EFFECT OF CORPORATE GOVERNANCE ON FINANCIAL PERFORMANCE OF COMPANIES LISTED IN THE NAIROBI STOCK EXCHANGE: CASE OF COMMERCIAL AND SERVICES FIRMS IN KENYA

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Declaration

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

Signed________________________________ Date____________________

Sylviah M. N. Njenga (ID 647827)

This research project has been presented for examination with my approval as the appointed supervisor.

Signed_______________________________ Date____________________

Dr. Amos Njuguna

Signed________________________________ Date____________________

Dean, Chandaria School of Business

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Abstract

The main objective was to determine the effect of corporate governance on financial performance of Nairobi Security Exchange (NSE) listed commercial and services firms. The specific objectives of the study included; to determine the effect of board size on financial performance of NSE listed commercial and services firms; to establish the influence of CEO duality on financial performance of NSE listed commercial and services firms; and to evaluate the effect of board composition on financial performance of NSE listed commercial and services firms. This study adopted a correlational research design. The study target population was the NSE listed commercial and services firms. The data was sourced from the listed firms' published annual statements for the period 2012 to 2016. The data was both quantitative and qualitative secondary data. In analysing quantitative data, the study used descriptive statistics while qualitative data was analysed using content analysis. In addition, multiple regressions were used to determine the significance of each independent variable in affecting the financial performance of the said firms. From the study findings, financial performance as measured using ROA constantly significantly increased over the study period. The average board size increased as follows; from four to nine over the five-year period which was a transformation of the firms from small to large board sizes. The listed firms had large board sizes which were beneficial for their corporate performance because they have diverse expertise to help make better decisions, and are harder for their powerful CEOs to dominate. The trend of CEO duality among the twelve NSE listed commercial and services firms reduced over the five years. The reducing number of firms with CEO duality allowed for separation of power and functions between their chairmen of the board, a non-executive director and their CEOs their executive directors while it increased accountability. The number of non-executive directors was significantly higher than executive directors over the five-year period which ensured board independence in character, judgment and action in the management of the NSE listed commercial and services firms. The regression analysis established that board composition contributes most to the financial performance of NSE listed commercial and services firms followed by board size and CEO duality respectively. The study concludes that the three corporate governance practices (board size, CEO non-duality and board composition) adopted significantly influence financial performance of NSE listed commercial and services firms. The study recommends that the management of NSE listed commercial and services firms should constantly monitor the board size to ensure there is smooth coordination within the board, that there is no free riding by individual directors, its efficiency in decision making remains optimal and that CEO dominance is not allowed which are the challenges with large board sizes. The NSE listed commercial and services firms' management should continuously review the roles of the CEO and the chairman to ensure both remain effective in their roles due to the ever-changing market dynamics and to safeguard shareholder value. NSE listed commercial and services firms should seek to ensure greater diversity of non-executive board members and continuous supervision of executive board members to reduce the risk of the company through rigorous checks and balances.

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CHAPTER ONE

1.0 Introduction

The chapter presents the background to the study, statement of the problem, study objective, significance of the study, scope of the study, definition of terms and chapter summary.

1.1 Background of the Problem

According to World Bank (2015) policy agendas have paid attention to the concept of corporate governance of firms in developed market for over a decade. The concept is gradually taking its place as a priority in the African markets. The Asian crisis and the observed poor performance of the corporate sector in Africa has brought a new attention to the concept of corporate governance (Dalton, C. M. and Dalton, D. R., 2013).

Corporate governance denotes a system through which corporations are controlled and managed. The governance structure in corporations describes the distribution of rights and responsibilities among the participants (such as the board of directors, managers, shareholders, creditors, auditors, regulators, and other stakeholders) and also shows the rules and procedures to be followed by the management in making decisions for corporate agendas (Enobakhare, 2010). Effective corporate governance provides a viable structure or system through which corporations can realize their objectives and goals while focusing on the social, regulatory and market context of development within the operational environment (Enobakhare, 2010). Governance is therefore, the process for monitoring, managing the policies, actions, and decisions of operations (Mullins, 2014).

The governance process as defined in the agency theory encompass the board size, composition, CEO pay performance sensitivity, directors, ownership and shareholders rights. According to Chirchir (2014), in a scenario where the governance mechanisms are to be changed, the managers have to align their interests with those of the shareholders to have a higher firm achievement or value. Kumudini (2011) asserted that properly-governed corporations have better financial growth and performance than the poorly governed firms. Better corporate governance framework benefits firms through greater access to financing, lower cost of capital, better financial performance and more favourable treatment of all stakeholders. The weak corporate governance does not only lead to poor firm financial performance and risky financing patterns, but are also conducive for macroeconomic crises. Good corporate governance is also important for increasing investor confidence and market liquidity (Ren, L. 2014).

Corporate governance can influence a firm's performance whenever a conflict of interest arises between management and shareholders and or between controlling and minority shareholders. In the management-shareholder conflict, the agency problem manifests itself in management's low effort and unproductive investments, usually known as perquisites. In the controlling-minority shareholder conflict, controlling shareholders use their power to benefit themselves at the expense of the minority shareholders, in what is called expropriation or private benefits of control (Goodstein, 2014). The root of both conflicts is the fact that the manager in the first case, and the controlling shareholders in the second case, receives only a portion of the firm's net revenue, while they fully appropriate the resources diverted (Organisation for Economic Co-operation and Development [OECD], 2015).

Outsiders have two main instruments to counterbalance this power: the enforcement of adequate corporate governance standards and the quality of the regulatory and legal environment, which should discourage detrimental actions by insiders and, once committed, allow affected stakeholders to challenge them through corporate and judicial channels. According to Pfeffer (2012) the principal-agent relationship may be reflected in management pursuing activities which may be detrimental to the interest of the shareholders of the firm.

According to OECD (2015) good corporate governance is not an end in itself. It is a means to support economic efficiency, sustainable growth and financial stability. It facilitates companies' access to capital for long-term investment and helps ensure that shareholders and other stakeholders who contribute to the success of the corporation are treated fairly. Financial crisis revealed severe shortcomings in corporate governance. When most needed, existing corporate governance standards failed to provide the checks and balances those companies needed in order to cultivate sound business practices. The OECD launched an ambitious action plan to develop a set of recommendations for improvements in priority areas such as remuneration, risk management, board practices and the exercise of shareholder rights (OECD, 2015).

The Institute of Directors in Southern Africa (IoDSA) formally introduced the King Code of Governance Principles and the King Report on Governance (King III). The Code and the Report which were unveiled at the Sandton Convention Centre in Sandton, Johannesburg, in 2009 argues that, to maximize financial bottom line of a firm, aspiring and current board members must possess an in-depth understanding of how corporate boards work and what it takes to lead with transparency, accountability, and efficiency. By examining today's corporate governance challenges, prospective female board members, as well as seasoned chairs, committees, and individual directors should be trained to positively influence their company's direction and shareholder performance (Freeman, Wicks and Parmar, 2014).

Effective corporate governance is critical to firm performance and by extension shareholder value, and especially so after the collapses and scandals of the high profile corporates such as Enron, WorldCom and others in the US, serving as an impetus to such recent U.S. regulations as the Sarbanes-Oxley Act of 2002. The Act is considered the most sweeping corporate governance regulation in the past 70 years (Khaled, 2014), with the main objective of the Act being to protect investors by improving the accuracy and reliability of corporate disclosures made pursuant to the securities laws and other purposes. Others are Parmalat in Italy, Marcos 10b & Fortune and Baby Doc of Haiti. Back in Kenya, the collapse of Uchumi Supermarkets, Kenya-United Insurance, Lake Star Insurance, Goldenberg, Kenren and Anglo-Leasing scandal clearly point out on the need for good corporate governance. Corporate governance has succeeded in attracting a good deal of public interest because of its apparent importance for the economic health of corporations and society in general. Corporate governance is about the exercise of power over corporate entities. It has become one of the central issues in the running and regulating of modern enterprise today. However, the underlying ideas and concepts of corporate governance have been surprisingly slow to evolve (Enobakhare, 2010).

International evidence on the subject has greatly increased in the last few years. La Porta (2012) are prominent efforts in proving the nexus between corporate governance and performance using cross-country data, while other studies look at individual countries, such as the United States, South Korea and Germany (Lam and Lee, 2008). By aiming to analyze the relationship between corporate governance and firm performance (as measured by the return on assets and Tobin's Q) in Kenya in 2012 to 2016 the present study forms part of the latter country-level line of research. The board of directors' monitors developments in the governance area, reviews and updates its governance practices to ensure the most appropriate standards of governance for listed firms in Kenya (Otieno, 2012). Therefore, it would be critical to examine existing relationship between corporate governance and financial performance of NSE listed commercial and services firms in Kenya.

The Cadbury (2012) recommends an ideal board size of 8–10 members, with an equal number of executive and non-executive directors. Jensen and Mackling (2016) argues that the optimum board size should be around 7–8 directors. Based on the Codes of Corporate Governance in the UAE, the board of directors consists of 3–12 members. Brown and Caylor (2014) also suggest that a board size of between six and 15 members is ideal to enhance firm performance. Lipton and Lorsch (2012) argue that board size should be small and limited: a board size of 8–9 directors is optimal for coordination and communication, because if the board has more than 10 members, it is not easy for directors in the board to indicate their opinions and ideas (Lawal, 2012).

The board of directors plays an important role in corporate governance practices because it is responsible for planning and monitoring a company's objectives (Bhagat and Bolton, 2008). Thus, an effective board director with an appropriate composition of directors is important in order to help the board accomplish its aim and ensure the success of the company (Al-Matari and Tellis, 2012). The composition of the board has a direct effect on the company's activities (Kiel and Nicholson, 2013). Generally, the composition of the board refers to the proportion of inside and outside directors serving on the board. Boards of directors include both executive and non-executive directors.

