EFFECT OF CORPORATE BOARD STRUCTURE ON FINANCIAL DISTRESS OF NON-FINANCIAL FIRMS LISTED AT NAIROBI SECURITIES EXCHANGE

BY

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UNITED STATES INTERNATIONAL UNIVERSITY – AFRICA

SPRING 2019
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A research project Submitted to Chandaria School of Business in Partial Fulfillment of the Requirement for the Degree of Master of Business Administration (MBA)

UNITED STATES INTERNATIONAL UNIVERSITY – AFRICA

SPRING 2019
STUDENT DECLARATION

I, the undersigned declare that this thesis is my original work and that it has not been submitted to any other college or other institution of higher learning for academic credit other than United States International University - Africa

Signed: ___________________________ Date: _____________________

Thuranira Maorwe (ID 654027)

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

Signed: ___________________________ Date: _____________________

Timothy C. Okech, PhD

Signed: ___________________________ Date: _____________________

Dean, Chandaria School of Business
ABSTRACT

The general objective of the study was to establish the effect of corporate board structure on financial distress of non-financial firms listed at Nairobi Securities Exchange. The specific objectives of the study were to: determine the effect of board composition on financial distress of non-financial firms listed at Nairobi Securities Exchange; examine the effect of ownership concentration on financial distress of non-financial firms listed at Nairobi Securities Exchange; and determine the effect of board diversity on financial distress of non-financial firms listed at Nairobi Securities Exchange.

The study adopted descriptive study design. The population of the study constituted all the thirty-nine non-financial firms listed at the Nairobi Securities Exchange as at December 2017. A census was conducted on the entire population. The study used both primary and secondary data to realize the specific objectives. The study adopted descriptive and inferential analysis techniques. Descriptive statistics were percentages, mean and standard deviation. Inferential statistics on the other hand was correlation and regression analysis.

The study findings showed that on average, 8 board members sit on the board of the non-financial firms listed at the NSE. It was also established that 51% of the non-financial firms listed at the NSE had above a third of non-executive board members on their boards and none of them had CEO duality. Correlation findings revealed that board composition was negatively correlated with financial distress. This was confirmed in the regression analysis where it was shown that board composition has a negative (Beta = -.367 and significant (Sig = .001, < .05) effect on financial distress of non-financial firms listed at NSE. On ownership concentration, the findings showed that 89% of the respondents agreed that below 15% of their shares are held by the managers, 64% are held by foreign owners and 49% are held by the government and government institutions. This indicated block ownership of the shares by the management and foreigners. Correlation findings indicated that ownership concentration was positively correlated with financial distress. Regression results showed that ownership concentration has a positive (Beta = .325) and significant (Sig = .002, < .05) effect on financial distress of non-financial firms listed at NSE. The findings on board diversity indicated that majority of the respondents agreed that the company has a balance in the age mix of the board members, gender mix of the board members and a balance in the educational qualifications of the board members. Correlation results showed that board diversity was negatively correlated with financial
distress. Similarly, regression results showed that board diversity has a negative (Beta = -.487) and significant (Sig = .000, < .05) effect on financial distress of non-financial firms listed at NSE.

Based on the findings, the study concluded that an improvement in board composition in terms of a balanced board size and high board independence through increased number of non-executive members leads to a reduction in financial distress. Another conclusion is that an increase in ownership concentration in terms of the management, foreign owners or the government having block shareholding, leads to an increase in financial distress. This is because block owners can overrule key decisions on the board and can misuse their powers to make appointments to the board thus affecting a firm performance negatively and increasing financial distress. The study also concluded that an increase in board diversity in terms of gender diversity, education diversity and age diversity leads to a decrease in financial distress. A highly diversified board brings different opinion, experience and education as well as understanding on board decisions which leads to better performance in turn reducing financial distress.

The study recommends the non-financial firms to observe the CMA code on the requirements of the CEO duality and board independence. There is a need to have more non-executive board members on the board so as to increase the board independence and the overseeing role. The study also recommends that non-financial firms should have a policy in place to manage the maximum number of shares that a single individual, manager, foreign owners or government can hold in the firm. The study also recommends that non-financial firms listed at NSE should come up with policies to ensure that there is gender diversity in the board, age diversity as well as educational diversity.
ACKNOWLEDGEMENT

Prof. Okech C Timothy has been the ideal project supervisor. His sage advice, insightful criticisms and patient encouragement aided in writing of this project in innumerable ways.
DEDICATION

This project is dedicated to my mother, who taught me that the best kind of knowledge to have is that which is learned for its own sake and even the largest task can be accomplished if it is done one step at a time. It is also dedicated to the rest of my family and friends for their support.
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<tr>
<td>ADRs</td>
<td>American Depositary Receipts</td>
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<tr>
<td>CBK</td>
<td>Central Bank of Kenya</td>
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<tr>
<td>CEO</td>
<td>Chief Executive Officer</td>
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<td>CG</td>
<td>Corporate Governance</td>
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<td>CMA</td>
<td>Capital Market Authority</td>
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<td>CMC</td>
<td>Cooper Motor Corporation</td>
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<td>DEA</td>
<td>Data Envelopment Analysis</td>
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<td>EU</td>
<td>European Union</td>
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<tr>
<td>FTSE</td>
<td>Financial Times Stock Exchange</td>
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<tr>
<td>GAAP</td>
<td>Generally Accepted Accounting Principles</td>
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<td>IFRS</td>
<td>International Financial Reporting Standards</td>
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<td>KSE</td>
<td>Kuwait Stock Exchange</td>
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<td>NSE</td>
<td>Nairobi Securities Exchange</td>
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<tr>
<td>OECD</td>
<td>Organisation for Economic Co-operation and Development</td>
</tr>
<tr>
<td>OLS</td>
<td>Ordinary Least Square</td>
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<tr>
<td>ROA</td>
<td>Return on Assets</td>
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<td>ROE</td>
<td>Return on Equity</td>
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<td>ROS</td>
<td>Return on Sales</td>
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<tr>
<td>SBC</td>
<td>Soft-Budget Constraint</td>
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<td>UK</td>
<td>United Kingdom</td>
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CHAPTER ONE

1.0 INTRODUCTION

1.1 Background of the Study

Corporate governance outlines the morphology through which organizations achieve their financial goals (Capital Market Authority (CMA), 2015). It comprises systems, processes, procedures and structures that enrich organizational decisions from the financial perspective for the benefit of key stakeholder that may include shareholders, employees and customers. Corporate governance structures can help firms to enhance investor confidence and maximize profits due to good stakeholder relationship. Sound corporate board structures can generate investor confidence and promote organizational profitability. In addition, lack of proper management policies among firms can lead to reduced productivity among competitive firms (Moche, 2014). Corporate board structures adopted by competitive firms can promote several benefits ranging from; accessibility to financing reduced cost of capital and enhanced stakeholder relationships (Arora & Sharma, 2016).

A good corporate board structure eliminates the issue of information asymmetry to shareholders who are not in a position to directly observe and monitor the actions of management leading to ethical risk and poor selection difficulties (Raelin et al., 2013). It also reduces the effects of agency costs that are the outcome of information asymmetry as it embodies a set of mechanisms that effectively tackle agency problems. The major concern of corporate governance structure is to establish a suitable legal, economic as well as conducive institutional environment for business enterprises growth facilitation, prosperity and survival as institutions that enhance shareholder value maximization while being discreetly cognizant of the well-being of all other stakeholders as well as the entire society (Qiu, Shaukat, & Tharyan, 2016).

