decisions and therefore, more input time Cheng (2008). Empirical studies have shown that limiting board size to a particular level is generally believed to improve the performance of a firm. There was a convergence of agreement on the argument that board size is associated with firm performance. However, conflicting results emerged on whether it is a large, rather than a small board, that is more effective.

2.2.3 Relationship between Board Size and Organizations Performance

Kajola (2008) found a positive and statistically significant relationship between performance and separation of the office of the chair of the board and CEO. Yermack (1996) equally found that firms are more valuable when different persons occupy the offices of board chair
and CEO. They proved that large and independent boards enhanced firm value, and the fusion of the two offices negatively affected a firm’s performance, as the firm had less access to debt finance. From a sociological point of view, a larger board of directors was beneficial and increased the collection of expertise and resources accessible to a firm (Dalton et al., 2014). Boards with too many members led to problems of coordination, control, and flexibility in decision-making. Large boards gave excessive control to the CEO and harming efficiency. Furthermore, Jensen (2009) argued that as board size increases, boards’ ability to monitor management decreases due to a greater ability to avoid an increase in decision-making time.

Similarly, Hermatin and Weisbach (2013) argued that the consensus among the economic literature was that a larger board could weaken firm performance. Empirical studies on board size provided a similar conclusion: a fairly clear negative relationship appeared to exist between board size and firm value. Too big boards are likely to be less effective in substantive discussion of major issues among directors in their supervision of management. Research studies on higher market value of companies from Finland and China by Yermack (2014) and Liang and Li (2014), found a negative correlation between board size and profitability. Similarly, Mak and Yuanto (2013) using sample of firms in Malaysia and Singapore, found that firm valuation is highest when board size is small.

Corporate governance has received much attention in the accounting literature, with studies focusing on the impact of corporate governance and the financial performance of the firm. Brown and Caylor (2014) provide insights to relationships between good corporate governance and corporate performance. Research indicates that companies with better corporate governance guarantee, the payback to the shareholder and limit the risk of the investment. Contrast results are seen in Gompers et al. (2013) who found no significant relationship between firms governance and operating performance. They also find negative correlation between board size and profitability when using sample of small and midsize Finnish firms. Mak and Yuanto (2013) re-echo the above findings in firms listed in
Singapore and Malaysia when they found that firm valuation is highest when a board has five directors, a number considered relatively small in those markets.

Finally, Mak and Kusnadi (2010) also reported that small size boards were positively related to high firm performance. Overall, the findings were consistent with the notion that a large board was characteristic of weak corporate governance and limiting board size to a particular level was believed to improve the performance of a bank as the benefits by larger boards were outweighed by the poorer communication and decision making of larger groups. These arguments suggested that large board size affected banks’ performance negatively. In specific terms, the results of Klein (2012) and Anderson, Mansi and Reeb (2014) showed a strong association between internal audit committee and firm performance, whereas Kajola (2008) found no significant relationship between both variables. This lack of consensus presented scope for deeper research on the impact of this corporate governance variable. Regarding board size, there was a convergence of agreement of its association with firm performance. However, conflicting results emerged on whether it was a large, rather than a small board, that was more effective. For instance, while studies conducted by Yermack (2012), Mak and Kusnadi (2010), and Sanda, Mikailu and Garba (2010) found that small boards were more positively associated with high firm performance, Kyereboah-Coleman (2014) found that larger boards enhanced shareholders’ wealth more positively than smaller ones.

2.3 Relationship between C.E.O Duality and Organizations Performance

CEO Duality occurs when the CEO is equally the Chairman of the company or Board of Directors. Since the position of a CEO is a critical element of corporate governance of a company, a combination of the roles of CEO and chairman of the company could have far reaching implications on stewardship accounting and corporate governance and by extension corporate performance (Morin and Jarrell, 2011).

The Chief Executive Officer (CEO) of an organization can play an important role in creating the value for shareholders (Morin and Jarrell, 2011). The decisions of the board about hiring and firing a CEO and their proper remuneration have an important bearing on the value of a
firm. The board usually terminates the services of an underperforming CEO who fails to create value for shareholders.

Abdullah and Valentine (2009) seem to provide a theoretical basis for corporate governance on the theories of agency, stakeholders, stewardship, resource-dependency, transaction cost and even complexity. In the corporate world, this brings about separation of ownership (shareholders) from control (board) with the introduction of external investors. This apparent lack of any other interest reduces the need for checking the excesses of neither the Board nor the CEO. Hence based on the stewardship theory, there could be Duality.

2.3.1 Relationship between Turnover of CEO and Organizations Performance.

The Chairman is the CEO. This is supported by the work of Coleman (2007) who argues that there should be no different roles for the Chairman and the CEO and Elsayed (2007) who equally argues that duality does not have a substantial impact on the performance of a company. But this school of thought stands opposed by those who strongly argue in support of agency theory and maintain that a single officer holding both positions is bound to create a conflict of interest that could adversely affect the interests of the shareholders. To the later school of thought, the core argument is that CEO duality creates a CEO/Chairman who both directs BOD meetings (thus formulates policies and rules) and executes the same policies which may have him unrestrained from acting in his own self-interest in the absence of separation of powers. This automatically undermines the oversight power and functions of the BOD and endangers checks and balances which are essential ingredients of internal control and good corporate governance.

In this regard, Rechner and Dalton (1991) and Timme (1993) maintain that a BOD controlled by the CEO is likely to lack independence, resulting to intensified agency friction and leading ultimately, to poor firm performance. To buttress this point, Donaldson and Davis (1991), argue that CEO duality establishes strong unambiguous leadership embodied in a unity of command and that firms with CEO duality may make better and faster decisions and consequently, may outperform those that split the two positions.
2.3.2 Relationship between CEO Tenure and Organizations Performance.

The tenure of a CEO is also an important determinant of the firm’s. On the negative side, CEO duality lead to worse performance as the board cannot remove an underperforming CEO and can create an agency cost if the CEO pursues his own interest at the cost of the shareholders.

Jensen and Meckling (2012) argued that when an individual is holding two top positions there is a tendency on the path of such individual to adopt personal interests’ strategies that could be detrimental to the firm as a whole. Sharing the same thought, Mallette (2012) argued that in the combined roles, the chairman of the board has to make decisions potentially leading to the conflict of interest.