Cadbury (2012) believes that the role of chairman should, in principle, be separate from that of the chief executive. When the two roles are combined, it represents a considerable concentration of power within the decision-making process. Based on the Codes of Corporate Governance in the UAE, the chairman of the board of directors and the company manager or CEO positions should be separate in the company. In addition, various corporate governance guidelines recommend that the role of the CEO be separated from the role of the chairman of the board of directors (OECD, 2015). An important mechanism of board structure is its leadership is reflected in the positions of chairman and CEO. The combined leadership structure occurs when the CEO wears two hats, one as the CEO and the other as the chairman (Cadbury, 2012). Alternatively, separate leadership is when two different people occupy the positions of chairman and CEO (Dalton, C. M. and Dalton, D. R., 2013).

1.2 Statement of the Problem

According to Enobakhare (2010) ineffective corporate governance was the major cause of firms' crises in Nigeria. The poor corporate governance manifested in form of; poor internal control mechanisms, extreme risk taking, internal controls override, lack of or non-compliance with legal provisions, lack of risk management systems, insider abuses and fraud. This implied absence of robust corporate governance system among companies which hinder the public trust threatening their financial profitability and survival.

According to World Bank (2015) corporate governance in developing economies has lately found a lot of research attention. However, the connection between corporate governance and financial performance remains unattested across many sectors of these developing economies. According to Kumudini (2011) there is non-linear association between financial performance and corporate governance practices such as governance training, transparency, and shareholder input in decisions making. On the other hand, large shareholder ownership, state ownership, and the proportion of independent directors are negatively associated with financial performance (Wan and Ong, 2015).

According to Otieno (2012) corporate governance play a vital role on bank stability, financial performance and bank's aptitude to provide liquidity in difficult market conditions. Otieno, K., Mugo, R., Njeje, D. and Kimathi, A. (2015) revealed that board meeting frequency, audit committee size and audit committee meeting frequency have positive relations to the financial performance indicator as measured by return on assets among the SACCOs in Kenya. Several studies have been conducted on effects of corporate governance on the financial performance; Otieno (2012) focused on commercial banks; Munyao (2012) investigated on the forex bureaus in Kenya; Otieno et al. (2015) focused on savings and credit co-operatives in Nairobi County. However, none of the mentioned local or global studies, focused on listed firms especially banking institutions. Similarly, none of them had board size, CEO duality and board composition as their key objectives or tried to link them with financial performance of the surveyed firms. Similarly, there exists contextual difference between the developed economies that the global studies focused on, hence a knowledge gap existed. Informed by this knowledge gap, this study sought to determine the effects of corporate governance on the financial performance of NSE listed commercial and services firms in Kenya. Whereas, the reviewed studies were limited to specific sectors of the economy, the current study focusses on NSE where all sectors of the economy are well represented. Hence, the need for the study.

1.3 General Objective

The main objective is to determine the effect of corporate governance on financial performance of NSE listed commercial and services firms.

1.4 Specific Objectives

The study was based on the following specific objectives;

1.4.1 To determine the effect of board size on financial performance of NSE listed commercial and services firms.

1.4.2 To establish the influence of CEO duality on financial performance of NSE listed commercial and services firms.

1.4.3 To evaluate the effect of board composition on financial performance of NSE listed commercial and services firms.

1.5 Significance of the Study

1.5.1 To the management

The study findings may be useful to the management of NSE listed commercial and services firms in establishing whether corporate governance practices being implemented improve their financial performance and if so to what extent. The managers of NSE listed firms that wish to implement corporate governance practices may find the study findings useful as the study findings provides insights into the best practices in corporate governance for enhancing the financial performance, thus, influencing their decision making.

1.5.2 To the Policy Makers

The study findings may be useful to the government agencies regulating the NSE towards formulating relevant corporate governance policies and acts that guide corporate governance implementation in Kenya. The government agencies like Capital Markets Authority of Kenya may gain useful information that may be useful in designing new policies in corporate governance to drive the NSE sector to the next level since the existing ones could be obsolete.

1.5.3 To the Scholars and Researchers

The study findings may provide valuable information to scholars and researcher in corporate governance and its effect on firm financial performance. It forms the basis of future research thus contributing to the existing body of knowledge by filling in the knowledge gap on corporate governance and its effect on the financial performance.

1.6 Scope of the Study

The study focused on effect of corporate governance on financial performance of NSE listed commercial and services firms. The firms represents the biggest number of listed firms in the NSE and also play a strategic role in the economic development of Kenya, given that the service sector account for a huge percentage of job market. The corporate governance practices reviewed in this study include; board size, CEO duality, and board composition. The information was sought from NSE listed commercial and services firms that formed the geographical scope of the study. The choice of using secondary data was because it is factual and verifiable.

1.7 Definition of Terms

1.7.1 Board independence refers to board of directors' majority of who are outsiders with limited influence on the top management of the firm to reduce conflict of interest and to provide prudent supervision (Zhang, 2011).

1.7.2 Board composition refers to executive and non-executive director representation on the board (Ren, Y. 2014).

1.7.3 Board size refers to the number of directors that make up the board of directors in a given company (Wan and Ong, 2015).

1.7.4 CEO duality refers to the company CEO also holding the position of the chairperson in the board of directors (Ren, Y. 2014).

1.7.5 Corporate governance refers to set of laws, regulations and accepted business practices, which together govern the relationship, in a market economy, between corporate managers and entrepreneurs (corporate insiders) on one hand, and those who invest resources in corporations, on the other (Raheja, 2015).

1.7.6 Financial performance refers to process of measuring the results of a firm's policies and operations in monetary terms over a given period of time (Pfeffer, 2012).

1.7.7 Ownership structure is defined by the distribution of equity with regard to votes and capital but also by the identity of the equity owners both inside and outside owners (Peace, 2011)**.**

1.8 Chapter Summary

The chapter reviewed the background of corporate governance and its contribution to financial performance of firms locally, regionally and globally. The chapter further presents statement of the problem, general objective, specific objectives, significance of the study, scope of the study, and definition of terms. Chapter two presents the literature review based on the study of the three objectives. Chapter three contains the research methodology that was applied in this study. The areas covered include; research design, target population, data collection methods, and data analysis methods and model specification. Chapter four contains results and findings disaggregated according to the objectives. Chapter five covers summary, discussion, conclusions and recommendations of the study.

CHAPTER TWO

2.0 Literature review

2.1 Introduction

The chapter presents the empirical and theoretical literature on corporate governance and firms' financial performance. The corporate governance constructs reviewed in this study were; board size, CEO duality and board composition. Each of these governance constructs have been discussed with studies showing their relationship with firm performance.

2.2 Effect of Board Size on Financial Performance

As indicated by Manafi, R., Mahmoudian, A., and Zabihi, A. (2015) Transaction Cost Economics (TCE) hypothesis sees the firm as a governance structure. The hypothesis contends that specific economic benefits to the firm leaves when a firm embraces exchanges inside as opposed to external. Manafi et al. (2015) additionally expresses that as the firm winds up noticeably bigger, the more exchanges it embraces and it extends up to the point where it ends up noticeably less expensive or more effective for the exchange to be attempted externally. Stiles and Taylor (2011) bring up that this hypothesis is worried about managerial discretion and it accept that directors are given to self-interest seeking and moral hazard and that they operate under bounded rationality. The hypothesis views the boards of directors as an instrument of control consequently, administrators tend to sacrifice rather than maximize fully proceeds (Mullins, 2014).

The size of the board is measured by the number of directors serving on such boards. There is a point of view that larger boards are appropriate for corporate execution since they have a scope of ability to enable settle on to better choices, and are more difficult for an efficient CEO to rule. Be that as it may, late intuition has inclined towards minor boards (Khaled, 2014). Porta, Lopez- de- Silanes and Shleifer (2010) contend that substantial boards are less powerful and are simpler for a CEO to control.

At the point when a board gets too huge, it winds up plainly hard to co-ordinate and process issues. Minor boards additionally decrease the likelihood of free riding by individual directors, and increment their basic leadership forms. Exact research underpins this. As indicated by Hambrick and Jackson (2000), among the substantial U.S. industrial corporations, the market value firms with littler boards more highly Ren, Y. (2014) additionally discover negative connection between board sizes and benefit when using sample of small and midsized Finnish firms. In Ghana, it has been distinguished that little board sizes improves the execution of microfinance institutions (Dalton, C. M. and Dalton, D. R., 2013).

Chirchir (2014) aired the above discoveries in firms recorded in Kenya, Singapore and Malaysia. In their investigation, they found that firm valuation is most astounding when board has five directors, a number considered moderately minor in those business sectors. In a report, Adams and Mehran (2015) found that, firm execution is decidedly related with little board measure rather than large boards. Jensen and Macklin (2016) demonstrated that an esteem significant trait of corporate boards is its size. Organizational theory surmises that bigger gatherings set aside generally longer opportunity to settle on choices and, accordingly, more input time (Kajola, 2013).

Peace (2011) recommend an ideal board size in the vicinity of seven and nine executives. In this regard, exact examinations have demonstrated that the market value firms with generally little board sizes (Francis, 2016 and Leighton, 2010). Consequently, as board size builds board action is required to increment to make up for increasing process losses. The contention is that large boards are less powerful and are less demanding for a CEO to control. The cost of coordination and handling issues is likewise high in large boards and this settles on basic leadership troublesome. Then again, littler boards diminish the likelihood of free-riding and consequently have the inclination of improving firm execution (La Porta, 2012).

At the point when the idea of board is acknowledged, it can be naturally accepted that a bigger board is ideal, as this empowers the consideration of more various board individuals bringing diverse areas of expertise, expanded board measure causes expanded issues of coordination and correspondence, undermining board viability in monitoring agents (Enobakhare, 2010). Moreover, bigger sheets have been observed to be portrayed by diminished capacity of executives to censure top directors and to dissect and talk about firm execution truly (Lipton and Lorsch, 2012).