The overall desirable effect of good governance structures is the attraction of preferred investors, creation of competitive as well as efficient companies and business enterprises; increasing accountability and performance of the company top management team as well as promoting efficient and effective utilization of the company’s limited resources (Moche,
In this study, corporate board structure has been measured as the board size, board independence and CEO duality.

Financial distress relates to a broad concept with several situations in which a firm faces financial difficulty bankruptcy, insolvency and failure (Maina & Sakwa, 2017). Other scholars such as Gao, Parsons and Shen (2017) argue that financial distress refers to a situation when a company falls in tight cash situations such that it is not able to pay the owed amount within the due date and if no interventions are injected, this condition can force a firm into bankruptcy or liquidation (Gao, Parsons, & Shen, 2017). On the same note, Al-Hadi et al., (2017) argue that this condition arises from wrong financial decisions made by firm managers in the long run operations of a firm (Bhaskar, Krishnan, & Yu, 2017).

Majority of the non-financial institutions both in developed and developing countries can experience financial distress due to poor managerial policies, inefficient and ineffective internal control systems, non-disclosure of financial information and inability to recognize stakeholder rights (Shahwan, 2015). Poor risk management strategies and lack of trainings among firms’ employees can also result to financial distress. Financial distress among firms can take different forms that range from high default cases on corporate loans, inability to pay dividends to shareholders and management wrangles (Manzaneque et al., 2016). Geng, Bose and Chen (2015) regard financial distress as an occurrence that can be termed as the difference between the company’s financial health and illness at a particular point in time. In addition, firms may restructure, downsize, partner and rebrand to enhance their financial position in the changing business environment.

The 2014 report by the Organisation for Economic Co-operation and Development (OECD) stressed that the failures and weaknesses in corporate board structure of certain financial institutions are largely regarded as a major cause of the financial crisis. A lack of confidence in the global financial markets is attributed to shortcomings in corporate board structure practices, both for the financial and non-financial firms (Van Essen, Engelen, & Carney, 2013). These failures have led to conflicts of interest between shareholders and managers of these firms and between shareholders and the board. Business leaders may pursue short-term gains at the expense of shareholder wealth (Davies, 2016).
For instance, in the European Union (EU), the European Commission concluded that the non-binding nature of a substantial part of the framework of corporate governance, based essentially on voluntary codes of conduct, does not facilitate the implementation of governance practices in the institutions (Gulbrandsen, 2014; Graham, Harvey, & Puri, 2013; Chancharat and Chancharat, 2013; Claessens, & Kose, 2013).

For the last decade, the performance of firms listed at NSE has been mixed (Muchiri, Muturi & Ngumi, 2016). More than 10 companies have been delisted from the Nairobi Securities exchange for the last one decade with reasons related to corporate scandals related to corporate board structure. Some of these firms are CMC, Uchumi, Pan Paper Mills, Hutchings Biemer and which were put under legislative management due to corporate related scandals. In September 2014, Eveready Ltd cut 100 jobs and closed its dry cell-making plant in Nakuru, in October 2014, chocolate maker Cadbury shut down its manufacturing plant in Nairobi, shedding about 300 jobs (NSE, 2015).

Musila (2007), argued that the erosion of investor confidence in Kenya has been brought about by companies’ corporate board structure and a lack of transparency which has been a major contributor to the financial distress of most of the listed firms. This is evidenced by the collapse of firms listed in the NSE such as Uchumi and many stock brokerage firms in a period of just less than ten years. Therefore, the restoration of confidence in the economy by investors will rely on improvements in corporate board structures.

Murage (2010) on the other hand established that corporate board structure was a critical determinant of financial distress of affirm. It was established that when the board was dominated by non-executive directors, it enhanced firm value. Murage (2010) further established that while the CEO duality did not significantly impact on financial distress it had a positive relationship with financial performance in conflict with other studies. On the other hand, Aduda, Chogii and Magutu (2013) established that corporate board structure relating to ownership concentration and CEO duality were major determinants of financial distress. This is because the major shareholder has more powers to nominate a CEO and other executives without intervention from minority shareholders. As a result, overwhelming agency conflicts, contradicted market discipline, together with controlling ownership of government leave
managers with so much room to exercise opportunistic earnings discretion hence affecting earnings quality (Liu, Saidi & Bazaz, 2014).

1.2 Statement of the Problem

Financial distress attributed to corporate board structure has contributed towards failure of firms under unforeseen circumstances. It has been on the increase with evidence of big companies worldwide such as Enron and WorldCom (Hotchkiss, Strömberg & Smith, 2014). Locally, the performance of firms listed at NSE has been mixed for the last five years (Wangige, 2016). Mburu (2014) opine that corporate governance related scandals have negatively affected performance of some listed firms plunging them into financial distress hence being delisted. Examples of such firms were CMC, Mumias and National Bank of Kenya (Mburu, 2014).

The role of corporate board structure in enhancing financial performance and reducing financial distress has been termed as significant (Bhagat & Black, 2012). Good corporate board structure decreases financial distress but bad business governance activities results in greater likelihood of financial distress (Bhagat & Black, 2012). However, the corporate board structures of the firms listed at NSE has been in the lime light in the recent years where managers and directors have been accused of poor corporate board structures resulting to financial distress among listed firms such as National Bank of Kenya, CMC motors, Mumias Sugar and Uchumi Supermarkets.

Furthermore, the study is also motivated by knowledge gaps in the previous studies. Manzaneque, Priego and Merino (2016) looked at some methods of corporate governance listed companies and their influence on the possibility of monetary distress in Spain. The study however focused on a different context which is Spain. The study by Shah (2016) on the effect of corporate governance on financial distress in Pakistan also presented a contextual knowledge gap since it was conducted in Pakistan. A study by Memba and Abuga (2013) on the other hand concluded that financial distress is caused by poor capital decisions, poor internal management shortage of skilled labor, corporate governance and lack to access of credit. However, the study focused on other variables such as poor capital decisions, poor
internal management shortage of skilled labor as well as corporate governance. Another study by Maina and Sakwa (2017) established that management style, corporate governance and capacity, and government policies cause financial distress. The study however failed to focus on corporate board structure as the determinant thus presenting conceptual knowledge gap.

1.3 General Objective

The general objective of the study was to determine the effect of corporate board structure on financial distress of non-financial firms listed at Nairobi securities exchange.

1.4 Specific Objectives

The specific objectives of the study are as indicated below;

1.4.1: To determine the effect of board composition on financial distress of non-financial firms listed at Nairobi Securities Exchange

1.4.2: To examine the effect of ownership concentration on financial distress of non-financial firms listed at Nairobi Securities Exchange

1.4.3: To determine the effect of diversity on financial distress of non-financial firms listed at Nairobi Securities Exchange.

1.5 Significance of the Study

The topic of financial distress is important especially with regard to listed firms. The findings of this study are hence expected to be beneficial to a number of stakeholders as discussed in the subsections.