Therefore, CEO Duality is anti-corporate governance and non-beneficial to the overall performance of the firm. This is the position of the agency theory. But the stewardship theory, as pointed out earlier, supports CEO Duality as a core condition to establish a necessary and strong command chain at the top management of the firm. It maintains that whenever one person holds both positions, he is better able to act with precision, become more efficient and effective. Finkelstein and D’Aveni (2003) posit that CEO Duality improves the speed and effectiveness of decision making, reduces conflicts at the BOD level which may have positive impact on firm performance.

According to Hundley (2011), the combination of the positions of Chairman and CEO provides a single focal point for company leadership while a powerful and effective CEO/Chairman creates an image of stability and instills a sense of well-being to its employees as well as its shareholders.

2.3.3 Relationship between CEO Duality and Organizations Performance

Mustafa (2012) found negative significant relationship between CEO duality and firm performance. In contrast Wan and Ong (2010) found no significant difference in the
performance of companies with or without role duality. Even though empirical studies cannot provide an agreed view on a contribution of duality to a firm’s performance, there is an agreement between shareholders, institutional investors, and policymakers that a chairman or chairwoman of a board should not be the same with the chief executive officer.

In their study, Dahya et al. (2009) presented that, between 1994 and 2003, policymakers in 15 advanced nations and the United Kingdom recommended a chairman or chairwoman of a board should not be the same with the chief executive officer. In Europe, 84 percent of firms separate the roles of a chair of a board and a CEO of a firm.

According to a Hewa-Wellalage and Locke 2011 study, in Sri Lanka, the Sri Lankan code of best practice on corporate governance emphasizes the balance of power within a firm to minimize any one individual’s influence to the decision making process. These rules provided recommendation that when there is a duality in a firm, a number of independent directors on a board should be a majority to provide balance and an effective and efficient operation of a board.

In recognition of the importance of a separation of responsibility between a chairman and a CEO, for the period from 1999 to 2003, many businesses had altered their existing structure of duality to a non-duality structure (Chen, Lin and Yi, 2008). These authors considered that, in many businesses with a duality structure, there has been an abuse of power at the expense of the company and the shareholders. In Vietnam, Ministry of Finance (2012) stipulates that “a chairman /chairwoman of a board should not be in the position of the CEO of a company unless this duality is approved by the annual general meeting of shareholders”.

In addition, Fama and Jensen (1983), Jensen (1993) concluded that duality would reduce a board’s supervision of the management of a company.

Nevertheless, even though modern corporations are often characterized by diffused ownership, managers are not necessarily able to engage in unethical discretionary behavior due to the monitoring and control role of boards of directors (Ibid, 1987). There are two broad sources of constraint on managerial discretion. These constraints may be classified as internal or external. Internal constraints largely emanate from the Board of Directors and are exercised on behalf of the shareholders (owners). These constraints reflect the composition and powers of the Board, including the ease by which shareholders can appoint or remove
Board members, and the rules governing voting. External constraints, on the other hand, pertain to the role of markets in monitoring and disciplining managers. The mostly noted market-related constraints arise from managerial labor markets, product markets and financial markets (Jensen, 1989). Managerial labor markets play a key role in influencing the behavior of managers. When the management of a firm is inefficient, or failing to maximize shareholder value, this exposes the company to the threat of a take-over bid, with the consequential removal of inefficient management (Maher and Andersson, 1999).

2.4 Relationship between Board Composition and Organizations Performance
Board composition is measured in terms of different degrees of heterogeneity. Common assessments of board composition are usually, insider/outside director ratio, executive/non-executive directors’ ratio, age and gender diversity among board members and board size. There are inconclusive findings between the relationship between board composition and firm performance (Finegold, Benson & Hecht, 2007). Board heterogeneity has a lot of advantages due to enhanced decision making from more information, but this would come at a considerable cost.

It is believed that good governance generates investor goodwill and confidence. Again, poorly governed firms are expected to be less profitable. Claessens et al. (2012) also posits that better corporate framework benefits firms through greater access to financing, lower cost of capital, better financial performance and more favourable treatment of all stakeholders. They argue that weak corporate governance does not only lead to poor firm financial performance and risky financing patterns, but are also conducive for macroeconomic crises like the 1997 East Asia crisis. Other researchers contend that good corporate governance is important for increasing investor confidence and market liquidity. Among the many claimants on firm’s cash flows, equity shareholders have always claimed a special attention may be because of the residual nature of their claims. Parker (2014) paradigm of the separation of shareholder ownership and management’s control explained that agency problem occurs when the principal (Shareholders) lacks the necessary power/information to monitor and control the agent (manager) and when the compensation of the principal and the agent is not aligned.
2.4.1 Relationship between Boards Dominated by Outsiders and Organizations Performance

Boards mostly compose of executive and non-executive directors. Executive directors refer to dependent directors and non-Executive directors to independent directors. At least one third of independent directors are preferred in board, for effective working of board and for unbiased monitoring (Gallo, 2010).

According to Pinteris (2012) board composition has been claimed as a key factor in allowing the board to act as a guardian of the principal’s interests. Inside directors have access to information that is relevant to assessing managerial competence and the strategic desirability of initiatives. In that sense they are better able to discriminate legitimate or illegitimate causes of organizational misfortune. However, insider directors usually do not make exhaustive evaluation of the strategic decision processes since they are influenced by the CEO.

Mak and Kusnadi (2010) also reported that boards dominated by outsiders were positively related to high firm performance. Overall, the findings were consistent with the notion that a large board was characteristic of weak corporate governance and limiting board size to a particular level was believed to improve the performance of a bank as the benefits by larger boards were outweighed by the poorer communication and decision making of larger groups. These arguments suggested that large board size affected banks’ performance negatively.

In specific terms, the results of Klein (2012) and Anderson, Mansi and Reeb (2014) showed a strong association between internal audit committee and firm performance, whereas Kajola (2008) found no significant relationship between both variables. This lack of consensus presented scope for deeper research on the impact of this corporate governance variable. Regarding board size, there was a convergence of agreement of its association with firm performance. However, conflicting results emerged on whether it was a large, rather than a small board, that was more effective. For instance, while studies conducted by Yermack
(2012), Mak and Kusnadi (2010), and Sanda, Mikailu and Garba (2010) found that small boards were more positively associated with high firm performance, Kyereboah-Coleman (2014) found that larger boards enhanced shareholders’ wealth more positively than smaller ones.