Xiang (2010) contended that extensive board will probably confront high expenses to monitor the firm and they are more averse to have viable capacity when the extent of the board is more than seven or eight individuals. The agency model recommends that as board size turns out to be substantial, the agency problem related to director freeriding increases and the board becomes more symbolic and less a part of the management process (Hermalin and Weisbach, 2011). Substantial boards will probably be controlled by the CEO as opposed to the board monitoring and controlling the administration. This will give the directors the spaces to seek after their own interest as opposed to adjusting to the interests of the investors and administrators prompting increment in the agency problems and thereby lower companies' performance execution (Hambrick and Jackson, 2000). Kajola (2013) contends that as board size winds up noticeably bigger it will be more troublesome for board individuals to achieve consensus because of the more assorted opinions and decisions. In this manner, large boards are slower and less proficient in settling on choice. These activities may expand the agency conflict, in light of the fact that with less coordination and correspondence this will prompt decline the board individuals' capacity to control and monitor management which may bring about more regrettable firm execution.

Ahmed (2016) contend that detailing and receiving new thoughts and concurring on various feelings are more averse to occur in large boards, which will bring about less change of the board function to furnish the directors with smart thoughts and contributions. . In this manner, the contention in the board implies that board individuals are more averse to work in light of a legitimate concern for the investors therefore agency problem increase. Laing and Weir (2012) presumed that to-date there is as yet a level headed discussion about the ideal size of the board. At the end of the day, there is no particular formula that ought to be embraced or taken after to characterize the number of executives inside the board. Yermack (2016) detailed that large boards are described by less soundness and poorer correspondence which may diminish the board individuals' capacity to monitor the administration effectively. This cause greater agency problem and costs resulting in lower firm performance. In this manner, identified to the agency problem, large boards result to numerous directors' free-riding problems, increment in the sharing costs and internal conflicts among executives. Therefore, these hazards will impact in increasing the agency problem and thereby minimizing returns and worse firm performance.

Be that as it may, CEO control is normal for smaller boards, as the all the more capable position of CEOs in such boards empowers them to abrogate choices made by the board as per their own advantages, expanding agency problems and correspondingly undermining the execution of the firm (Miller and Matsa, 2013). This outcome additionally affirms resources reliance hypothesis' recommendation, inferring that large boards, due to some degree to their viable linkage (Pfeffer, 2012) and assorted variety (Goodstein, 2014), improve the probability of organization's execution by enhancing organization's capacity to co-opt the turbulent condition (Hambrick and Jackson, 2000). This is as per the part of resource dependency hypothesis that attests that the decent variety and more compelling union of large boards boosts firm execution by transcending challenging market conditions (Goodstein, 2014 and Pfeffer, 2012); the shortage in linkage among smaller boards can deny undermine their entrance to credit. Also, large boards mitigate the agency problem by playing out their strategic function all the more successfully, which is fundamental amid times of financial turbulence or distress to reduce agency problems (Mintzberg, 2013). Under such conditions, the absence of decent variety in littler sheets expands vulnerability concerning vital improvement (Goodstein, 2014; Mintzberg, 2013; Pearce and Zahra, 2012). This at last expands the office issue and undermines execution in firms with smaller boards. The top managerial staff assumes an essential part in corporate governance, such as hiring, firing, and assessment of management, or assessment and project selection (Adams, Hermalin, & Weisbach, 2010).

Kiel and Nicholson (2013) research the connections between board structure and corporate execution in 348 of Australia's biggest publicly recorded organizations. They locate a positive connection between board size and firm execution for vast firms. Adams and Mehran (2015) locate a positive connection between board size and execution in the US saving money industry. Fama and Jensen (2013) look at the impact of corporate governance mechanisms, for example, board size, on firm execution from 2005 to 2010 in Pakistan, and they likewise locate a critical positive connection between firm execution and board size. These outcomes bolster Zahra and Pearce's (2013) decision that there is a connection between board size and firm execution.

In any case, Aljifri and Moustafa (2012) ponder the impact of some interior and outer corporate governance mechanisms on firm execution (Tobin's Q) in an example of 51 firms in 2004. The exploration demonstrates that board size has a non-critical impact on execution. Lawal (2012) analyzes the significance of one corporate governance viewpoint in particular, board size of organizations recorded on Bursa Malaysia and applies linear multiple regression as the underlying statistical test. The author does not locate a huge connection between board size and firm execution in a sample of chose recorded organizations in Malaysia. This outcome is bolstered by Kajola (2013) who contemplates the relationship between the corporate governance systems and firm execution of a sample of 20 Nigerian recorded firms in the vicinity of 2000 and 2006. He doesn't locate a noteworthy connection between the board size and firm execution of the recorded organizations in the Nigerian Stock Exchange. This backings other research, which finds that a huge board size can prompt the free-rider issue (Loderer and Peyer, 2012).

The two most imperative elements of the top managerial staff are those of advising and monitoring (Raheja, 2015). Consequently, the top managerial staff has been viewed as an essential corporate governance mechanism for adjusting the interests amongst directors and all stakeholders in a firm (Heenetigala and Armstrong, 2011). Zahra and Pearce (2013) characterized two principle parts of the board: it should control the operations of the firm and the exercises of the CEO; and it should improve the image of the firm and support a decent connection between the partners and firm management to encourage the organization culture. This demonstrates these board functions could build up the execution of a firm. Small board size was favored to advance basic, certified and scholarly consideration and inclusion among individuals, which apparently may prompt successful corporate decision-making, monitoring and enhanced execution (Lawal, 2012).

The Cadbury Committee (2012) suggests a perfect board size of 8– 10 individuals, with an equivalent number of executive and non-executive directors. Jensen and Mackling (2016) contends that the ideal board size ought to be around 7– 8 directors. In view of the Codes of Corporate Governance in the UAE, the top managerial staff comprises of 3– 12 individuals. Darker and Caylor (2014) additionally recommend that a board size of in the vicinity of six and 15 individuals is perfect to improve firm execution. Lipton and Lorsch (2012) contend that board size ought to be little and constrained: a board size of 8– 9 chiefs is ideal for coordination and correspondence, on the grounds that if the board has more than 10 individuals, it is difficult for executives in the board to show their assessments and thoughts. Be that as it may, Dalton, C. M. and Dalton, D. R. (2013) contend that the benefit of larger boards is the spread of expert advice and sentiments around the table contrasted to a small board. Larger boards are expected to increase board diversity in relation to experience, skills, gender and nationality.

2.3 Effect of CEO Duality on Financial Performance

In view of the agency theory, the CEO and administrator ought to be separate on the grounds that the executive can't finish these capacities without conflicts of personal interests (Jensen & Mackling, 2016). The agency theory and stewardship theory are both pertinent to leadership structure. Partition of the part of CEO and executive is to a great extent grounded in the agency theory in light of the fact that the part of the top managerial staff is to screen administration to secure the interests of the investors (Fama and Jensen, 2013). Be that as it may, joining the parts of the CEO and those of the administrator brings about a more predominant CEO prompting inadequate checking of the administration by the board (Lam and Lee 2008). Alternately, supporters of stewardship hypothesis contend that administrators are naturally reliable and are great stewards of firm assets and work to accomplish a higher level of corporate profits (Donaldson and Davis, 2014).

As indicated by Freeman et al. (2014) stakeholder theory goes for striking a harmony between the interests of a corporation’s stakeholders and their fulfillment. It tries to recognize the motivation behind the firm. Recognizable proof of the company's motivation consequently becomes the driving force underlying its actions. By featuring the company's duty to its partners, Freeman et al. (2014) pointed out that it pushes the administration to design and employ appropriate methodologies to distinguish the nature of the connection between interested parties and the management in order to deliver on their aim (Freeman et al. 2014).

Jackling and Johl (2009) explored the connection between internal governance structures and the financial performance of Indian companies. The investigation set up that the consolidated position of CEO and executive negatively affects firm execution. The discoveries were upheld by Ujunwa (2012) who set up that the duality of the CEO and the administrator is adversely connected with the organizations' financial performance in Nigeria.

Laing and Weir (2012) directed an examination on a sample of Fortune 500 organizations. The examination built up that the CEO duality strongly affects an association's financial performance since it paces up the basic leadership process and evacuates unnecessary bureaucracy, thus prompting more grounded financial performance. Kiel and Nicholson (2013) revealed a critical positive connection between a consolidated authority structure and Tobin's Q, finding that having a different initiative structure had no impact on market value. Bhagat and Bolton (2008) did an investigation on the connection between the corporate governance structure and execution of 347 organizations recorded on the Kuala Lumpur Stock Exchange in the vicinity of 1996 and 2010. The investigation uncovered that a different authority structure was not altogether identified with firm value measured by Tobin's Q. Zhang

(2011) exact outcomes did not demonstrate a critical connection between CEO duality and firm execution.

As per Adams et al (2010) the partition of the part of the CEO and the administrator is basic in lightening issues of corporate governance practices in a firm. The matter of a firm is overseen under the bearing and supervision of a governing body that representatives to the CEO and other administration staff for the everyday administration of the undertakings of the firm (Raheja, 2015). An essential capacity of the governing body is to monitor the execution of the best administration (Ujunwa, 2012). This implied the joined administration would have more managerial discretion since its leader was also the leader of the board of directors. Hence, the board would have less motivating force to monitor the exercises of the corporate managerial team, which would expand data asymmetry between the agent and its principles (Zhang, 2011).