1.5.1 Shareholders and Managers of Firms Listed at NSE

The results of the study are expected to be important to shareholders and managers of firms listed at NSE. The information given on the association among financial distress and corporate board structure can be helpful to them to identify problems in the corporate structure and implement changes in management so as to have better performance and avoid financial distress.
1.5.2 Governments and Policy Makers

The results of the study can be important to the government and policy makers because corporate governance is particularly closely linked to government policies and legal enforcement. The government influences on corporate governance of firms through its policies and regulations as implemented by capital market authority can be reviewed so as to have sound governance mechanism among listed firms.

1.5.3 Scholars and Academicians

The results can add to the present information on corporate board structure and financial distress in the Kenyan context. The study developed a conceptual framework based on the Kenyan context to establish its applicability to the firms listed at NSE. This adds to the existing knowledge on corporate board structure and financial distress. Scholars and academicians in the finance discipline can also build on future on this study by conducting future studies to broaden the knowledge on financial distress. Furthermore, they can consider the methods and results of this research and possibly extend it in various directions.

1.6 Scope of the Study

The study focused on establishing the effect of corporate board structure on financial distress among non-financial firms listed at Nairobi Securities Exchange. Specifically, the study focused on board composition, board ownership concentration and board diversity. The target population of the study was all the 39 non-financial firms listed at the Nairobi Securities Exchange where four top management employees from each of the 39 companies were considered for the study hence a total of 156 respondents were targeted. The study used primary data. Geographically, the scope of the study was in Kenya. Secondary data was collected between the year 2014 and 2018. The study was anchored on the Agency theory. Agency theory provides an understanding of the way managers in an organization plays a role of safeguarding the shareholders’ interests of profits maximization. The managers act as the agents while the shareholders act as the principals. In this regard, it is expected that the managers and the firm board play a role of maximizing the shareholder’s wealth.
1.7 Limitations of Study

The researcher experienced challenges during the stage of data collection where some of the respondents were not willing to give information being sought. However, an introduction letter from the university was used for introduction during data collection and the respondents were also assured of their confidentiality. Another limitation was experienced at the stage of collecting secondary data where cases of missing data were experienced among some of the delisted companies.

1.8 Definition of Terms

The subsection presents definition of key terms in the study.

1.8.1 Board Independence

Board independence refers to a corporate board that has a majority of outside directors who are not affiliated with the top executives of the firm and have minimal or no business dealings with the company to avoid potential conflicts of interests (Liu, Miletkov, Wei & Yang, 2015).

1.8.2 Board Size

Board size is the total number of people chosen by the shareholders of the company through an election to run the company and rebound by certain duties such as the duty to act within the scope of their authority and to exercise due care in the performance of their corporate tasks (Peasnell, Pope & Young, 2015).

1.8.3 Chief Executive Officer Duality

Chief Executive Officer Duality is described as the situation whereby companies separate the two positions of Chairman and Chief Executive Officer, and such offices are then held by different persons in order to evade concentration of power in individual, because holding the two position by a single person may rob the board of the required checks and balances in the discharge of duties (Maeri et al., 2014).
1.8.4 Financial Distress

Financial distress relates to a broad concept with several situations in which a firm faces financial difficulty ranging from bankruptcy, insolvency and failure (Shisia, Sand, & Okibo, 2014).

1.8.5 Board Composition

Board composition refers to issues which concern board and board committee independence as well as the diversity of the boards (Arora & Sharma, 2016).

1.8.6 Corporate Board

A corporate board refers to a group of persons appointed or elected according to law, authorized to manage and direct the affairs of a corporation or company.

1.8 Chapter Summary

The chapter has discussed the background of the study where the relationship between corporate board structure and financial distress has been presented. The chapter then presented the statement of the problem, general objective as well as specific objectives. The chapter has further discussed the significance of the study, presented the definition of terms and finally the chapter summary. The next chapter is chapter two which presents literature review. Empirical literature is presented in chapter tow where discussion on the variables is presented. After chapter two, the study presents chapter three which discusses the methodology to be used in data collection and analysis in order to achieve the research objectives. The next chapters are chapter four which presents the results and findings as well as chapter five which gives the summary of findings, discussion, conclusions and recommendations.
CHAPTER TWO

2.0 LITERATURE REVIEW

2.1 Introduction

This chapter contains the past relevant literature from other researchers who have done research in the same area of corporate board structure and financial distress. Specifically, empirical literature on the variables of the study is presented in this chapter.

2.2 Board Composition and Financial Distress

Board composition, as part of corporate board structure mechanism, plays a significant role to achieve company’s goals or objectives and ensure transparency and accountability (Manzaneque et al., 2016). Board composition can be categorized as board size, board independence and chief executive officer duality. This section discusses the three categories of board composition (Syriopoulos & Tsatsaronis, 2012).

2.2.1 Board Size

Board size is defined as the total number of directors on the board in a particular year (Maeri et al., 2014). According to Miglani, Ahmed and Henry (2015), board size is an important determinant of corporate governance effectiveness. From an agency perspective, it can be argued that a larger board is more likely to be vigilant for agency problems simply because a greater number of people will be reviewing management actions (Bebeji, Mohammed, & Tanko, 2015). However, the evidence on the role of board size is inconclusive with most of the studies having focused on the role of board size in enhancing performance rather its role in improving the integrity of the financial reporting process. Given that the major role of the board is to monitor management, the literature on board size is reviewed only from a monitoring perspective. An increase in board size increases the board’s monitoring capacity (Manzaneque et al., 2016).

The most important function of a board of directors is to control agency costs resulting from the separation of ownership and control (Abdul & Mohamed, 2016). Larger board is more effective in preventing corporate failure. However, a large board size may make it difficult
for members to have efficient communication and to achieve a consensus. The Iranian Code of Corporate Governance stated that the optimum number of board members should be appropriately determined by the whole board to ensure that there are enough members to discharge responsibilities and perform various functions. CBK Prudential Guidelines (2012) do not prescribe an optimal board structure but require every board to consider whether its size, diversity and demographics make it effective and increase the earnings quality (Peasnell, Pope, & Young, 2015).

A study was conducted to examine the effect of corporate governance attributes like board size on financial distress. The study by Shah (2016), used panel logit analysis based on 10-year data of the non-financial companies for the period of 2004 to 2005. The study findings revealed that there were low corporate governance practices within a Pakistani market. Further the study findings also revealed an insignificant association between board size and probability of financial distress.

In Zimbabwe, a study on the influence of corporate governance on financial distress on the financial sector of Zimbabwe was conducted by Muranda (2006). The study findings revealed that weaker boards tend to lead to weak internal systems which in turn play a significant role in increasing the financial distress in an organization. Further, the study findings recommended that the regulators must ensure the compliance on corporate governance requirements that may lead the firm to have strong decision making and vision at the times of financial distress.