2.4.2 Relationship between Director Independence and Organizations Performance

Empirical studies on the effect of board membership and structure on firm performance generally showed results either mixed or opposite to what was expected from the agency cost argument. Some studies found better performances for firms with boards of directors dominated by outsiders.

Adams et al. (2010) Bhagat and Black (2006) found no correlation between the degree of board independence and four measures of firm performance. Bhagat and Black (2012) found that poorly performing firms were more likely to increase the independence of their board. Rezaee (2009) argued that firm performance was insignificantly related to a higher proportion of outsiders on the board. Thus, the relation between the proportion of outside directors and firm performance is mixed.

The overall impact of managerial ownership on corporate performance depends on the relative strengths of the incentive alignment and entrenchment effects. Regarding government (state) ownership, there is much more unanimity in the academic circles. State ownership has been regarded as inefficient and bureaucratic. Stulz (1988) defines state-owned enterprises as “political” firms with general public as a collective owner. A specific characteristic of these firms is that individual citizens have no direct claim on their residual income and are not able to transfer their ownership rights. Ownership rights are exercised by some level in the bureaucracy, which does not have clear incentives to improve firm performance. Yarrow (1988) considers the lack of incentives as the major argument against state ownership. Other explanations include the price policy, political intervention and human capital problems. State ownership of firms is not without some benefits to the society.

2.5 Chapter Summary

This chapter has focused on a discussion of the literary works of various scholars and studies that are found to be related to the topic and are considered to be helpful in addressing the
research questions. The literature has reviewed to identify the loopholes in the existing literature that can be addressed during the course of the research, majorly, using the results from the primary research and addressing the problems. Furthermore the loopholes identified during the literature has also highlighted in the last chapter that would help other researchers to select the topics for their research.

The next chapter presents the research methodology that will be used in the study, this will include the research design, population as well as sampling and sample size to be adopted.
CHAPTER THREE

3.0 RESEARCH METHODOLOGY

3.1 Introduction
This chapter presented the methodology that was adopted in this particular study. The chapter first presented the research design that was adopted which in this case was descriptive research design. The chapter thereafter presented the sampling design as well as the population that was involved in the study. The chapter then presented the data collection methods that were employed in this particular study. This paved way for the research procedures as well as the data analysis techniques, thereafter the chapter summary was presented.

3.2 Research Design
This study made use of a descriptive research design. According to Cooper and Schindler (2000), descriptive research design entails describing how, when and to what extent the various variables relate to each other. The design was appropriate, as it allows the description, interpretation of existing relationships, and comparison of variables under study. The depended variable in this study was performance while the independent variables include board size, C.E.O duality and board composition.

3.3 Population and Sampling Design

3.3.1 Population
A population is described to be the inclusive sum of the people or elements that a researcher choses to work within the context of the study (Cooper and Schindler, 2000). This study chose to work with the entire population of the OiLibya workforce in Nairobi company headquarters as of March 2016. In total there were 180 employees at this particular time of the study. Table 3.1 provides the population distribution across the nine business functions.
Table 3.1: Total Population

<table>
<thead>
<tr>
<th>Function</th>
<th>Total Population</th>
</tr>
</thead>
<tbody>
<tr>
<td>Operations &amp; Engineering</td>
<td>9</td>
</tr>
<tr>
<td>Human Resources</td>
<td>8</td>
</tr>
<tr>
<td>Finance and Accounting</td>
<td>2</td>
</tr>
<tr>
<td>Sales &amp; Marketing</td>
<td>3</td>
</tr>
<tr>
<td>Legal</td>
<td>4</td>
</tr>
<tr>
<td>Exports</td>
<td>2</td>
</tr>
<tr>
<td>Special Projects</td>
<td>1</td>
</tr>
<tr>
<td>Supply</td>
<td>1</td>
</tr>
<tr>
<td>Corporate</td>
<td>6</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>180</strong></td>
</tr>
</tbody>
</table>

Source: OiLibya (2016)

3.3.2 Sampling Design

3.3.2.1 Sampling Frame

Cooper and Schindler (2000) argues that a sampling frame is simply but a list with which the researcher decides to work with. This list can be all inclusive or partially inclusive of the whole population. In this study the sampling frame included the list of all 180 employees of Oilibya Kenya headquarters in Nairobi.
3.3.2.2 Sampling Techniques

Cooper & Schindler (2000) defines a sampling technique as being the means through which a researcher uses to select the sample size. In this study stratified sampling technique was adopted. Respondents were categorized into various strata according to the various business units. Once this simple random sampling was adopted to select the respondents to be involved in the study. Stratified sampling was appropriate for this study because it gave every respondent an equal chance of being included as part of the sample size.

3.3.2.3 Sample Size

Owing to the size of the population any department with employees between one and five all was selected and departments with employees between five and ten three employees were selected and for the departments with more than ten employees twenty percent of its employees were selected for purposes of this study. The study considered this sample size as being sufficient enough to be able to be to present the required findings which the study sought to examine. Table 3.2 provides the sample size across the nine business functions.

<table>
<thead>
<tr>
<th>Function</th>
<th>Total Population</th>
<th>The Sample</th>
</tr>
</thead>
<tbody>
<tr>
<td>Operations &amp; Engineering</td>
<td>9</td>
<td>5</td>
</tr>
<tr>
<td>Human Resources</td>
<td>8</td>
<td></td>
</tr>
<tr>
<td>Finance and Accounting</td>
<td>2</td>
<td>4</td>
</tr>
<tr>
<td>Sales &amp; Marketing</td>
<td>3</td>
<td>0</td>
</tr>
<tr>
<td>Legal</td>
<td>4</td>
<td></td>
</tr>
<tr>
<td>Exports</td>
<td>2</td>
<td></td>
</tr>
<tr>
<td>Special Projects</td>
<td>1</td>
<td></td>
</tr>
<tr>
<td>Supply</td>
<td>1</td>
<td>0</td>
</tr>
</tbody>
</table>
3.4 Data Collection Methods

This study adopted the use of primary data as well as secondary data as the main sources of information. In the collection of primary data, structured questionnaires were adopted. These questionnaires had both open and closed ended questions that were in a Likert Scale. The main advantage of using questionnaires was that they are easy to administer and describe the variability in different phenomena, if worded properly, questionnaires normally require less skill and sensitivity to undertake. Both primary and secondary data were collected. In order to enhance the rates of response the researcher made use of follow up calls.