As indicated by Suryanarayana (2015) the benefit of consolidating the two parts is that it reinforces the authority. The combined leadership structure significantly affects ROA. A conceivable clarification for this noteworthy relationship is that the executive, who is likewise dynamic as CEO in the everyday exercises of the firm, endeavor to contribute however much as could be expected to build the span of the firm and additionally their own status. As long as the growth in investment increases the return of the firm, they invest positively. Also, Donaldson and Davis (2014) found that organizations depending on combined structures accomplished higher shareholder returns measured by return on value which prompted bolster for the stewardship hypothesis.

Monks and Minow (2014) in their examination contended that the presence of the board depends on the requirement for administration to be responsible for the immense optional power it yields. In the event that the executive and CEO are a similar individual, this makes administration responsible to a body drove by administration. Along these lines, isolating the role is accepted to prompt a more target assessment of the CEO, making a domain of more noteworthy responsibility.

As indicated by Suryanarayana (2015) another preferred standpoint of the arrangement of an independent administrator is that he/she gets encounter running comparative organizations or handling the functions of finance, as well as the independence, objectivity and dispassionate views needed on crucial matters. A partition of the two roles is by all accounts a reasonable and successful methods for guaranteeing legitimate concentration and eliminating potential errors and conflict of interest that may arise as a result of combining the roles. The investigation likewise expresses that it is a huge activity for one individual to hold double roles requiring much time and responsibility. In this way, the detachment of the two parts, for instance with a CEO who is running the executive team and day by day corporate exercises which require huge time and responsibility, and the administrator who is running the board of directors, guaranteeing successful execution of oversight and procedure, reduces mistakes, neglect and potential conflict of interest. Furthermore, a different administration structure gives potential advantages and expenses to the firm. The advantages of a different structure incorporate administration and control, while the expenses incorporate data asymmetry, conflicting choices and pay to keep up two positions (Brickley, Coles and Jarrell, 2015).

The code of best routine with regards to corporate governance by the Cadbury committee group suggested for the partition of these two most effective posts on the directorate, to be specific the Chairman and CEO. The issue raised by Cadbury was that the CEO is in charge of the everyday running of the organization, while the Chairman's part was to guarantee that the board works successfully and in this manner included checking and assessing the execution of official executives and the CEO (Laing and Weir, 2012). Rechner and Dalton, K. (2013) upheld the above perspective of isolating the parts, expressing that joined part was as often as possible referred to as an imperative factor that affected organizations' decrease in money related execution. As indicated by Jensen and Mackling (2016) watchful sheets support isolate initiative on the grounds that joined administration furnishes CEOs with formal specialist that is unified, and promotes CEO entrenchment which lead to opportunistic and inefficient behavior reducing shareholder wealth.

As per Suryanarayana (2015) administration involves how the board functions, regardless of whether there is one individual or two people at the best. It is the viability of alternate individuals from the board that decides whether these two parts ought to be isolated or joined. In any case, the post of director and CEO required diverse aptitudes and capacities, however the two positions required authority abilities. The administrator needed a vital sense, the capacity to break down and comprehend and anticipate changes in the business condition. Interestingly, the CEO's role was to define and actualize the procedure and furthermore required making right things occur at the ideal time, which is to run the organization the way things are today, though the executive's obligation is to make tomorrow's organization out of today's. In this way, division of the two parts is accepted to prompt more target assessment of the CEO and furthermore makes a domain of greater responsibility, on the grounds that the very presence of the board depends on the requirement for responsibility (Monks and Minow, 2014).

2.4 Effect of Board Composition on Financial Performance

As indicated by Kumudini (2011) the essential component of board structure is the arrangement of the board, which alludes to executive and non-executive director portrayal on the board. Both agency theory and stewardship hypothesis apply to board arrangement. Sheets commanded by non-executive directors are to a great extent grounded in office hypothesis. As per agency theory, a compelling board ought to be contained a larger part of non-executive directors, who are accepted to give better execution due than their autonomy from firm administration. Conversely, a majority executive director representation on the board is grounded in stewardship theory, which contends that administrators are great stewards of the association and work to accomplish higher benefits and investor returns (Donaldson and Davis, 2014).

Stewardship hypothesis offers another option to agency theory by recommending that when a joining of qualities exists amongst principals and agents or when associations advance unselfish esteems, mindful conduct comes about by inner means (Brown and Caylor, 2014). The organization of the board alludes to the extent of inside and outside executives serving on the board. Boards of directors compose both executive and non-executive directors. Executive directors referred to dependent directors, whereas non-executive directors referred to independent directors (Ali Shah, Butt and Hussain, 2012). The Non-executive directors are outside executives who offer balanced governance to ensure the interests of investors, and inside executives, who partake straightforwardly in the everyday administration of the firm (Wan and Ong, 2015).

Wan and Ong (2015) built up a positive connection between non-executive directors and firm execution measured by ROA and ROE utilizing an example of 91 recorded firms in the Karachi Stock Exchange. Heenetigala and Armstrong (2011) inspected the connection between board structure and firm execution of a sample of 37 organizations chose from the best 50 recorded organizations in the Lanka. The investigation had comparable discoveries in connection to non-executive director portrayal on the board and Tobin's Q from the perspective of the stock markets. Rashid (2010) analyzed the connection between independent board composition and firm execution of Bangladeshi firms and found that independent board directors increase the value of firm execution.

Conversely, Kajola (2013) did not locate a noteworthy connection between board composition and firm execution for an example of 20 non-financial recorded firms in Nigeria. Kiel and Nicholson (2013) built up a negative connection between board composition and firm execution for a specimen of 348 Australian firms. This negative relationship was affirmed by Porta et al. (2010) who inspected the connection between corporate governance and firm execution for a specimen of 813 recorded organizations of Bursa Malaysia from 2009 to 2011. Kumar and Singh (2012) researched the adequacy of outside directors on the corporate sheets of 157 non-financial Indian organizations in 2008. The investigation uncovered that the independent director’s extent had an inconsequential constructive outcome on firm value.

As indicated by Bhagat and Bolton (2008) the directorate assumed a critical part in corporate governance rehearses on the grounds that it was in charge of arranging and observing an organization's destinations. Along these lines, a powerful board director with a proper creation of executives was imperative keeping in mind the end goal to enable the board to finish its point and guarantee the accomplishment of the organization (Al-Matari and Tellis, 2012). The piece of the board directly affected the organization's exercises (Kiel and Nicholson, 2013).

The Cadbury (2012) shows that the nearness of non-administrators ought to be viable in improving board independence and firm execution. The Code of Best Practice suggested that the governing body ought to incorporate non-executive directors of adequate number and bore with a specific end goal to give non-executive directors an imperative effect on the board's choices. In such manner, best practice proposals on corporate governance require boards to entail of a majority of non-executive directors or non-official executives (Ahmed, 2016). In the UAE, the top managerial staff ought to consider a suitable harmony amongst executive and non-executive and independent board members, gave that at least one-third of members are independent members and that a majority of members are non-executive members (Goodstein, 2014).

The Non-executive directors are outside directors who offer governing rules to ensure the interests of investors, and inside executives take an interest specifically in the everyday administration of the firm (Petrovic, 2008; Wan and Ong, 2015). Fama and Jensen (2013) contend that a higher extent of independent non-executive directors builds board adequacy in checking administrative advantage and, subsequently, expands deliberate divulgences, henceforth expanded financial performance of the firm. In a comparative Petrovic (2008) contends that the consideration of non-executive directors on corporate boards improves the nature of financial disclosure and diminishes the advantages of withholding data. Hermalin and Weisbach (2011) distinguished the real capacities that non-executive directors should satisfy to include: keeping the undue exercise of energy by official executives, defending investors' interests in board basic leadership, adding to vital basic leadership and guaranteeing aggressive firm execution.

A successful board should involve greater part of non-executive directors (Dalton, C. M. and Dalton, D. R., 2013). Be that as it may, executive director's duty is the everyday operation of the business, for example, finance and marketing. They bring specific aptitude and an abundance of information to the organization (Weir, Laing and David, 2011). As they are subordinates of the CEO, they are not in a position to monitor or teach the CEO (Dalton, C. M. and Dalton, D. R., 2013). In this way, it is imperative to have a system to monitor the activities of the CEO and official executives (Weir, et al. 2011).

Cadbury (2012) distinguishes the monitoring role as the key obligation of the non-executive directors. They may turn out to be less successful monitor as the length of their administration increments as they construct cozy associations with executive directors (O'Sullivan and Wong, 2014). This backings Cadbury's claim that the independence of non-executive directors may lessen as the residency of the board builds (Bhagat and Bolton, 2008).

If the representation on the board of non-executive directors increased the effectiveness of monitoring, then the performance of the company should improve. Researches by Fama and Jensen (2013) demonstrate that non-executive directors have more motivating force to secure the interest of the shareholders, as a result of the significance of keeping up their notoriety in the market for outside directorships. In this way, independent director are viewed as significant by the controllers because of their significance of better monitoring. Weir et al (2011) reports that boards with a majority of outside directors satisfy their monitoring role in respect to financial reporting.

Jensen and Mackling (2016) built up that outside directors give many points of interest. They additionally get a wide broadness of information, skill and contacts, which may improve the capacity of administration to secure scarce external resources, and additionally the independence they have from the CEO. Firms with a higher extent of outside directors are probably going to supplant the CEO after a time of poor execution of the organization. So also, outside executives are probably going to join boards up after a poor execution or leave when a move in methodology requires new or extra outside direction (Hermalin and Weisbach, 2011). A few investigations find that there is a positive connection between firm execution and board organization. Khaled (2014) express that boards dominated by independent outside directors are associated with substantially higher abnormal returns. There are others which express that having more outside executives on the board, builds execution (Pfeffer, 2012). There is additionally confirm which shows that the level of inside chiefs is high on boards of declining firms (Pfeffer, 2012). An examination by Enobakhare (2010) announced that amid times of declining execution number of outside directors would be influenced. On the other hand, when execution enhanced firms could include more outside executives. As indicated by Raheja (2015) the level of financial health is influenced by the board sythesis. They likewise find that sheets with a higher level of outside directors had a better than expected execution contrasted with firms with a lower number of non-executive directors.