An interrogation was conducted in Egypt to determine the effects of corporate governance on financial performance and financial distress. The study main objective of the study by Shahwan, (2015) was to determine the effect of board size on financial distress. The sample size of the study was 86 non-financial firms listed on the Egyptian Exchange. The study used Tobin’s Q analysis to assess corporate performance. The study results did not reveal a positive association between board size and financial performance, there is an insignificant negative relationship between board size practices and financial distress.
A study was conducted to determine the financial distress and corporate governance; the impact of board Configuration. The study objective was to determine how the impact of board of directors’ configuration on financial distress. The study used corporate governance perspective to analyze the configuration of the board and its impact on a decision of a company to resort to a bankruptcy protection law. The study findings revealed that board size was negatively related to financial distress (Brédart, 2014). On the same note, Manzaneque, Priego and Merino (2016) looked at some methods of corporate governance listed companies and their influence on the possibility of monetary distress in Spain. The results of the study indicated that in complex circumstances that precede insolvency, the influences of panel of directors as well as percentage of self-determining directors on business failure likelihood are comparable to those applied in more severe circumstances.

Focusing on UK listed firms, between the year 1981-2002, Guest (2009) investigated the impact of board size on company performance and showed that board size has a substantial adverse effect on companies' performance. Relevant to this research, is also the study of Victor, Octavian & Müller (2013), who studied the impact of 9 corporate governance characteristics of board composition, using a sample consisting of the constituents of FTSE100 between 2010 and 2011. The study concluded that board size does not have a significant effect on corporate performance while extant literature on corporate governance suggests board size studies are inconclusive.

2.2.2 Board Independence

Board independence is established on the assumption that outside directors are more vigilant than inside directors because: outside directors focus on financial performance, which is a central component of monitoring, outside directors are more likely than insiders to dismiss CEOs following poor performance and have an incentive to protect their personal reputations as independent directors by vigilantly monitoring management (Saleem, 2016).

Independence can be achieved through the inclusion of disinterested parties that is outside directors; to increase the boards’ ability to be more efficient in monitoring the top management, (Fama & Jensen, 2008). Outside Directors have more motivation to efficiently keep a keen eye on the management due to a strong need to improve their status as
professional decision makers. However, the success of these mechanisms depends upon its independence from management. The addition of grey Directors who have attachments with management may harm the independence of the Board. The independent directors must be solely outside directors who have no other relationship with the company except that of being on the board of directors (Beasley, 2009). Peasnell et al. (2010) indicates that higher proportion of non-executive directors helps reduce financial distress.

A study was carried out on the relationship of independent board and agency cost on the financial distress in the Chinese listed companies. The study target population was 404 Chinese listed companies for a period from 1998 to 2008. The study collected data using a questionnaire. The study findings revealed that independent boards have a negative impact on probability of financial distress in Chinese listed companies (Li et al., 2008). The study findings implied that the firms having the higher proportion of independent directors in their board have lesser probabilities of financial distress. Locally, Maina and Sakwa (2012) concluded that the main determinants of financial distress were management style, corporate governance and capacity, and government policies. It is therefore evident that what causes financial distress is a topic of controversy and breeds the knowledge gap. Elsewhere, Khalil and Ozkan (2016) focused on board independence, audit quality and financial distress. The study doubted the popular conception that a higher ratio of non-executive members is associated with lower financial distress. The findings of the study revealed that the effect of board independence on financial distress is dependent on the levels of ownership held by executive directors and large shareholders, as well as the composition of board committee.

2.2.3 Chief Executive Officer Duality

The Chief Executive Officer (CEO) duality is described as the situation whereby companies separate the two positions of Chairman and Chief Executive Officer, and such offices been held by different persons in order to evade concentration of power in individual, because holding the two position by a single person may rob the board of the required checks and balances in the discharge of duties (Syriopoulos & Tsatsaronis, 2012). There should be a separation of positions of the chairman and Chief Executive Officer since the separation
between the two positions will offer fundamental check and balances over management performance (Kakabadse et al., 2013).

The two posts of CEO and chairman play a significant role in minimizing the possibility of violating accounting the Generally Accepted Accounting Principles (GAAP). As such it is suggested that the roles of Chairman and CEO should be allocated to different persons (Nazir & Afza, 2018). Corporations should have no role duality to guaranty a stability of power and authority which will lead toward additional independent Boards (Dechow, Ge & Schrand, 2010). Finkelstein, Hambrick and Cannella (2009) described CEO duality with two approaches, one in a situation whereby the two top managerial positions (CEO/chairman of the board of directors) are occupied by one person and secondly, when there is separation of CEO and chairman position.

However, agency theory disagreed that CEO duality might have adverse implication to the firms, since joint duties of chairman and CEO was performed by single person, and such depressed the successful supervising and control of the chairmen performance, which may lead to the manipulation of board of directors’ decisions beside shareholders’ benefit. Hashim and Devi (2008) suggest that chairman duality reduce the occurrence of financial distress in developing economies, where high concentration on ownership exist. On the other hand, Peasnell et al. (2010) argued that there is a need to separate the positions of CEO (chief executive officer) and board chairman to guarantee the board independence and improve the firm transparency.

Focusing on the relationship between board structure, ownership, and the financial distress in the banking industry, Wajid, and Shah, (2017) adopted a descriptive research design and also used semi structured questionnaires to collect data for the study. The study findings revealed that probability of financial distress in lower when the Chairman and the Chief Executive Officer is one person. Another study investigated the impact of corporate governance (CG) on the financial distress of Islamic Banks. The study by Alshehri (2015) used corporate governance measures as board size, the presence of female board members, the duality of the CEO, the proportion of block holders, the existence of a Shari’ah committee and the size of
the Shari’ah committee. The findings indicated that the effect of Chief Executive Officer Duality on financial distress was only partial.

2.3 Ownership Concentration and Financial Distress

Ownership concentration refers to a measure of the existence of large shareholders in a firm. High ownership concentration can be used as a corporate board structure apparatus in the manager-shareholder relationship (Miglani, Ahmed & Henry, 2015). The study discusses three aspects of ownership concentration namely managerial ownership, foreign ownership and government ownership.

2.3.1 Managerial Ownership

Conversely, the existence of block shareholders can affect earnings quality because they can prioritize private benefits of control at the expense of other investors, which is called the entrenchment effect. Hope, Thomas, and Vyas (2012) argue that managers’ actions are not perfectly noticeable by the owner and for this reason; managers have the capability of maneuvering earnings so as to conceal the poor performance. In this perspective, corporations with higher agency costs such as more concentrated ownership structure are projected to have lesser earnings quality (Shahwan, 2015).

Large shareholders have greater incentives to monitor management, because the costs associated with monitoring management are less than the expected benefits to their large equity holdings in the firm. According to Ramsey and Blair (2013), bigger ownership concentration gives large shareholders adequate incentives to control managers. On the same note, block equity holders have incentives to bear the fixed costs of collecting information and to engage in monitoring management. In contrast, dispersed ownership leads to weaker incentives to monitor management. In situations where shareholders hold low stakes in the firm, shareholders have little or no incentive to monitor managers (Santos et al., 2014).

A study conducted on ownership Concentration, IFRS Adoption and Earnings Quality provided evidence from an emerging market. The contribution of the study by Aksu, Muradoglu and Tansel Cetin (2013) was based on studying the moderating effects of mandatory IFRS adoption on the relationship between ownership concentration and earnings.
quality in a setting characterized by low minority ownership rights protection and high ownership concentration in the form of family-owned pyramids, in a code law country with lax rules and weak enforcement. The study used a unique data set that was hand collected. The findings of the study revealed strong first-time evidence for low persistence of earnings and high earnings management and that ownership concentration impedes earnings quality while foreign ownership enhances it. Mandatory IFRS adoption had a strong positive effect on earnings persistence and a weaker effect on earnings management. However, the impact of IFRS in reducing the negative impact of only family type ownership concentration is noteworthy.