3.5 Research Procedures

The research procedure began with the piloting of the questionnaires which was done on 5 respondents. Once the piloting was done, the questionnaires were amended accordingly and then dispatched to the respondents through drop and pick technique. In the cases where the respondents were not in the offices the researcher emailed them the questionnaires.

3.6 Data Analysis Methods

The collected data was coded and entered into the SPSS before it was analyzed. Descriptive statistics such as the frequency tables mean and standard deviation were used. Additionally regression analysis was conducted. The analyzed data was then presented as tables and figures with regards to the specific objectives.

3.7 Chapter Summary

This chapter presented the methodology that was adopted in this particular study. The chapter first presented the research design that was adopted which in this case was descriptive research design. The chapter thereafter presented the sampling design as well as the population that was involved in the study. The chapter then presented the data collection
methods that were employed in this particular study. This paved way for the research procedures as well as the data analysis techniques, thereafter the chapter summary was presented. The next chapter provides the research findings and interpretation based on the responses obtained.

CHAPTER FOUR

4.0 RESULTS AND FINDINGS

4.1 Introduction

Chapter four presents the results and findings with regards to the respondents that were given in the study. The first subsection presented the background information of the study. The second subsection presented findings with regards to how board size influenced performance of OilLibya. The third subsection presented findings with regards to how CEO duality influenced performance and finally findings on how board composition influenced performance. A total of 46 questionnaires were issued out of which 42 were returned indicating 91% response rate.

4.2 Background Information

4.2.1 Gender of the Respondents

In order to examine the gender distribution of the respondents it was revealed more than half 54.1% were male while the female represented 45.9% of those surveyed. This implies that the organization was male dominated as seen in Table 4.1 below.

Table 4.1: Gender of the Respondents

<table>
<thead>
<tr>
<th>Gender of the Respondents</th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Male</td>
<td>2</td>
<td>54.1%</td>
</tr>
<tr>
<td>Female</td>
<td>2</td>
<td>45.9%</td>
</tr>
<tr>
<td>Total</td>
<td>4</td>
<td>100.0%</td>
</tr>
</tbody>
</table>
4.2.2 Age in Years

The study sought to examine the age distribution of the respondents. It was revealed that none of the respondents was between 18-24 years, while 2 percent of the respondents were aged 25-34 years as 64 percent were of the age 35-44 years as 33 percent were above 45 years. This implies that most respondents were above the age of 30 years as seen in Table 4.2 below.

<table>
<thead>
<tr>
<th>Age in Years</th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>18 - 24 years</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>25 - 34 years</td>
<td>1</td>
<td>2</td>
</tr>
<tr>
<td>35 - 44 years</td>
<td>2</td>
<td>7</td>
</tr>
<tr>
<td>Above 45 years</td>
<td>1</td>
<td>4</td>
</tr>
<tr>
<td>Total</td>
<td>4</td>
<td>2</td>
</tr>
</tbody>
</table>

4.2.3 Duration of Employment

The study also sought to present the duration of employment for the respondents involved in the study. The findings as presented in Table 4.3 reveal that none of the respondents had worked for less than 2 years, while 7 percent had worked between 2-5 years as 40 percent having worked between 6-10 years and finally 52 percent above 10 years. This implies that most of the respondents had worked in the organization for more than 5 years.
Table 4.3: Duration of Employment

<table>
<thead>
<tr>
<th>Duration of Employment</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Less than 2 years</td>
<td>0</td>
<td>0%</td>
</tr>
<tr>
<td>Between 2 - 5 years</td>
<td>3</td>
<td>7%</td>
</tr>
<tr>
<td>Between 6 - 10 years</td>
<td>1</td>
<td>4%</td>
</tr>
<tr>
<td>Above 10 years</td>
<td>2</td>
<td>5%</td>
</tr>
<tr>
<td>Total</td>
<td>4</td>
<td>100.0%</td>
</tr>
</tbody>
</table>

4.3 Relationship between Board Size and Performance

The first objective of the study was to examine the relationship between board size and performance of oil marketing companies in Kenya. This subsection presents findings with regard to this element of this study.

Table 4.4 presents the correlation analysis between board size and organization performance. The Pearson correlation was 0.379 indicating that there was a positive significant relationship between board size and organization performance.

Table 4.4: Correlation Analysis between Board Size and Performance

<table>
<thead>
<tr>
<th></th>
<th>CEO Duality</th>
<th>Performance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pearson Correlation</td>
<td>1.379***</td>
<td>.007</td>
</tr>
<tr>
<td>Board Size Sig. (2-tailed)</td>
<td>.007</td>
<td>1</td>
</tr>
<tr>
<td>N</td>
<td>4</td>
<td>4</td>
</tr>
</tbody>
</table>

**. Correlation is significant at the 0.01 level (2-tailed).
Table 4.5 (a) shows that the R square value of the model was .520 indicating that 52 percent of the growth of performance is influenced by board size. The model can be interpreted to be Performance=0.543Board Size+4.185

Table 4.5: Board Size and Performance

(a) Model Summary for Board Size and Performance

<table>
<thead>
<tr>
<th>Model</th>
<th>R</th>
<th>R Square</th>
<th>Adjusted R Square</th>
<th>Std. Error of the Estimate</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>.719</td>
<td>.520</td>
<td>.511</td>
<td>1.3359</td>
</tr>
</tbody>
</table>

a. Predictors: (Constant), Board Size

Table 4.5 (b) reveals that there was a significant relationship between board size and performance of oil marketing companies with the F value of 104.624.

(b) ANOVA for Board Size and Performance

<table>
<thead>
<tr>
<th>Model</th>
<th>Sum of Squares</th>
<th>d</th>
<th>f</th>
<th>Mean Square</th>
<th>F</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Regression</td>
<td>186.731</td>
<td>1</td>
<td>1</td>
<td>186.731</td>
<td>104.624</td>
<td>0.000 b</td>
</tr>
<tr>
<td>Residual</td>
<td>174.909</td>
<td>4</td>
<td>1</td>
<td>43.727</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>361.640</td>
<td>4</td>
<td>2</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

a. Dependent Variable: Performance
b. Predictors: (Constant), Board Size
The coefficients table 4.45 c), shows that there was a positive significant relationship between board size and performance of oil marketing companies in Kenya (0.543).