On the other hand, there are researches about which demonstrate a negative connection between the extent of outside executives and corporate execution. Weir et al. (2011) express that there are various reasons why experimental confirmation may not bolster the positive connection between non-executive directors and performance. Non-executive directors are just utilized on low maintenance premise and are probably going to have other work responsibilities, which may bring about dedicating lacking time to the organization. They may do not have the mastery required to comprehend certain specialized issues in the business and they may not have adequate data when called upon to settle on key choices. In like manner, absence of time, the nonappearance of a suitable level of mastery, and dread of testing troublesome choices made by administration are a portion of the contentions which hinder the viability of non-official chiefs' commitment to corporate execution (Zahra and Pearce, 2013). There are different investigations which propose that there is no connection between outside autonomous chiefs and firm execution. Enobakhare (2010) don't discover any help for the speculation that a board's creation influences firm performance.

More so, the general makeup of the board and not its size, it's significant for firm performance. Therefore, the discussion for the board composition is that the skills and the knowledge base they bring to the association is of significance to firm performance (Donaldson and Davis, 2014).

2.5 Chapter Summary

The chapter covered empirical and theoretical literature on corporate governance and form financial performance. The corporate governance constructs reviewed in this chapter were; board size, CEO duality and board composition. Each of these governance constructs were reviewed in connection with firm performance.

CHAPTER THREE

3.0 Research Methodology

3.1 Introduction

The chapter presents different areas that make up the research methodology applied in this study. The areas covered include; research design, population and sampling design, data collection methods, research procedures, data analysis methods and chapter summary.

3.2 Research Design

This study adopted a correlational research design. This is on the grounds that the outline was fitting where the investigation looked to depict the attributes of specific gatherings, assess the extent of individuals who have certain qualities and build up the idea of connection between factors (Cooper and Schindler, 2011). The outline was likewise appropriate since it portrayed state of affairs as they existed without control of factors which was the point of the examination (Kothari, 2004). The design further allowed reliance on both qualitative and quantitative data collected from secondary sources which allowed for triangulation of data from different data sources as well as collection of complementary information. The quantitative approach provided readily analyzable data while the qualitative approach allowed collection of in depth information (Nsubuga, 2006).

3.3 Population and Sampling Design

3.3.1 Population

According to Kothari (2004), a population is a well-defined set of people, services, elements, events, groups of things or households that are being investigated. Mugenda, O. and Mugenda, A. (2008) explain that the target population should have some observable characteristics, to which the researcher intends to generalize the results of the study.

The study target population was the twelve NSE listed commercial and services firms (appendix I) from whom secondary data was sourced from the published annual statements for the period 2012 to 2016.

3.3.2 Sampling Design and Sample Size

The study will be based on probability sampling designs to sample the NSE listed commercial and services firms Limited.

3.3.2.1 Sampling Frame

Lavrakas (2008) defines a sampling frame as a list of the target population from which the sample is selected and that for descriptive survey designs a sampling frame usually consists of a finite population. Polit and Beck (2012) refer to a sampling frame as the technical name for the list of the elements from which the sample is chosen from. The study used stratified sampling procedure to identify the sample units. Al-Matari and Tellis (2012) in their study emphasize that stratified sampling method enable the researcher to select specific subjects who will provide the most extensive information about the phenomenon being studied. The sample units were twelve NSE listed commercial and services firms. The sampled twelve firms were selected because they have readily available information and have a higher level of information disclosure.

3.3.2.2 Sampling Technique

Stratified random sampling procedure was used to select the study sample. This is because the technique produces estimates of overall population parameters with great precision (Nsubuga, 2006). In stratified random sampling, the study grouped the population into two strata that is; market share leaders and others among the NSE listed commercial and services firms.

3.3.2.3 Sampling Size

From the target population of twelve NSE listed commercial and services firms, all the firms were included in the study.

3.4 Data Collection Methods

Quantitative secondary data was obtained from reports published by the Capital Market Authority of Kenya (CMA) the regulator of NSE sector in Kenya as well as from NSE listed commercial and services firms annual published financial statements. The study was purely based on secondary data which was obtained from the twelve companies published annual financial statements for the period of five years between 2012 and 2016. The choice of using secondary data was because the data is factual and verifiable. The secondary data was sourced from the databases of NSE listed commercial and services firms, NSE and CMA. For the dependent and independent variables data was obtained from the published financial reports as well as the CMA annual supervisory reports for the five-year period (2012-2016).

3.5 Research Procedure

Kombo and Tromp (2009) and Kothari (2004) describe a pilot test as a replica and rehearsal of the main survey. Donaldson and Davis (2014) states that pilot testing assists researchers to see if the questionnaire will obtain the required results. Polit and Beck (2012) states that the purpose of a pilot test is not so much to test research hypotheses, but rather to test protocols, data collection instruments, sample recruitment strategies and other aspects of a study in preparation for a larger study.

The study carried out a pilot test to enhance the validity and reliability of the data collection checklist in gathering the data required for purposes of the study. The pre-test was conducted among twelve listed firms outside commercial and services firms category.

Reliability is a measure of the degree to which a research instrument yields consistent results after repeated trials (Nsubuga, 2006). The researcher carried out a pilot study among twelve listed firms outside commercial and services firms' category. The reliability of the instrument will be estimated using Cronbach's Alpha Coefficient which is a measure of internal coefficient. A reliability of at least 0.70 at α=0.05 significance level and 0.95 confidence level will be accepted.

Validity indicates the degree to which an instrument measures what it is supposed to measure; the accuracy, soundness and effectiveness with which an instrument measures what it is intended to measure (Kothari, 2004); or the degree to which results obtained from the analysis of the data actually represent the phenomena under study (Mugenda, O. and Mugenda, A. 2008).

3.6 Data Analysis Methods

Once the data was retrieved from the secondary data sources, it was checked for completeness and consistency before it was coded and entered into SPSS (version 22). SPSS and excel were the software that the researcher employed to manipulate the data.

The study used secondary data consisting of both quantitative and qualitative data. In analysing quantitative data, the study used descriptive statistics. Measures of central tendency (mean), measures of dispersion (standard deviation), frequencies and percentage as the descriptive statistics were applied on the quantitative data (Kothari, 2004). Tables were used as appropriate to present the data findings while explanations was presented in prose. The multiple regression was used to determine the significance of each independent variable in affecting the financial performance of the NSE listed commercial and services firms (Kothari, 2004).

Qualitative data was analysed using content analysis, through developing a thematic framework from the key issues, concepts and themes emanating from the open-ended questions (Nsubuga, 2006).

The multiple regression analysis model specification were as follows

$Y=\alpha+\beta_1X_1 + \beta_2X_2+ \beta_3X_3 + \varepsilon$.

Y= is the dependent variable (financial performance of NSE listed commercial and services firms using Return on Asset = Net income/total asset)

$X_{1=}$ board composition (the number of executive directors compared to non-executive directors)

X_2= board size (Number of board members)

$X_{3=}$ CEO duality (CEO also being the chairman of the board of directors or not)

ε= error term

β=coefficient of independent variable.

α= constant

3.7 Chapter Summary

The chapter covered the different areas that make up the research methodology applied in this study. These included; research design where the study adopted a descriptive survey research design; population and sampling design where stratified random sampling procedure was used; data collection methods where secondary data was obtained from reports published by the Capital Market Authority of Kenya (CMA) the regulator of NSE sector in Kenya as well as from NSE listed commercial and services firms annual published financial statements; research procedures; data analysis methods where SPSS (version 22) and excel were the software that the researcher employed to manipulate the data; and chapter summary.

CHAPTER FOUR

4.0 Results and Findings

4.1 Introduction

The study sought to determine the effect of corporate governance on financial performance of NSE listed commercial and services firms. The Specific Objectives included; to determine the effect of board size on financial performance of NSE listed commercial and services firms; to establish the influence of CEO duality on financial performance of NSE listed commercial and services firms; and to evaluate the effect of board composition on financial performance of NSE listed commercial and services firms.

4.2 General Information

In this section, the descriptive statistics based on the study objectives are presented.

4.2.1 Net Income

The study sought to determine the net income of the listed firms and the results are as presented in Table 4.1 below.

Table 4.1 Net Income

Listed firms	2012	2013	2014	2015	2016
Express Ltd	1.20	1.56	2.21	3.25	4.65
Kenya Airways Ltd	2.20	2.89	3.12	4.23	5.25
Nation Media Group	2.50	3.12	3.89	4.65	5.87
Standard Group Ltd	3.30	3.94	4.23	5.12	6.42
TPS Eastern Africa (Serena) Ltd	0.90	1.31	2.22	3.56	4.56
Scangroup Ltd	0.70	1.22	2.15	3.56	4.68
Uchumi Supermarket Ltd	1.80	1.98	2.35	3.87	4.87
Hutchings Biemer Ltd	1.90	2.04	2.87	3.69	4.86

Longhorn Publishers Ltd	2.20	3.1	3.85	4.85	5.66
Atlas Development and Support Services	2.40	2.61	3.45	4.63	5.47
Deacons (East Africa) Plc	0.50	0.99	1.69	3.58	4.85
Nairobi Business Ventures Ltd	0.70	1.32	2.54	3.78	4.69
Average net income (Shs billion)	**1.69**	**2.17**	**2.88**	**4.06**	**5.15**

From the findings, the average net income (in billion Shs) for the listed commercial and services firms over the five-year period was as follows: 2012 1.69); 2013 (2.17); 2014 (2.88); 2015 (4.06); and 2016 (5.15) respectively. This was 205% increase in average net income for the listed commercial and services firms.

4.2.2 Total Asset

The study also sought to determine the average total asset for the listed commercial and services firms and the results are as presented in Table 4.1 below.