In a sample of 398 firms from Indonesia, Korea, Malaysia, the Philippines, and Thailand, Mitton (2013) conducted a cross-firm analysis of the impact of corporate governance on the East Asian financial crisis and revealed that firm-level differences in variables related to corporate governance had a strong impact on firm performance during the East Asian financial crisis of 1997–1998. Significantly better stock price performance is associated with firms that had indicators of higher disclosure quality (ADRs and auditors from Big Six accounting firms), with firms that had higher outside ownership concentration, and with firms that were focused rather than diversified. The results suggest that individual firms have some power to preclude expropriation of minority shareholders if legal protection is inadequate. On the other hand in Nigeria, Usman and Yero (2012) conducted a study on ownership concentration and earnings management practice of Nigerian listed conglomerates. The study proxied earnings management using the modified Jones (Dechow et’al, 1995) model. The study also used 30 firm-year paneled observations and estimated panel OLS and controlled for fixed/random effects. The result findings of the study revealed a significant negative relationship between ownership concentration and earnings management. The Hausman specification test showed that the panel result after controlling for random, best suits the population as the fixed effect hypothesis was rejected by the Wald/Ch 2 test. Of the control variables, only returns on assets was significant. Leverage and firm size were not significant.
A study was also conducted on managerial ownership and market-based performance indicators: Utilizing generalized least square estimation technique. The study investigated the relationship between institutional ownership and company performance of public listed companies in Malaysia. The study by Ahmad and Jusoh (2014) used three years panel data of 730 Malaysian public listed companies. The results showed that institutional ownership had positive and significant relationship with Tobin’s Q and share price. Therefore, the involvement of managerial investor in monitoring and controlling activities reduced agency conflict and enhancing corporate performance in the emerging economy. Taking evidence from Zagreb Stock Exchange, a study by Džanić (2012) examined the relationship between ownership structure and firm performance using a sample of firms listed on the Zagreb Stock Exchange in period 2003-2009. Results obtained using a panel estimation with fixed effects showed a significant negative relationship between the existence of a block holder owning more than 30% of the equity and the value of the firm’s Tobin’s Q. However, if there was a family-type second block holder, the effect disappears. Further, the study gave evidence of the negative impact of the fraction of equity owned by management on financial distress.

2.3.2 Foreign Ownership

A study focused on foreign ownership in emerging stock markets and used several firm characteristics to establish the extent that information asymmetry impacts the level of foreign ownership in Vietnam. The study by Batten and Vo (2015) indicated that foreign investors adopt a long-term investment horizon and employ a buy and hold strategy to exploit potential growth prospects. These investors also avoid firms with riskier financial management practices and where information asymmetries provide advantages to domestic investors. Overall, these findings support the importance of linking deregulation with financial market openness and transparency to enhance and encourage international portfolio investment.

In another study which examined corporate governance, regulation and foreign equity ownership in Korea and investigated whether the introduction of a mandated independent director system affected firm ownership structure in South Korea, where the governance system changed significantly after the 1997 financial crisis, Min and Bowman (2015) indicated that foreign investors place considerable value on the appointment of independent
directors. An increase in foreign ownership, associated with an improvement in the corporate governance system, occurred after controlling home bias and firm size. Further, the positive effect of an outside director system on foreign ownership was greater for independent firms than it was for conglomerates and their affiliates.

A study contributing to the literature on foreign ownership and bank efficiency by examining whether the efficiency of foreign banks depends on the institutional quality of the host country and on institutional differences between the home and host country used stochastic frontier analysis for a sample of 2095 commercial banks in 105 countries for the years 1998–2003. The results of the study by Lensink, Meesters, and Naaborg (2014) showed that foreign ownership negatively affects bank efficiency. However, in countries with good governance this negative effect is less pronounced. The findings also revealed that higher quality of the institutions in the home country and higher similarity between home and host country institutional quality reduce foreign bank inefficiency.

Using a directional distance function approach (DEA), study was conducted on foreign ownership and financial distress: The case of an emerging market. The study by Cooke and Huang (2011) investigated the investment allocation choices of foreign investors and how the roles of foreign ownership and firm efficiency in an emerging market after more financial liberalization. Empirical results suggested a possible channel through which high level of foreign ownership significantly positively affects firm’s operating efficiency, and then better firm efficiency significantly triggers high firm performance. Interestingly, foreign ownership played not only simply self-select into firm’s market value, but also a positive governance role that can dynamically influence firm’s profit value, especially high-tech and exporting firms. The two roles are not mutually exclusive. Simply stated, after more financial liberalization, foreign investors are not limited to just speculators. They also played monitoring or disciplinary roles and thus improve firm efficiency and performance. Taiwan case maybe established a paradigm for developing countries to follow.

The Relationship between Foreign Ownership and the financial distress among Chinese Listed Companies was also established through a study by Jiang (2012). The data was collected from annual reports of listed companies in China from 2000 to 2004. A total of 50
companies with foreign ownership in the Shanghai Stock Exchange Market are chosen. The data analysis methodology used was descriptive statistics and multiple regressions. The proxies of each factor are the proportion of foreign ownership, listed years, sales income and debt to assets ratio, return on assets ratio and return on equity ratio. The paper offered a conclusive definition for the present that there is no significant relationship between foreign ownership and the performance of Chinese listed companies. Foreign ownership has the claims over assets of invested companies but no or limited voting rights over strategic decision making.

In Romania, focusing on Romanian Listed Manufacturing Companies a study was conducted on the Impact of Foreign Ownership on the financial distress. The main objective of this paper was to investigate the relation between the foreign ownership and manufacturing firm performance. The study was conducted for the companies listed on Bucharest Stock Exchange, in both segments regulated and non-regulated (Mihai & Mihai (2013). The final sample included 261 companies. Return on Assets (ROA), Return on Equity (ROE) and Return on Sales (ROS) were used for measuring the economic and financial performance of the firms. The foreign ownership was measured by the percentage of shares held by foreign investors. Econometric tools like linear regression analysis were used for the analysis. The results of the study suggest that there is a non-significant link between economic and financial performance and the existence of foreign ownership.

2.3.3 Government Ownership

A study examined the value of government ownership during the global financial crisis. This crisis was an exogenous shock for European firms, which allows us an observation of an out-of-equilibrium effect on the costs and benefits of government ownership. The study by Beuselinck, Cao, Deloof, and Xia (2017) used a comprehensive sample of 4737 listed firms in 28 European countries over the period 2005–2009. The results of the study revealed that firms with government ownership experienced a smaller reduction in firm value than firms without government ownership. This effect was driven by firms located in countries where the risk of expropriation by the government is lower, that is, countries with less corruption and better investor protection.
Using a sample of bond credit spreads from 43 countries over 1991–2010, a study by Borisova et al., (2015) on government ownership and the cost of debt provide evidence from government investments in publicly traded firms revealed that government ownership is generally associated with a higher cost of debt, consistent with state-induced investment distortions, but is associated with a lower cost of debt during financial crises and for firms more likely to be distressed, when implicit government guarantees become the dominant effect. The findings are robust to controls for the endogeneity of government ownership, and these effects are specific to domestic government ownership.