(c) Coefficients for Board Size and Performance

<table>
<thead>
<tr>
<th>Model</th>
<th>Unstandardized Coefficients</th>
<th>Standardized Coefficients</th>
<th>t</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>B</td>
<td>Std. Error</td>
<td>Beta</td>
<td></td>
</tr>
<tr>
<td>(Constant)</td>
<td>4.185 .991</td>
<td>4.221 .003</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Board Size</td>
<td>543 .411</td>
<td>1.282 .000</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

a. Dependent Variable: Performance

4.4 CEO Duality and Performance

The first objective of the study was to examine the relationship between CEO duality and performance of oil marketing companies in Kenya. This subsection presents findings with regard to this element of this study.

4.4.1 Relationship between CEO Duality and Performance

Figure 4.1 reveals that 21 percent of the respondents strongly agreed, 55 percent agreed, 3 percent were neutral, 9 percent disagreed and 12 percent strongly disagreed that CEO duality affects performance.
4.4.2 CEO Tenure and Performance

Figure 4.2 reveals that 29 percent of the respondents strongly agreed, 58 percent agreed, 5 percent were neutral, 3 percent disagreed and 5 percent strongly disagreed that CEO tenure and performance.

4.3.3 CEO Turnover and Performance

Figure 4.3 reveals that 33 percent of the respondents strongly agreed, 57 percent agreed, 2 percent were neutral, 6 percent disagreed and 2 percent strongly disagreed that CEO turnover and performance.
Figure 4.3: CEO Turnover and Performance

Figure 4.4 reveals that 29 percent of the respondents strongly agreed, 62 percent agreed, 4 percent were neutral, 2 percent disagreed and 3 percent strongly disagreed that mergers and acquisition result in economies of scale.

Figure 4.4: Economics of Scale

4.5 Board Composition and Performance
The first objective of the study was to examine the relationship between board composition and performance of oil marketing companies in Kenya. This subsection presents findings with regard to this element of this study.

4.5.1 Relationship between Board Composition and Performance
Figure 4.5 reveals that 25 percent of the respondents strongly agreed, 49 percent agreed, 5 percent were neutral, 9 percent disagreed and 12 percent strongly disagreed that there is a relationship between board composition and performance of oil companies in Kenya.

![Chart showing responses]

**Figure 4.5: Relationship between Board Composition and Performance**

### 4.5.2 Board Independence affects Performance

Figure 4.6 reveals that 33 percent of the respondents strongly agreed, 47 percent agreed, 12 percent were neutral, 0 percent disagreed and 3 percent strongly disagreed that there is a relationship between board independence and performance.

![Chart showing responses]

**Figure 4.6: Board Independence affects Performance**

### 4.5.3 Director’s Independence affects Performance
Figure 4.7 reveals that 15 percent of the respondents strongly agreed, 62 percent agreed, 3 percent were neutral, 14 percent disagreed and 6 percent strongly disagreed that Director’s independence affects organization performance.

![Figure 4.7: Innovation of New Products](image)

4.5.4 Proportion of Outside Directors and Performance

Figure 4.8 reveals that 18 percent of the respondents strongly agreed, 65 percent agreed, 4 percent were neutral, 11 percent disagreed and 2 percent strongly disagreed that the proportion of outside directors affects organization performance.

![Figure 4.8: Proportion of Outside Directors and Performance](image)
4.5.5 Board Composition and Value of the Firm

Figure 4.9 reveals that 27 percent of the respondents strongly agreed, 55 percent agreed, 4 percent were neutral, 4 percent disagreed and 10 percent strongly disagreed that board composition affects the value of the firm.

![Bar Chart](image)

**Figure 4.9: Board Composition and Value of the Firm**

4.6 Correlation Analysis

Table 4.6 shows that there was a positive significant correlation between organization performance and Board Size (0.379), CEO Duality (0.191), Board Composition (0.357).
Table 4.6: Composite Correlation Analysis

<table>
<thead>
<tr>
<th></th>
<th>Board Size</th>
<th>Performance</th>
<th>CEO Duality</th>
<th>Board Composition</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Pearson Correlation</strong></td>
<td>1.379*</td>
<td>.191</td>
<td>1.176</td>
<td></td>
</tr>
<tr>
<td><strong>Board Size Sig. (2-tailed)</strong></td>
<td>0.074</td>
<td>1.187</td>
<td>2.130</td>
<td></td>
</tr>
<tr>
<td>N</td>
<td>5</td>
<td>5</td>
<td>5</td>
<td>5</td>
</tr>
<tr>
<td><strong>Pearson Correlation</strong></td>
<td>1.19</td>
<td>1.077</td>
<td>1.247</td>
<td></td>
</tr>
<tr>
<td><strong>Performance Sig. (2-tailed)</strong></td>
<td>0.007</td>
<td>1.617</td>
<td>0.111</td>
<td></td>
</tr>
<tr>
<td>N</td>
<td>5</td>
<td>5</td>
<td>5</td>
<td>5</td>
</tr>
<tr>
<td><strong>Pearson Correlation</strong></td>
<td>1.91</td>
<td>0.72</td>
<td>1.547*</td>
<td></td>
</tr>
<tr>
<td><strong>CEO Duality Sig. (2-tailed)</strong></td>
<td>.018</td>
<td>6.177</td>
<td>0.011</td>
<td></td>
</tr>
<tr>
<td>N</td>
<td>5</td>
<td>5</td>
<td>5</td>
<td>5</td>
</tr>
<tr>
<td><strong>Pearson Correlation</strong></td>
<td>1.79</td>
<td>3.57*</td>
<td>4.47*</td>
<td></td>
</tr>
<tr>
<td><strong>Board Composition Sig. (2-tailed)</strong></td>
<td>.013</td>
<td>0.111</td>
<td>0.011</td>
<td></td>
</tr>
<tr>
<td>N</td>
<td>5</td>
<td>5</td>
<td>5</td>
<td>5</td>
</tr>
</tbody>
</table>

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

Table 4.7 (a) shows that the R square value of the model was .367 indicating that 36.7 percent of performance is influenced by corporate governance.