Table 4.2 Total Asset

Listed firms	**2012**	**2013**	**2014**	**2015**	**2016**
Express Ltd	26.83	31.89	32.45	34.22	36.12
Kenya Airways Ltd	21.79	24.82	25.65	27.54	28.35
Nation Media Group	22.79	29.22	31.21	31.98	33.64
Standard Group Ltd	21.6	25.65	27.2	28.65	29.85
TPS Eastern Africa (Serena) Ltd	20.75	24.8	25.91	27.65	28.33
Scangroup Ltd	21.71	25.56	25.99	27.56	29.21
Uchumi Supermarket Ltd	24.71	27.82	28.13	29.87	30.25
Hutchings Biemer Ltd	15.71	18.33	20.1	22.41	24.36
Longhorn Publishers Ltd	13.88	18.23	19.22	21.56	23.56
Atlas Development and Support Services	21.58	24.26	25.63	27.65	28.63
Deacons (East Africa) Plc	16.4	20.45	21.87	23.65	25.63

Nairobi Business Ventures Ltd	17.28	21.22	22.54	24.31	26.13
Average Total Asset (Shs billion)	**20.42**	**24.35**	**25.49**	**27.25**	**28.67**

From the findings, the average total asset (in billion Shs) for the listed commercial and services firms over the five-year period was as follows: 2012 (20.42); 2013 (24.35); 2014 (25.49); 2015 (27.25); and 2016 (28.67) respectively. This was 40.4% increase in average total asset for the listed commercial and services firms.

4.2.3 Return on Assets (ROA)

The study sought to establish the financial performance of NSE listed commercial and services firms for the period 2012 to 2016. To ascertain the financial performance, Return on Asset (ROA) was used where; ROA= [Net income/total asset].

Table 4.3 Return on Assets (ROA)

Details	**2012**	**2013**	**2014**	**2015**	**2016**
Average Net income Shs (billion)	1.69	2.17	2.88	4.06	5.15
Average Total asset Shs (billion)	20.42	24.35	25.49	27.25	28.67
ROA	**0.082**	**0.09**	**0.15**	**0.14**	**0.18**

The study established that over the five years period (2012 to 2016), ROA constantly increased from 0.082 in 2012 to 0.0.18 in 2016 which was significant increase in the firms' financial performance. The positive financial performance of NSE listed commercial and services firms could be attributed to the application of corporate governance practices by the NSE listed commercial and services firm.

4.2.4 Board Size

The study sought to determine the board size of the NSE listed commercial and services firms over the period between 2012 and 2016.

Table 4.4 Board Size

Listed firms	2012	2013	2014	2015	2016
Express Ltd	5	5	5	6	8
Kenya Airways Ltd	4	7	7	8	8
Nation Media Group	7	7	7	7	7
Standard Group Ltd	6	6	6	7	7
TPS Eastern Africa (Serena) Ltd	3	3	4	6	6
Scangroup Ltd	4	4	5	6	8
Uchumi Supermarket Ltd	6	6	7	7	7
Hutchings Biemer Ltd	4	4	7	7	8
Longhorn Publishers Ltd	4	5	7	7	8
Atlas Development and Support Services	3	4	7	8	8
Deacons (East Africa) Plc	5	5	6	8	8
Nairobi Business Ventures Ltd	3	4	5	8	9
Average number of directors	**4**	**5**	**6**	**7**	**9**

According to the findings, it was evident that the average board size of the NSE listed commercial and services firms was as follows 2012 (4), 2013 (5), 2014 (6), 2015 (7) and 2016 (9) respectively. This was a 125% transformation of the firms from small (4) to large (9) board sizes over the study period of 2012 to 2016.

4.2.5 CEO Duality

The study sought to determine the CEO duality of the NSE listed commercial and services firms over the period between 2012 and 2016.

Table 4.5 CEO duality

Listed firms	2012	2013	2014	2015	2016
Express Ltd	1	0	0	0	0
Kenya Airways Ltd	0	0	0	0	0
Nation Media Group	0	0	0	0	0
Standard Group Ltd	0	0	0	0	0
TPS Eastern Africa (Serena) Ltd	1	1	1	0	0
Scangroup Ltd	1	1	0	0	0
Uchumi Supermarket Ltd	0	0	0	0	0
Hutchings Biemer Ltd	1	1	1	1	0
Longhorn Publishers Ltd	0	0	0	0	0
Atlas Development and Support Services	0	0	0	0	0
Deacons (East Africa) Plc	0	0	0	0	0
Nairobi Business Ventures Ltd	0	0	0	0	0
Number of firms with CEO duality	**4**	**3**	**2**	**1**	**0**

The findings indicated that the trend of CEO duality among the 12 NSE listed commercial and services firms reduced over the five years with firms with CEO duality decreasing as follows; 2012 (4), 2013 (3), 2014 (2), 2015 (1) and 2016 (0).

4.2.6 Board Composition

The study sought to determine the board composition of the NSE listed commercial and services firms over the period between 2012 and 2016.

4.2.6.1 Executive directors

To ascertain the board composition of the NSE listed commercial and services firms, the study sought to determine number of executive directors.

Table 4.6 Executive directors

Listed firms	2012	2013	2014	2015	2016
Express Ltd	2	2	2	2	3
Kenya Airways Ltd	2	2	2	2	2
Nation Media Group	2	2	2	2	2
Standard Group Ltd	2	2	2	2	2
TPS Eastern Africa (Serena) Ltd	1	1	1	1	3
Scangroup Ltd	2	2	2	2	2
Uchumi Supermarket Ltd	2	2	2	2	2
Hutchings Biemer Ltd	3	3	3	3	4
Longhorn Publishers Ltd	2	2	2	2	2
Atlas Development and Support Services	2	2	2	2	4
Deacons (East Africa) Plc	2	2	2	2	2
Nairobi Business Ventures Ltd	2	2	2	2	3
Average number executive directors	2	2	2	2	3

From the findings, the average number of executive directors for the NSE listed commercial and services firms over the period between 2012 and 2016 as follows: 2012 (2); 2013 (2); 2014 (2); 2015 (2); and 2016 (3) respectively. This was minimal increase in average number of executive directors for the NSE listed commercial and services firms.

4.2.6.2 Non-executive directors

The study also sought to determine average number of non-executive directors for the NSE listed commercial and services firms over the period between 2012 and 2016.

Table 4.7 Non-executive directors

Listed firms	2012	2013	2014	2015	2016
Express Ltd	3	3	3	4	5
Kenya Airways Ltd	2	5	5	6	6
Nation Media Group	5	5	5	5	5
Standard Group Ltd	4	4	4	5	5
TPS Eastern Africa (Serena) Ltd	2	2	3	5	3
Scangroup Ltd	2	2	3	4	6
Uchumi Supermarket Ltd	4	4	5	5	5
Hutchings Biemer Ltd	1	1	4	4	4
Longhorn Publishers Ltd	2	3	5	5	4
Atlas Development and Support Services	1	2	5	6	4
Deacons (East Africa) Plc	3	3	4	6	6
Nairobi Business Ventures Ltd	1	2	3	6	6
Average non-executive directors	2	3	4	5	5

From the findings, the average number of non-executive directors for the NSE listed commercial and services firms over the period between 2012 and 2016 as follows: 2012 (2); 2013 (3); 2014 (4); 2015 (5); and 2016 (5) respectively. This was 150% increase in average number of non-executive directors for the NSE listed commercial and services firms.

4.3 Board Size and Financial Performance

The first objective of the study was to determine the effect of board size on financial performance of NSE listed commercial and services firms. To achieve this objective, the researcher sought to determine the average number of directors constituting the boards over the period between 2012 and 2016 for the NSE listed commercial and services firms. It further evaluated on the expertise mix of the directors. The twelve NSE listed commercial and services firms on average have large board sizes which is critical in their management given their large firm sizes. Their large board sizes were beneficial for their corporate performance because they have diverse expertise to help make better decisions, and are harder for their powerful CEOs to dominate. This larger board enabled them inclusion of more diverse board members bringing different areas of technical expertise which boosts firm financial performance by transcending challenging market forces. Therefore, the large board size for NSE listed commercial and services firms significantly enhanced their financial performance over the last five years (2012 to 2016). The study further established that NSE listed commercial and services firms enjoys diversity in its board technical expertise which formed their key foundations for introducing different perspectives into board debates but also offers better anticipation of the risks inherent in the opportunities that the firm pursue towards building a long-term and sustainable financial performance.

4.4 CEO Duality and Financial Performance

The second objective of the study was to establish the effect of CEO duality on financial performance of NSE listed commercial and services firms. To achieve this objective, the researcher sought to establish whether the CEOs from NSE listed commercial and services firms were also the Chairman of the board of directors over the period between 2012 and 2016.

The reducing number of firms with CEO duality as a corporate governance practice allowed for separation of functions between their chairmen of the board, a non-executive director and their CEOs their executive directors. This separation of powers ensured independence of the board and management, and balance of power. Similarly, it increased accountability, clear definition of responsibilities and improved decision making which was attained through a clear distinction between the non-executive and executive roles. The chairman's responsibilities among others included; leadership and governance of the board, ensuring board effectiveness and setting board agenda. On the other hand, the CEOs roles and responsibilities among others included; the day-to-day management of the company's business and overseeing the implementation of corporate strategy and policies approved by the board. Therefore, reduction in CEO duality among NSE listed commercial and services firms significantly contributes towards the improved financial performance over the five years between 2012 and 2016.

4.5 Board Composition and Financial Performance

The third objective of the study was to evaluate the effect of board composition on financial performance of NSE listed commercial and services firms. To achieve this objective, the researcher evaluated the number of executive versus non-executive directors of NSE listed commercial and services firms.