A study established the relationship between state ownership, soft-budget constraints, and cash holdings among China’s privatized firms. The relation between state ownership and cash holdings in China’s share-issue privatized firms from 2000 to 2012 was examined. The findings of the study showed that the level of cash holdings increases as state ownership declines. For the average firm in our sample, a 10 percentage-point decline in state ownership leads to an increase of about RMB 55 million in cash holdings. This negative relation can be attributable to the soft-budget constraint (SBC) inherent in state ownership. The study further examined and quantified the effect of state ownership on the value of cash and found that the marginal value of cash increases as state ownership declines (Meggison, Ullah & Wei, 2014).

In another study on State ownership and financial distress: Empirical evidence from Chinese listed companies, Mei (2013) applied panel data regression techniques to 10,639 firm-year observations of nonfinancial Chinese listed firms during 2003–2010 to examine the relationship between state ownership and firm performance. The results show that state ownership has a U-shaped relationship with firm performance. The Split Share Structure Reform in 2005–2006 played a positive role in enhancing the relationship between state ownership and firm profitability ratios. Although state ownership decreased significantly after 2006, it remained high in strategically important industry sectors such as the oil, natural gas and mining sector and the publishing, broadcasting and media sector. The findings revealed that a higher level of state ownership is superior to a dispersed ownership structure due to the benefits of government support and political connections.
Elsewhere among the firms listed at the Kuwait Stock Exchange (KSE), Alfaraih, Alanezi and Almujamed (2012) focused on the Influence of Government Ownership on financial distress and empirically explored the effects of institutional and government ownership on the financial distress of firms listed on the Kuwait Stock Exchange (KSE). Both a market-based measure (Tobin’s Q) and an accounting-based measure (ROA) were used to measures firm performance. Based on a sample of 134 firms listed on the KSE in the year 2010, regression analysis results showed a positive relationship between institutional investors and KSE firm performance, suggesting the powerful and influential role institutional investors play as a corporate governance mechanism. In contrast, a negative relationship is observed between government ownership and KSE firm performance, implying worse market performance when government ownership exists. The findings implied that different types of ownership structures have different effects on firm performance. Some ownership structures enhance performance while others worsen performance.

In Vietnam, a study was conducted to on Government Ownership and financial distress to extend some predictions from a game theoretical model which evaluates the net effect of government ownership on financial distress and empirically tests these predictions using a panel dataset of Vietnamese firms in the period 2004-2012. The empirical results of the study by Tran, Nonneman and Jorissen (2014) estimated from static and dynamic models confirmed their propositions of a negative effect of state ownership on firm profitability and labor productivity. Furthermore, this study documents a moderating role of firm size in the relationship between state shareholding and the financial distress of firms with higher state ownership in larger firms enhancing profitability and labor productivity.

2.4 Board Diversity and Financial Distress

Board diversity is inclusion of a board with different characteristics (Heterogeneous board). Compared to homogenous boards, boards that are more diverse in terms of gender, race, ethnicity, age, are assumed to evaluate more alternatives during the decision-making process, which leads to better corporate performance (Dang & Vo, 2012). This section discusses board diversity along the line of gender, education and age and how it relates to financial distress.
2.4.1 Gender Diversity

The opinion that gender diversity can be beneficial to business has become widely accepted. However, the rate at which women are being integrated into senior positions remains extremely slow (Stepanova & Ivantsova, 2013). Among the largest public companies across Europe for instance, men account for 89% of board members, while women account for just 11% (European Commission, 2010). Some studies provide empirical evidence that those companies with the highest share of women in executive committees outperform companies with no women – sometimes by as much as 41 percent in terms of return on equity (McKinsey & Company, 2010; Farrel & Hersh, 2005). One of the explanations for the positive effect of diversity among board members is that it increases creativity and innovation by adding complementary knowledge, skills, and experience (Farrel & Hersh, 2005).

The presence of women on board is increasing. According to Catalyst (2015), women hold about 15% of board seats in Fortune 500 companies in 2010, while they also occupied 9.4% board seats of French companies (Dang & Vo, 2012). Women on board can increase effectiveness of board control as they are stricter and more trustworthy than their male counterparts. Their participation in board governance can help to avoid risky projects as they are generally more financial risk-averse than men. Most companies select women into board based on the resource to which they can provide access. They bring resources such as prestige, skills, knowledge, and connection to external resources (Dang & Vo, 2012).

A study sought to find out whether boardroom gender diversity matters. The study explored the relationship between board gender diversity and firm financial performance in the context of a transitional economy characterized by an underdeveloped corporate governance system. Using a sample of 120 publicly listed companies in Vietnam covering a 4-year period from 2008 to 2011, Nguyen, Locke, Reddy (2015) examined this relationship in a dynamic modeling framework, which controls for potential sources of endogeneity. The study found that board gender diversity appears to have an effect on firm performance. The number of female directors in the boardroom also matters, supporting the view that if female board
representation affects firm outcomes, this effect is more pronounced when the number of female directors increases. It is observed, furthermore, that the marginal positive performance effect of board gender diversity ceases when the percentage of female directors reaches a breakpoint of about 20%.

On the same note, another study examined the relation between board gender diversity and economic results in Spain: the second country in the world to legally require gender quotas in boardrooms and historically characterized by a minimal female participation in the workforce. Based on a sample of 125 non-financial firms listed on the Madrid Stock Exchange from 2005 to 2009, the study by Reguera-Alvarado et al., (2017) showed that compulsory legislation offers an efficient framework to execute the recommendation of codes of good governance by means of the increase in the number of women in the boards of firms. Furthermore, the increase in the number of women on the boards is positively related to higher economic results. Therefore, both results suggest that gender diversity in boardrooms should be incremented, mandatory laws being a key factor to do so.

Further, another study investigated the relationship between boardroom gender diversity and firm risk. To identify a causal effect of gender on risk, the study adopted a dynamic model that controls for reverse causality and for gender and risk being influenced by unobservable firm factors. The study by Sila, Gonzalez and Hagendorff (2016) found no evidence that female boardroom representation influences equity risk. The study also showed that findings of a negative relationship between the two variables are spurious and driven by unobserved between-firm heterogeneous factors.

Another study was conducted in Germany based on panel data for 255 companies over a period of six years on the effect of gender diversity on corporate boards on firm performance. The study which was done by Alm and Winberg (2016) found that there exists a statistically significant relationship between neither ROA nor Tobin’s Q and the female gender variable shows that there is no clear link between gender diversity-performance relationship. The study, as opposed to the present one looked at a multi-sectoral firm and therefore the findings might differ if only one sector is pursued. In addition, the governance structures in Germany, as a developed country, are different as is in Kenya, a developing country. Another study
sought to establish the link between the presence of independent and women directors on firm performance. By using data from 3,876 public firms in 47 countries and controlling for a wide set of corporate governance mechanisms, Terjesen, Couto and Franscisco (2013) established that firms with more female directors have higher firm performance as measured by Tobin’s Q and accounting (return on assets) measures.