Table 4.7: Model Summary

<table>
<thead>
<tr>
<th>Model</th>
<th>R</th>
<th>R Square</th>
<th>Adjusted R Square</th>
<th>Std. Error of the Estimate</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>.606</td>
<td>.367</td>
<td>.361</td>
<td>1.5279</td>
</tr>
</tbody>
</table>

a. Predictors: (Constant), Corporate Governance
(a) ANOVA for Corporate Governance and Performance

Table 4.6 (b) reveals that there was a significant relationship between corporate governance and performance with the F value of 56.913.

<table>
<thead>
<tr>
<th>Model</th>
<th>Sum of Squares</th>
<th>df</th>
<th>Mean Square</th>
<th>F</th>
<th>Sig</th>
</tr>
</thead>
<tbody>
<tr>
<td>Regression</td>
<td>132.86</td>
<td>1</td>
<td>132.86</td>
<td>56.913</td>
<td>.000</td>
</tr>
<tr>
<td>Residual</td>
<td>228.77</td>
<td>8</td>
<td>23.34</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>361.64</td>
<td>8</td>
<td>9</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

a. Dependent Variable: Performance
b. Predictors: (Constant), Corporate Governance

The coefficients table 4.6 c), shows that there was a positive significant relationship between board size and performance with a beta of .543, CEO Duality (beta, 0.502), and finally Board Composition (Beta, 0.395).

The model equation is now as follows: Performance=0.543Board Size+0.502 CEO Duality + 0.395 Board Composition +4.185.
**Chapter Summary**

Chapter four presented the results and findings with regards to the respondents that were given in the study. The first subsection presented the background information of the study. The second subsection presented findings with regards to how board size influenced performance of OiLibya. The third subsection presented findings with regards to how CEO duality influenced performance and finally findings on how board composition influenced performance. A total of 46 questionnaires were issued out of which 42 were returned indicating 91% response rate. The next chapter presents a summary of the findings, discussions, conclusions as well as recommendations.

<table>
<thead>
<tr>
<th>Model</th>
<th>Unstandardized Coefficients</th>
<th>Standardized Coefficients</th>
<th>T</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>B</td>
<td>Std. Error</td>
<td>Beta</td>
<td></td>
</tr>
<tr>
<td>(Constant)</td>
<td>1.72</td>
<td>3.29</td>
<td>1.33</td>
<td>.185</td>
</tr>
<tr>
<td>Board Size</td>
<td>.54</td>
<td>3.51</td>
<td>.54</td>
<td>4.35</td>
</tr>
<tr>
<td>CEO Duality</td>
<td>.50</td>
<td>1.07</td>
<td>.21</td>
<td>6.00</td>
</tr>
<tr>
<td>Board Composition</td>
<td>.39</td>
<td>1.31</td>
<td>7.54</td>
<td>.000</td>
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**4.7 Chapter Summary**

Chapter four presented the results and findings with regards to the respondents that were given in the study. The first subsection presented the background information of the study. The second subsection presented findings with regards to how board size influenced performance of OiLibya. The third subsection presented findings with regards to how CEO duality influenced performance and finally findings on how board composition influenced performance. A total of 46 questionnaires were issued out of which 42 were returned indicating 91% response rate. The next chapter presents a summary of the findings, discussions, conclusions as well as recommendations.
CHAPTER FIVE

5.0 DISCUSSION, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

Chapter five is mainly concerned with the summary of findings with regards to how board size, CEO duality as well as board composition influence performance of oil marketing companies in Kenya. The chapter also presents a detailed discussion of the findings with respect to how the three factors affect performance. The chapter also presented a detailed conclusion of the findings with respect to each objective and then finally the recommendations for improvement as well as recommendations for further studies.

5.2 Summary

The purpose of this study was to examine the relationship between corporate governance and performance of the oil marketing companies in Kenya. The study was guided by the following research questions: What is the relationship between board size and performance of oil marketing companies in Kenya? What is the relationship between CEO duality and performance of oil marketing companies in Kenya? What is the relationship between board composition and performance of oil marketing companies in Kenya?

This study made use of the descriptive research design while the population was Olibya Kenya employees. This study used the stratified random sampling technique. In this study the various departments within Olibya formed the subgroups. Primary data was collected using a structured questionnaire. Descriptive statistics such as measures of central tendency and dispersion was used to analyze the data. Inferential statistics in form of regression analysis was used to examine the relationships between variables. Data was presented in the form of figures and tables.

The study revealed there was a positive significant relationship between board size and performance of oil marketing companies in Kenya with a beta value of 0.543. The study
further established that majority of the respondents agreed that there is a relationship between CEO Duality and Performance. It was also revealed that there is a relationship between CEO tenure and performance additionally it was revealed that there is a relationship between CEO turnover and Performance. The study also established that CEO duality can challenge a board’s ability to monitor executives, and finally CEO duality plays an important role in affecting the value of a firm.

The study established that indeed a relationship between board composition and Performance, while also establishing that there is a relationship between board independence and Performance. Similarly it was established that there is a relationship between directors’ independence and Performance. Finally it was established that there is relationship between the proportions of outside directors and performance and also there is a relationship between the composition of the board and the value of the firm.

**5.3 Discussion**

**5.3.1 Board Size and Performance**

The study revealed there was a positive significant relationship between board size and performance of oil marketing companies in Kenya with a beta value of 0.543. Jenson (2010) indicated that a value relevant attribute of corporate boards is its size. Organizational theory indicated that larger groups took relatively longer time to make decisions and therefore, more input time Cheng (2008). Empirical studies have shown that limiting board size to a particular level is generally believed to improve the performance of a firm. There was a convergence of agreement on the argument that board size is associated with firm performance. However, conflicting results emerged on whether it is a large, rather than a small board, that is more effective.

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There was a convergence of agreement on the argument that board size is associated with firm performance. However, conflicting results emerged on whether it is a large, rather than a small board, that is more effective.

Kajola (2008) found a positive and statistically significant relationship between performance and separation of the office of the chair of the board and CEO. Yermack (1996) equally found that firms are more valuable when different persons occupy the offices of board chair and CEO. They proved that large and independent boards enhanced firm value, and the fusion of the two offices negatively affected a firm’s performance, as the firm had less access to debt finance. From a sociological point of view, a larger board of directors was beneficial and increased the collection of expertise and resources accessible to a firm (Dalton et al., 2014). Boards with too many members led to problems of coordination, control, and flexibility in decision-making. Large boards gave excessive control to the CEO and harming efficiency. Furthermore, Jensen (2009) argued that as board size increases, boards’ ability to monitor management decreases due to a greater ability to avoid an increase in decision-making time.