Table 4.8 Board composition

Year	**2012**	**2013**	**2014**	**2015**	**2016**
Average Executive directors	2	2	2	2	3
Average Non- executive directors	2	3	4	5	6
Average Board composition	**4**	**5**	**6**	**7**	**9**

From the findings, the study confirmed that the average number of executive directors for the 12 NSE listed commercial and services firms over the five-year period increased from 2 to 3 directors only. On the other hand, the average number of non-executive directors for the 12 NSE listed commercial and services firms over the five-year period significantly increased from 2 to 6 directors. Therefore, the number of non-executive directors was significantly higher than executive directors over the five-year period. The NSE listed commercial and services firms on average had more non-executive directors that the executive directors. This high proportion of non-executive directors ensured board independence in character, judgment and action in the management of the NSE listed commercial and services firms. Their boards on average have a majority of non-executive directors, who provide superior performance due to their independence from firm management. The NSE listed commercial and services firms' board with a majority of non-executive directors offer checks and balances to protect the interests of shareholders. The higher proportion of independent non-executive directors also increased board effectiveness in monitoring managerial opportunism and consequently, increased voluntary disclosures, hence increased financial performance of the NSE listed commercial and services firms. The ripple effect of majority of non-executive directors compared to the executive directors is the continuous improvement of their financial performance over the last five years (2012 to2016).

In addition to descriptive statistics that was used it the study, the multiple regression analysis was further undertaken to test the nature, magnitude and direction of relationship between the three corporate governance practices (board size, CEO duality and board composition) and financial performance of NSE listed commercial and services firms. Using the regression coefficient of determination, the researcher was able to explain the extent to which changes in the dependent variable (financial performance) was explained by the change in the independent variables (corporate governance practices). The model summary of findings is as shown in Table 4.5.

Table 4.5 Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.828[a]	.685	.656	.59384

The three corporate governance practices studied explained 68.5% (R^2) of financial performance of NSE listed commercial and services firms. This therefore means that factors not studied contribute 31.5% of the financial performance of NSE listed commercial and services firms.

Table 4.6 ANOVA

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	25.282	3	8.427	23.897	.000[b]
	Residual	11.637	9	.353		
	Total	36.919	12			

The study ANOVA results shown in Table 4.6 above established that the significance value is 0.001 which is less than 0.05, thus the model is statistically significant in predicting how board size, CEO duality and board composition influence financial performance of NSE listed commercial and services firms. The F critical at 5% level of significance was 3.23. Since F calculated is greater than the F critical (value = 23.897), therefore, the overall model was significant.

Table 4.7 Coefficients of Determination

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
	Constant	1.039	.729		1.425	.000
	Board composition	.861	.131	.716	6.552	.001
	Board size	.426	.187	.246	2.271	.030
	CEO non-duality	.342	.102	.003	.029	.042

From the regression coefficients of determination realized in this study as shown in Table 4.7 above, the regression equation: $Y=\alpha+\beta_1X_1 + \beta_2X_2+ \beta_3X_3 + \varepsilon$. Translates to: $Y= 1.039+ 0.861X_1 + 0.426X_2+ 0.342X_3 +\varepsilon$.

Based on the above regression equation, it is evident that taking all factors (board composition, board size and CEO non-duality) as constant and at zero, financial performance will be 1.039. Similarly, taking all other independent variables at zero, a unit increase in board composition will lead to a 0.861 increase in financial performance; a unit increase in board size will lead to a 0.426 increase in financial performance while a unit decrease in CEO non-duality will lead to a 0.342 increase in financial performance. This infers that board composition as a corporate governance practice contributes most to the financial performance of NSE listed commercial and services firms followed by board size and CEO duality respectively. At 5% level of significance and 95% level of confidence, the significance values for the three-corporate governance practices were as follows; board composition (0.001), board size (0.030) and CEO duality (0.042). The significance values obtained indicate that the most significant corporate governance practice influencing financial performance of NSE listed commercial and services firms is board composition followed by board size and CEO duality respectively.

Table 4.9 Board composition and financial performance

Chi-Square Tests			
	Value	Df	Asymp. Sig. (2-sided)
Pearson Chi-Square	38.322	4	.001
N of Valid Cases	12		

Table 4.9 shows that the chi-square value is 38.322 with an associated p value of 0.001. Since p is less than α = 0.05 confidence level (p< 0.05α), therefore board composition has significant relationship with financial performance of NSE listed commercial and services firms.

Table 4.10 Board size and financial performance

Chi-Square Tests			
	Value	Df	Asymp. Sig. (2-sided)
Pearson Chi-Square	20.456	6	.001
N of Valid Cases	12		

Table 4.10 shows that the chi-square value is 20.456 with an associated p value of 0.001. Since p is less than α = 0.05 confidence level (p< 0.05α), therefore board size has significant relationship with financial performance of NSE listed commercial and services firms.

Table 4.11 CEO Duality and financial performance

Chi-Square Tests			
	Value	Df	Asymp. Sig. (2-sided)
Pearson Chi-Square	23.883	9	.001
N of Valid Cases	12		

Table 4.11 shows that the chi-square value is 23.883 with an associated p value of 0.001. Since p is less than α = 0.05 confidence level (p< 0.05α), therefore CEO duality has significant relationship with financial performance of NSE listed commercial and services firms.

4.6 Chapter Summary

The study sought to determine the effect of corporate governance on financial performance of NSE listed commercial and services firms. Specifically, the study sought to ascertain the effect of application of board size, CEO duality and board composition as corporate governance practices on financial performance of NSE listed commercial and services firms. The study findings confirmed that board size, CEO duality and board composition significantly influenced financial performance of the NSE listed commercial and services firms with board composition contributing the most to the financial performance of NSE listed commercial and services firms followed by board size and CEO duality respectively.

CHAPTER FIVE

5.0 Summary, Discussion, Conclusions and Recommendations

5.1 Introduction

This chapter presents the summary, discussion, conclusions and recommendations of the study on the effect of corporate governance on financial performance of NSE listed commercial and services firms.

5.2 Summary of the Study

The study established that ROA values constantly increased from 0.082 in 2012 to 0.18 in 2016 which was a significant increase in the firm's financial performance. The positive financial performance of NSE listed commercial and services firms could be attributed to the application of corporate governance practices.

With regard to board size of NSE listed commercial and services firms, the study established that the average board size was as follows; 2012 (4), 2013 (5), 2014 (6), 2015 (7) and 2016 (9) respectively. This was a 125% transformation of the firms from small (4) to large (9) board sizes over the study period of 2012 to 2016. The twelve NSE listed commercial and services firms have large board sizes which is critical in their management given their large firm sizes. Their large board sizes were beneficial for their corporate performance because they have diverse expertise to help make better decisions, and are harder for their powerful CEOs to dominate. This larger board enabled them inclusion of more diverse board members brining different areas of technical expertise which boosts firm financial performance by transcending challenging market forces. Therefore, the large board size for NSE listed commercial and services firms significantly enhanced their financial performance over the last five years (2012-2016). The study further established that NSE listed commercial and services firms enjoys diversity in its board technical expertise which formed their key foundations for introducing different perspectives into board debates but also offers better anticipation of the risks inherent in the opportunities that the firm pursue towards building a long-term and sustainable financial performance.

The study further identified that the trend of CEO duality among the twelve NSE listed commercial and services firms reduced over the five years with firms with CEO duality decreasing as follows; 2012 (4), 2013 (3), 2014 (2), 2015 (1) and 2016 (0). The reducing number of firms with CEO duality as a corporate governance practice allowed for separation of functions between their chairmen of the board, a non-executive director and their CEOs their executive directors. This separation of powers ensured independence of the board and management, and balance of power. Similarly, it increased accountability, clear definition of responsibilities and improved decision making which was attained through a clear distinction between the non-executive and executive roles. The chairman’s responsibilities among others included; leadership and governance of the board, ensuring board effectiveness and setting board agenda. On the other hand, the CEOs roles and responsibilities among others included; the day-to-day management of the company’s business and overseeing the implementation of corporate strategy and policies approved by the board. Therefore, reduction in CEO duality among NSE listed commercial and services firms significantly contributes towards the improved financial performance over the five years between 2012 and 2016.

In terms of board composition, the study established that the average number of executive directors for the twelve NSE listed commercial and services firms over the five-year period changed from 2 to 3 directors only. On the other hand, the average number of non-executive directors for the twelve NSE listed commercial and services firms over the five-year period significantly increased from 2 to 5 directors. Therefore, on average, the number of non-executive directors was significantly higher than executive directors over the five-year period. The NSE listed commercial and services firms had more non-executive directors than the executive directors. This high proportion of non-executive directors ensured board independence in character, judgment and action in the management of the NSE listed commercial and services firms. Their boards have a majority of non-executive directors, who provide superior performance due to their independence from firm management. The NSE listed commercial and services firms' boards with a majority of non-executive directors offer checks and balances to protect the interests of shareholders. The higher proportion of independent non-executive directors also increased board effectiveness in monitoring managerial opportunism and consequently, increased voluntary disclosures, hence increased financial performance of the NSE listed commercial and services firms. The ripple effect of majority of non-executive directors compared to the executive directors is the continuous improvement of their financial performance over the last five years (2012-2016).

From the regression analysis, the study established that the three corporate governance practices (board size, CEO duality and board composition) studied explained 68.5% (R^2) of financial performance of NSE listed commercial and services firms. Taking all corporate governance practices (board composition, board size and CEO duality) under review at constant zero, financial performance will be 1.039. Similarly, taking all other independent variables at zero, a unit increase in board composition will lead to a 0.861 increase in financial performance; a unit increase in board size will lead to a 0.426 increase in financial performance while a unit decrease in CEO non-duality will lead to a 0.342 increase in financial performance. This infers that board composition as a corporate governance practice contributes most to the financial performance of NSE listed commercial and services firms followed by board size and CEO duality respectively. At 5% level of significance and 95% level of confidence, the significance values for the three-corporate governance practices were as follows; board composition (0.001), board size (0.030) and CEO duality (0.042). The significance values obtained indicate that the most significant corporate governance practice influencing financial performance of NSE listed commercial and services firms is board composition followed by board size and CEO duality respectively.