2.4.2 Education Diversity

The need for a diverse board is supported by several theories, namely, agency theory, resource dependency theory and the upper echelon theory. Agency Theory is concerned with the relationship between the principals and the agents. Within the relationship, shareholders expect the agents to act and make decisions in the principals’ interest and therefore there is a need to protect the interests of owners in order to minimize agency problem. Resource dependence theory explains how external resources of the organization (Terjesen et al., 2009) impact organization performance and since corporate boards act as a link between the company and external organizations, they play an important role in influencing a firm performance (Hillman et al., 2012).

Board of directors are responsible for monitoring management on behalf of shareholders. For this reason, the shareholders ought to ensure that the board is staffed with educated members that would not allow their investment to be wasted. Most firms as well as Corporate Governance Code precisely spell out the requirements expected for the directors. On the same note, non-financial firms formed and managed by educated managers tend to perform better than those managed by uneducated managers (Kristanti, Rahayu, & Huda, 2016). Many studies on board characteristics are silent on the educational qualification of board members. Educational qualification of directors is important for decision making.

Studies have found positive relationship between director’s qualification and firm financial distress. Ujunwa (2012) found a positive and significant relationship between directors with PhD and company’s financial performance in Nigeria using data from 122 listed companies on the Nigerian Stock Exchange from 1991 to 2008. Gul et al., (2013) found that share price reactions to director’s professional qualification, especially in the area of accounting and

Another study investigated corporate board diversity in Swiss public listed firms and revealed that women directors are more likely to be affiliated to firm management through family ties and that foreign directors tend to be more independent and hold significantly lower numbers of directorships in other Swiss boards (Similarly, Ruigrok *et al*., 2007). Women and foreign directors differ in terms of their educational background and level, age and board tenure (Ruigrok *et al*. 2007). Consequently, they highlighted the need to understand the characteristics, qualifications and affiliations of board members to manage corporate board diversity.

### 2.4.3 Age Diversity

Boards with different age groups are of great benefit to the organization. Firms with young managers experience higher growth than those with older managers. Young managers have the tendency not to accept status quo but willing to accept new ideas (Akpan & Amran, 2014). Studies that examine the relationship between director’s age and financial distress are limited. Findings of age diversity and firm performance are also reported differently. Mahadeo *et al*. (2012) reported a positive association between age different age groups on board and company performance. Age diversity significantly and positively affects corporate performance when measured by ROA (Ararat, Aksu, & Tansel, 2015). They established that age diversity significantly affect return on equity using data from Turkish firms.

A study that was conducted on gender, ethnic and age diversity of the boards of large Malaysian firms and performance examined board diversity of the top 100 non-financial Malaysian firms, specifically directors’ gender, ethnicity and age and their effects on firm performance. Data was collected from the 2007 annual reports of the sample firms. The evidence of the study by Abdullah, Ismail, and Izah, (2017) indicated the lack of diversity of the Malaysian boards of directors in terms of educational capacity. Results from the multivariate analyses revealed that age diversity is negatively related to ROA. Ethnic diversity, on the other hand, is found to be positively associated with ROA.
A study was undertaken to determine the influence of corporate board diversity in Malaysia with bias to gender and nationality of board members in Malaysia. While using Mann-Whitney U test to identify several characteristics that differentiate between firms with women and foreign directors and those women and foreign directors, the study by Zainali, Zulkifli and Saler (2013) found little change in the presence of women directors and foreign directors over the five-year period, which shows a slow progress in board diversity in Malaysia. The study recommends that there is need to encourage board diversity in Malaysia.

2.5 Chapter Summary

This chapter reviewed the existing literature on the effect of corporate board structure on financial distress. The specific corporate board structure aspects discussed include board composition in terms of board size, board independence and Chief Executive Officer Duality; ownership concentration in terms of managerial ownership, foreign ownership and concentration; and board diversity in terms of gender, education and age. The next chapter (three) covers the research methodology adopted for the study.
CHAPTER THREE

3.0 RESEARCH METHODOLOGY

3.1 Introduction

This chapter presents the methodology that was used to achieve the research objectives. The section presents the research design, population and sampling design, population, sampling design in terms of sampling frame, sampling technique, sample size, data collection method in terms of research procedures and data analysis methods. The chapter finally presents chapter summary.

3.2 Research Design

The study employed a descriptive research design. It is appropriate for this study because it plays a role in answering the “how” questions. The design provides an analysis of how one variable affects the other variables (Alphs, Schooler, & Lauriello, 2014). The study questions can well be answered if the research design is applied since it guides the analysis method that aims to establish a causal relationship between corporate board structure and financial distress among listed firms at Nairobi Securities Exchange.

3.3 Population and Sampling Design

The sub section presents the population of the study as well as the sampling design to be adopted by the study.

3.3.1 Population

Creswell and Creswell (2017) define the target population as a group of individuals, objects or items from which samples are taken for measurement. The population of the study was the 39 non-financial firms listed at the Nairobi Securities Exchange as at December 2018. Top four top management employees from each of the 39 companies were considered for the study hence a total of 156 respondents were targeted.

3.3.2 Sampling Design

Sampling design in this subsection is the sampling frame, sampling technique as well as the sample size.
3.3.2.1 Sampling Frame

Ishak and Bakar (2014) defined a sampling frame as the complete list of all members or units of the population from which each sampling unit is selected. The sampling frame for this study was a list of the non-financial firms listed at the NSE as at December 2017 as indicated in Appendix 4.

3.3.2.2 Sampling Technique

The study conducted a census on the entire population of 39 non-financial firms listed at NSE. Israel (2012) posits that although cost considerations make census technique impossible for large populations, a census is attractive for small populations. Since the accessible population is 39 non-financial firms listed at the NSE, this study used the entire population as the sample. Israel (2012) further states that a census eliminates sampling error and provides data on all the individuals in the population.

3.3.2.3 Sample Size

Since no sampling was conducted, the entire population was 39 non-financial firms listed at the NSE. The target population was a total of 156 respondents. A formula was used to determine the sample size. The study adopted Yamane (1957) formula to determine the sample size. Determining a final population for a large population is assumed to be normally distributed at a confidence interval of 95% thus giving a margin of error 5% sample size. The formula adopted is indicated below:

\[ n = \frac{N}{1 + Ne^2} \]

Where:

N = Sample size

N = Population size (156)

e = Margin of error 5%

\[ n = \frac{156}{1 + (156 * 0.05 * 0.05)} \]

n=112 Respondents. The study targeted 112 respondents from the 39 non-financial firms.
3.4 Data Collection Method

The study determined the data collection approach largely by identifying the type of information needed (Cleary, Horsfall & Hayter, 2014). The study used both primary and secondary data to answer the specific objectives of the study. Primary data was collected using a structured questionnaire (Appendix III). The questionnaire is structured in a likert scale format with statements from 1 = Strongly Disagree, 2 = Disagree, 3 = Neutral, 4 = Agree and 5 = Strongly Agree. The questionnaire has four sections ranging from Section A containing questions on Personal Information, Section B containing questions on Board Composition, Section C containing questions on ownership concentration and Section D containing questions on Board Diversity.

A document review guide was used to collect the secondary data for all the variables in the study, which were extracted from published annual reports and financial statements of the listed non-financial companies in the NSE for the years 2014– 2018 (Appendix I). These reports were obtained from the capital market authority hand books. A questionnaire was also used to collect primary data for the study (Appendix III).