In relation to a relationship between the size of a board and a firm’s performance, there are two distinct schools of thoughts. The first school of thought argues that a smaller board size will contribute more to the success of a firm. However, the second school of thought considers that a large board size will improve a firm’s performance (Coles, 2008). These studies indicate that a large board will support and advise firm management more effectively because of a complex of business environment and an organizational culture. Good corporate governance shields a firm from vulnerability to future financial distress (Bhagat and Jefferis, 2012). The argument has been advanced time and time again that the governance structure of any corporate entity affects the firm's ability to respond to external factors that have some bearing on its financial performance. In this regard, it has been noted that well governed firms largely perform better and that good corporate governance is of essence to firm’s financial performance. According to Demsetz and Villalonga, (2012), a well-functioning
corporate governance system helps a firm to attract investment, raise funds and strengthen the foundation for firm financial performance.

Finally the findings agree with Mak and Kusnadi (2010) who also reported that small size boards were positively related to high firm performance. Overall, the findings were consistent with the notion that a large board was characteristic of weak corporate governance and limiting board size to a particular level was believed to improve the performance of a bank as the benefits by larger boards were outweighed by the poorer communication and decision making of larger groups. These arguments suggested that large board size affected banks” performance negatively. In specific terms, the results of Klein (2012) and Anderson, Mansi and Reeb (2014) showed a strong association between internal audit committee and firm performance, whereas Kajola (2008) found no significant relationship between both variables. This lack of consensus presented scope for deeper research on the impact of this corporate governance variable. Regarding board size, there was a convergence of agreement of its association with firm performance. However, conflicting results emerged on whether it was a large, rather than a small board, that was more effective.

5.3.2 CEO Duality and Performance

The study further established that majority of the respondents agreed that There is a relationship between CEO Duality and Performance. Rechner and Dalton (1991) and Timme (1993) maintain that a BOD controlled by the CEO is likely to lack independence, resulting to intensified agency friction and leading ultimately, to poor firm performance. To buttress this point, Donaldson and Davis (1991), argue that CEO duality establishes strong unambiguous leadership embodied in a unity of command and that firms with CEO duality may make better and faster decisions and consequently, may outperform those that split the two positions. Therefore, CEO Duality is anti-corporate governance and non-beneficial to the overall performance of the firm. This is the position of the agency theory. But the
stewardship theory, as pointed out earlier, supports CEO Duality as a core condition to establish a necessary and strong command chain at the top management of the firm. It maintains that whenever one person holds both positions, he is better able to act with precision, become more efficient and effective. Finkelstein and D’Aveni (2003) posit that CEO Duality improves the speed and effectiveness of decision making, reduces conflicts at the BOD level which may have positive impact on firm performance.

It was also revealed that there is a relationship between CEO tenure and performance additionally it was revealed that there is a relationship between CEO turnover and Performance. The Chief Executive Officer (CEO) of an organization can play an important role in creating the value for shareholders (Morin and Jarrell, 2011). The decisions of the board about hiring and firing a CEO and their proper remuneration have an important bearing on the value of a firm. The board usually terminates the services of an underperforming CEO who fails to create value for shareholders. It is believed that good governance generates investor goodwill and confidence. Again, poorly governed firms are expected to be less profitable. Claessens et al. (2012) argue that weak corporate governance does not only lead to poor firm financial performance and risky financing patterns, but are also conducive for macroeconomic crises like the 1997 East Asia crisis. Other researchers contend that good corporate governance is important for increasing investor confidence and market liquidity. Among the many claimants on firm’s cash flows, equity shareholders have always claimed a special attention may be because of the residual nature of their claims. Parker (2014) paradigm of the separation of shareholder ownership and management’s control explained that agency problem occurs when the principal (Shareholders) lacks the necessary power/information to monitor and control the agent (manager) and when the compensation of the principal and the agent is not aligned.

The study also established that CEO duality can challenge a board’s ability to monitor executives, and finally CEO duality plays an important role in affecting the value of a firm. Therefore, CEO Duality is anti-corporate governance and non-beneficial to the overall performance of the firm. This is the position of the agency theory. But the stewardship
theory, as pointed out earlier, supports CEO Duality as a core condition to establish a necessary and strong command chain at the top management of the firm. It maintains that whenever one person holds both positions, he is better able to act with precision, become more efficient and effective. Finkelstein and D’Aveni (2003) posit that CEO Duality improves the speed and effectiveness of decision making, reduces conflicts at the BOD level which may have positive impact on firm performance.

5.3.3 Board Composition and Performance

Finally the study established that indeed a relationship between board composition and Performance, while also establishing that there is a relationship between board independence and Performance. Similarly it was established that there is a relationship between directors’ independence and Performance. Empirical studies on the effect of board membership and structure on firm performance generally showed results either mixed or opposite to what was expected from the agency cost argument. Some studies found better performances for firms with boards of directors dominated by outsiders (Cornett et al., 2008; Ravina & Sapienza, 2009) while Pinteris (2012) found no such relationship in terms of accounting profit or firm value. Also, Forsberg (2013) found no relationship between the proportions of outside directors and various performance measures.

It is believed that good governance generates investor goodwill and confidence. Again, poorly governed firms are expected to be less profitable. Claessens et al. (2012) argue that weak corporate governance does not only lead to poor firm financial performance and risky financing patterns, but are also conducive for macroeconomic crises like the 1997 East Asia crisis. Other researchers contend that good corporate governance is important for increasing investor confidence and market liquidity. Among the many claimants on firm’s cash flows, equity shareholders have always claimed a special attention may be because of the residual nature of their claims.

Parker (2014) paradigm of the separation of shareholder ownership and management’s control explained that agency problem occurs when the principal (Shareholders) lacks the
necessary power/information to monitor and control the agent (manager) and when the compensation of the principal and the agent is not aligned. Organizational performance is probably then widely used dependent variable, in activities the ultimate variable of management yet it remains vague and loosely defined (Richard et al., 2009). The definition for organizational performance is an open question with few studies using consistent measures.