5.3 Discussion of Results

5.3.1 Effect of Board Size on Financial Performance

The study established that NSE listed commercial and services firms have a large board size which was critical in their management given their large firm size. Their large board sizes were beneficial for their corporate performance because they have diverse expertise to help make better decisions, and are harder for their powerful CEOs to dominate. These larger boards enabled them inclusion of more diverse board members bringing different areas of technical expertise which boosts firm financial performance by transcending challenging market forces.

The findings are similar to Khaled, (2014) who established that larger boards are better for corporate performance because they have a range of expertise to help make better decisions, and are harder for a powerful CEO to dominate. Similarly, Eisenberg (2008) and Jensen (2013) established that a larger board is preferable, as this enables the inclusion of more diverse board members bringing different areas of expertise; however, increased board size causes increased problems of coordination and communication, undermining board effectiveness in monitoring agents. However, the findings are contrary to Porta, et al. (2010) who argue that large boards are less effective and are easier for a CEO to control. When a board gets too big, it becomes difficult to co-ordinate and process problems. Smaller boards also reduce the possibility of free riding by individual directors, and increase their decision-making processes.

5.3.2 Effect of CEO duality on Financial Performance

The study established that the trend of CEO duality among the twelve NSE listed commercial and services firms reduced over the five years with firms with CEO duality decreasing as follows; 2012 (4), 2013 (3), 2014 (2), 2015 (1) and 2016 (0). The reducing number of firms with CEO duality as a corporate governance practice allowed for separation of functions between their chairmen of the board, a non-executive director, their CEOs and their executive directors. This separation of powers ensured independence of the board and management, and balance of power. Similarly, it increased accountability, clear definition of responsibilities and improved decision making which was attained through a clear distinction between the non-executive and executive roles. The chairman's responsibilities among others included; leadership and governance of the board, ensuring board effectiveness and setting board agenda. On the other hand, the CEOs roles and responsibilities among others included; the day-to-day management of the company's business and overseeing the implementation of corporate strategy and policies approved by the board. Therefore, reduction in CEO duality among NSE listed commercial and services firms significantly contributes towards the improved financial performance over the five years between 2012 and 2016.

The findings agree with earlier findings by Cadbury (2012) who believes that the role of chairman should, in principle, be separate from that of the chief executive. This is because, when the two roles are combined, it represents a considerable concentration of power within the decision-making process. The findings also resonate with Suryanarayana (2015) who indicated that another advantage of the appointment of an independent chairman is that he/she brings experience in running similar businesses or handling the functions of finance, as well as the independence, objectivity and dispassionate views needed on crucial matters. A separation of the two roles seems to be a prudent and effective means of ensuring proper focus and eliminating potential errors and conflict of interest that may arise as a result of combining the roles. However, the findings are contrary to Rechner and Dalton, K. (2013) who established that CEO duality has a strong effect on a firm's financial performance because it paces up the decision-making process and removes unnecessary bureaucracy, hence leading to stronger financial performance.

5.3.3 Effect of Board Composition on Financial Performance

The study further established that the average number of executive directors for the twelve NSE listed commercial and services firms over the five-year period increased from 2 to 3 directors only. On the other hand, the average number of non-executive directors for the twelve NSE listed commercial and services firms over the five-year period significantly increased from 2 to 6 directors. Therefore, on average, the number of non-executive directors was significantly higher than executive directors over the five-year period. The NSE listed commercial and services firms had more non-executive directors that the executive directors. This high proportion of non-executive directors ensured board independence in character, judgment and action in the management of the NSE listed commercial and services firms. Their boards have a majority of non-executive directors, who provide superior performance due to their independence from firm management. The NSE listed commercial and services firms' boards with a majority of non-executive directors offer checks and balances to protect the interests of shareholders. The higher proportion of independent non-executive directors also increased board effectiveness in monitoring managerial opportunism and consequently, increased voluntary disclosures, hence increased financial performance of the NSE listed commercial and services firms.

The findings are similar to Bhagat and Bolton (2008) who indicated that an effective board should be comprised of a majority of non-executive directors, who are believed to provide superior performance due to their independence from firm management. Similarly, Fama and Jensen (2013) argue that a higher proportion of independent non-executive directors increases board effectiveness in monitoring managerial opportunism and, consequently, increases voluntary disclosures, hence increased financial performance of the firm.

5.4 Conclusions

5.4.1 Effect of Board Size on Financial Performance

The study concludes that the financial performance of NSE listed commercial and services firms has significantly improved over the period of five years from 2012 to 2016. This positive financial performance of NSE listed commercial and services firms could be attributed to the efficient application of corporate governance practices.

The study also concludes that there was a significant transformation of the firms from small to large board sizes over the study period of year 2012 to 2016. The NSE listed commercial and services firms have large board sizes which is critical in their management given their large firm sizes. Their large board sizes were beneficial for their corporate performance because they have diverse expertise to help make better decisions, and are harder for their powerful CEOs to dominate. These larger boards enabled them inclusion of more diverse board members bringing different areas of technical expertise which boosts firm financial performance by transcending challenging market forces. Therefore, the large board size for NSE listed commercial and services firms significantly enhanced their financial performance over the last five years (2012-2016). The study further established that NSE listed commercial and services firms enjoys diversity in its board technical expertise which formed their key foundations for introducing different perspectives into board debates but also offers better anticipation of the risks inherent in the opportunities that the firm pursue towards building a long-term and sustainable financial performance.

5.4.2 Effect of CEO duality on Financial Performance

The study also concludes that the trend of CEO duality among the twelve NSE listed commercial and services firms reduced over the five years study period. The reducing number of firms with CEO duality as a corporate governance practice allowed for separation of functions between their chairmen of the board, non-executive directors, their CEOs and their executive directors. This separation of powers ensured independence of the board and management, and balance of power. Similarly, it increased accountability, clear definition of responsibilities and improved decision making which was attained through a clear distinction between the non-executive and executive roles. The chairman’s responsibilities among others included; leadership and governance of the board, ensuring board effectiveness and setting board agenda. On the other hand, the CEOs roles and responsibilities among others included; the day-to-day management of the company’s business and overseeing the implementation of corporate strategy and policies approved by the board. Therefore, reduction in CEO duality among NSE listed commercial and services firms significantly contributes towards the improved financial performance over the five years between 2012 and 2016.

5.4.2 Effect of Board Composition on Financial Performance

In terms of board composition, the study concludes that the average number of non-executive directors was significantly higher than executive directors over the five-year period. The NSE listed commercial and services firms had on average more non-executive directors than the executive directors. This high proportion of non-executive directors ensured board independence in character, judgment and action in the management of the NSE listed commercial and services firms. Their boards have a majority of non-executive directors, who provide superior performance due to their independence from firm management. The NSE listed commercial and services firms' boards with a majority of non-executive directors offer checks and balances to protect the interests of shareholders. The higher proportion of independent non-executive directors also increased board effectiveness in monitoring managerial opportunism and consequently, increased voluntary disclosures, hence increased financial performance of the NSE listed commercial and services firms. The ripple effect of majority of non-executive directors compared to the executive directors is the continuous improvement of their financial performance over the last five years (2012-2016).

It is further concluded that the three corporate governance practices (board size, CEO non-duality and board composition) significantly and positively influenced financial performance of NSE listed commercial and services firms with board composition contributing the most followed by board size and CEO duality respectively. Hence, the most significant corporate governance practice influencing financial performance of NSE listed commercial and services firms is board composition followed by board size and CEO duality respectively.

5.5 Recommendations

5.5.1 Suggestions for Improvements

5.5.1.1 Effect of Board Size on Financial Performance

The study established that NSE listed commercial and services firms have large board sizes which are critical in their management given their large firm sizes. The study recommends that the management of NSE listed commercial and services firms should constantly monitor the board size to ensure there is smooth coordination within the board, that there is no free riding by individual directors, its efficiency in decision making remains optimal and that CEO dominance is not allowed which are the challenges with large board sizes.

5.5.1.2 Effect of CEO Duality on Financial Performance

The study confirmed that among the NSE listed commercial and services firms, there was reducing number of firms with CEO duality to allow for separation of functions between their chairmen of the board and CEOs. The study recommends that their management should continuously review the roles of their CEOs and the chairmen of the board to ensure both remain effective in their roles due to the ever-changing market dynamics and to safeguard shareholder value.

5.5.1.3 Effect of Board Composition on Financial Performance

The study also deduced that the average number of non-executive directors was increasingly higher than executive directors over the five-year period. The study recommends that the management of NSE listed commercial and services firms should seek to ensure greater diversity of non-executive board members and continuous supervision of executive board members to reduce the risk of the company through rigorous checks and balances.

5.5.2 Suggestions for Further Research

It was established that the three corporate governance practices (board size, CEO non-duality and board composition) studied explained 68.5% (R^2) of financial performance of NSE listed commercial and services firms. The study recommends that the other corporate governance practices contributing the 31.5% of financial performance of NSE listed commercial and services firms should be investigated.

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APPENDIX I: NSE LISTED FIRMS-COMMERCIAL AND SERVICES

1. Express Ltd
2. Kenya Airways Ltd
3. Nation Media Group
4. Standard Group Ltd
5. TPS Eastern Africa (Serena) Ltd
6. Scangroup Ltd
7. Uchumi Supermarket Ltd
8. Hutchings Biemer Ltd
9. Longhorn Publishers Ltd
10. Atlas Development and Support Services
11. Deacons (East Africa) Plc
12. Nairobi Business Ventures Ltd