The findings also affirm that indeed in specific terms, the results of Klein (2012) and Anderson, Mansi and Reeb (2014) showed a strong association between internal audit committee and firm performance, whereas Kajola (2008) found no significant relationship between both variables. This lack of consensus presented scope for deeper research on the impact of this corporate governance variable. Regarding board size, there was a convergence of agreement of its association with firm performance. However, conflicting results emerged on whether it was a large, rather than a small board, that was more effective. For instance, while studies conducted by Yermack (2012), Mak and Kusnadi (2010), and Sanda, Mikailu and Garba (2010) found that small boards were more positively associated with high firm performance, Kyereboah-Coleman (2014) found that larger boards enhanced shareholders’ wealth more positively than smaller ones.

Finally it was established that there is relationship between the proportions of outside directors and performance and also there is a relationship between the composition of the board and the value of the firm. According to Pinteris (2012) board composition has been claimed as a key factor in allowing the board to act as a guardian of the principal’s interests. Inside directors have access to information that is relevant to assessing managerial competence and the strategic desirability of initiatives. In that sense they are better able to discriminate legitimate or illegitimate causes of organizational misfortune. However, insider directors usually do not make exhaustive evaluation of the strategic decision processes since they are influenced by the CEO.

5.4 Conclusions
5.4.1 Board Size and Performance
The study concludes there is a positive significant relationship between board size and performance of oil marketing companies in Kenya. This therefore means that the size of the board plays an essential role when it comes to the performance of the organizations as seen through various measures of organization performance.

5.4.2 CEO Duality and Performance

The study concludes that there is a relationship between CEO Duality and Performance. It was also concluded that there is a relationship between CEO tenure and performance additionally. Further the study concludes that there is a relationship between CEO turnover and Performance. The study also concludes that CEO duality can challenge a board’s ability to monitor executives, and finally CEO duality plays an important role in affecting the value of a firm.

5.4.3 Board Composition and Performance

Finally the study concludes that indeed a relationship between board composition and Performance, while also establishing that there is a relationship between board independence and performance. Similarly it can be concluded that there is a relationship between directors’ independence and Performance. Finally it can be conclude that there is a relationship between the proportions of outside directors and performance and also there is a relationship between the composition of the board and the value of the firm.

5.5 Recommendations

5.5.1 Recommendations for Improvement

5.5.1.1 Board Size and Performance

The study recommends the need to have large boards given that expropriation of wealth by the CEO or inside directors is relatively easier with smaller boards since small boards are also associated with a smaller number of outside directors. The few directors in a small board are preoccupied with the decision making process, leaving less time for monitoring activities.
5.5.1.2 CEO Duality and Performance

The study recommends that organizations should discourage CEO duality given that it creates a CEO/Chairman who both directs BOD meetings and executes the same policies which may have him unrestrained from acting in his own self-interest in the absence of separation of powers. This automatically undermines the oversight power and functions of the BOD and endangers checks and balances which are essential ingredients of internal control and good corporate governance.

5.5.1.3 Board Composition and Performance

The study recommends the need for organizations to have independent directors because independent directors are important because inside or dependent directors may have no access to external information and resources that are enjoyed by the firm's outside or independent directors.

5.5.2 Recommendations for Further Studies

The study recommends the need to carry out additional studies on other factors that affect performance of oil marketing companies. This will indeed bring out a divergent view of how performance of oil marketing companies is influenced. The study also recommends the need to have more studies on other aspects of corporate governance besides CEO duality, board size and board composition.
REFERENCES


APPENDICES

Appendix 1: Questionnaire

Please Tick √ as appropriate

PART A: General Information

1. Gender
   Male □
   Female □

2. Age in years?
   18-24 years □
   25-34 years □
   35-44 years □
   Above 45 years □

3. Duration of employment at Britam in years
   Below 2 years □
   Between 2-5 years □
   Between 6-10 years □
   Above 10 years □

4. What is your position in the organization?
Middle level management

Lower Level

**PART B: What is the relationship between Board Performance and performance of oil marketing companies in Kenya?**

1. Please indicate how strongly you agree or disagree with the following statements as they relate to your firm

<table>
<thead>
<tr>
<th>PARAMETER</th>
<th>Strongly Disagree</th>
<th>Disagree</th>
<th>Uncertain</th>
<th>Agree</th>
<th>Strongly Agree</th>
</tr>
</thead>
<tbody>
<tr>
<td>There is improvement in the board composition of the company</td>
<td></td>
<td></td>
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</tr>
<tr>
<td>There is improvement in board size in my organization</td>
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<tr>
<td>Our firm is developing new board structures with technical specifications and functionalities totally differing from the current ones</td>
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<tr>
<td>Our firm has a smaller board of directors</td>
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<tr>
<td>Our firm has Non-executive directors only</td>
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<tr>
<td>Our firm has both non-executive and executive board members</td>
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<tr>
<td>Our firm has a high number of board members</td>
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</tbody>
</table>
PART C: What is the relationship between CEO duality and performance of oil marketing companies in Kenya?

2. Please indicate how strongly you agree or disagree with the following statements as they relate to your firm

<table>
<thead>
<tr>
<th>PARAMETER</th>
<th>Strongly Disagree</th>
<th>Disagree</th>
<th>Uncertain</th>
<th>Agree</th>
<th>Strongly Agree</th>
</tr>
</thead>
<tbody>
<tr>
<td>There is a relationship between CEO Duality and Performance</td>
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<tr>
<td>There is a relationship between CEO Tenure and Performance</td>
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<tr>
<td>There is a relationship between CEO Tenure and Performance</td>
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<tr>
<td>CEO duality can challenge a board’s ability to monitor executives</td>
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<tr>
<td>CEO duality plays an important role in affecting the value of a firm.</td>
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</tbody>
</table>
PART D: What is the relationship between Board Composition and performance of oil marketing companies in Kenya?

1. To what extent do you agree on the following statements? (Tick appropriately).

<table>
<thead>
<tr>
<th>PARAMETER</th>
<th>Strongly Disagree</th>
<th>Disagree</th>
<th>Uncertain</th>
<th>Agree</th>
<th>Strongly Agree</th>
</tr>
</thead>
<tbody>
<tr>
<td>There is a relationship between board composition and Performance</td>
<td></td>
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<tr>
<td>There is a relationship between board independence and Performance</td>
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<tr>
<td>There is a relationship between directors’ independence and Performance</td>
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<tr>
<td>There is a relationship between the proportions of outside directors and performance</td>
<td></td>
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<td></td>
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<tr>
<td>There is a relationship between the composition of the board and the value of the firm</td>
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</tbody>
</table>