3.5 Research Procedures

Primary data was collected by issuing out four questionnaires per company to each of the 39 companies. The data was collected by drop and pick method where the questionnaires were dropped to the non-financial firms and picked later after a week. The questionnaires were dropped to the senior manager, head of department, manager and assistant manager from each company. Those who had not have filled the questionnaire after a week were given more time to do so. Before issuing out the questionnaire, pilot testing was conducted to determine the reliability of the instrument. To test for reliability, 5 questionnaires were issued to five companies which were listed but in the financial sector. Based on the data collected, a reliability test was conducted through Cronbach Alpha coefficient where a threshold of 0.7 was adopted. Cronbach Alpha was used to establish the internal consistency. A threshold of 0.7 was adopted. The findings are presented in Table 3.1 below.

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### Table 3.1 Reliability Test

<table>
<thead>
<tr>
<th>Variable</th>
<th>Cronbach Alpha</th>
<th>Number of Items</th>
<th>Conclusion</th>
</tr>
</thead>
<tbody>
<tr>
<td>Board Composition</td>
<td>0.929</td>
<td>3</td>
<td>Reliable</td>
</tr>
<tr>
<td>Ownership</td>
<td>0.913</td>
<td>3</td>
<td>Reliable</td>
</tr>
<tr>
<td>Concentration</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Board Diversity</td>
<td>0.878</td>
<td>3</td>
<td>Reliable</td>
</tr>
</tbody>
</table>

The findings in Table 3.1 indicated that the three variables that is board composition, ownership concentration and board diversity, had Cronbach Alpha values of 0.929, 0.913 and 0.878 respectively which were above 0.7 which implies that they were reliable.

### 3.6 Data Analysis Methods

Data analysis is a process of inspecting, cleaning, transforming, and modeling data with the goal of highlighting useful information, suggesting conclusions, and supporting decision making (Bihani, & Patil, 2014). Quantitative analysis methodology was adopted for this study. To test the effect of corporate board structure on financial distress, inferential statistics were adopted. The particular inferential statistics were correlation and regression analysis. Correlation was used to establish the association between corporate board structure and financial distress. Regression analysis was used to indicate the change in financial distress if there is a change in the corporate board structure. The tool of analysis was the statistical Package for Social Science (SPSS V.21). A regression model was used to establish the relationship between the study variables, that is, corporate board structure and financial distress. Because of the presence of more than one predictor variable, a multivariate regression analysis was suitable. The model is as indicated:

\[ Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \epsilon \]

Where \( Y \) – dependent variable (Financial distress)

\( X_1 \) – Board Size
X₂ – Board Independence
X₃ – CEO Duality

ε – Is the error term

β – Predictor variables coefficients

3.7 Chapter Summary

The chapter has presented the methodology that was used to achieve the research objectives. The section has discussed the research design, population and sampling design, data collection method in terms of research procedures and data analysis methods. A multivariate regression analysis method was adopted to establish the effect of corporate board structure on financial distress of non-financial firms listed at NSE. The chapter finally presents chapter summary. The next chapter, 4, presents the results and findings.
CHAPTER FOUR

4.0 RESULTS AND FINDINGS

4.1 Introduction

The chapter presents the study findings after collecting data from the top management employees of the non-financial firms listed at the NSE. The data presentation method is tables and figures. The chapter has been presented per objective of the study after presentation of the response rate and demographic characteristics.

4.2 Response Rate and Background Information

In this sub-section, response rate and background information are provided starting with response rate and finally background information. The background information reveals the respondent’s current positions, work experience and level of education.

4.2.1 Response Rate

The study issued out questionnaires to 112 respondents randomly sampled from the top management positions of the 39 non-financial firms. Out of the number, a total of 86 questionnaires were filled and returned which gives a response rate of 77%. Figure 4.1 indicates the response rate of 77% as obtained by the study. This response rate is consistent with Mugenda (2009) who argued that a response rate above 55% is good for a study.
Figure 4.1 Response Rate

4.2.2 Demographic Characteristics

The study established the demographic characteristics of the respondents in terms of their work position, work experience and level of education. Demographic characteristics provide a better understanding of the characteristics of the study population.

4.2.2.1 Current Position

The study targeted a senior manager, head of department, manager and assistant manager from each of the non-financial firms listed at the NSE. The study findings are presented in Figure 4.2. The study findings show that majority of the respondents were assistant managers (34) followed by managers (33) then heads of departments at 11 and lastly senior managers. The findings imply that there was even representation and that the information was sort from the targeted respondents.
Figure 4.2 Respondents Position

4.2.2.2 Respondents Work Experience

The study established the respondents work experience to establish whether they had institutional knowledge to be able to respond to the questionnaire. The findings presented in Figure 4.3 indicate that majority of the respondents, that is 36, had over 10 years work experience, 30 had a work experience between 1 and 5 years while 12 had a work experience between 5 and 10 years. It was also established that only 8 respondents had a work experience below 1 year. The findings imply that majority of the employees in top management positions of the non-financial firms listed at the NSE are experienced.
Figure 4.3 Respondents Work Experience

4.2.2.3 Respondents Level of Education

The study established the respondent’s highest level of education. This was in order to establish whether they were able to understand the study questions because the questionnaire was self-administered. The findings presented in Figure 4.4 indicate that majority of the respondents that is 72 had a first degree as the highest level of education, 11 had a postgraduate degree while only 3 had a diploma. Generally, it can be argued that the respondents were educated.
4.3 Board Composition and Financial Distress of Listed Non-Financial Firms

The first objective of the study was to establish the effect of board composition on financial distress of non-financial firms listed at Nairobi Securities Exchange. This section presents the descriptive, correlation and regression analysis.

4.3.1 Descriptive Statistics

The study first sought to establish the number of board members who sit on the company board committee. The study findings revealed that on average, 8 board members sit on the board of the non-financial firms listed at the NSE. The study also sorts to establish the percentage number of non-executive board members on the board. The study findings in Figure 4.5 indicated that majority of the non-financial firms had above a third of non-executive board members. Only 49% didn’t meet the threshold of a third as stipulated by the Capital Market Authority code of governance.
On whether there is CEO duality among the non-financial listed at the NSE, it was established that none of the firms had CEO duality where the chair of the board is also the CEO. This means that all the non-financial firms listed at NSE obey the Capital Market Authority code of governance regarding CEO duality where no company is supposed to have CEO duality.

The study further asked likert scale questions on statements on board composition and the findings are presented in Table 4.1. The findings showed that majority of the respondents, 80.2%, agreed that their company has met the CMA requirements on board size, a total of 79.1% on the other hand agreed that their company has met the CMA requirements on the number of non-executive directors while all the respondents agreed that their company has met the CMA requirements regarding CEO duality.

Figure 4.5 Percentage of Non-Executive Board Members

On whether there is CEO duality among the non-financial listed at the NSE, it was established that none of the firms had CEO duality where the chair of the board is also the CEO. This means that all the non-financial firms listed at NSE obey the Capital Market Authority code of governance regarding CEO duality where no company is supposed to have CEO duality.

The study further asked likert scale questions on statements on board composition and the findings are presented in Table 4.1. The findings showed that majority of the respondents, 80.2%, agreed that their company has met the CMA requirements on board size, a total of 79.1% on the other hand agreed that their company has met the CMA requirements on the number of non-executive directors while all the respondents agreed that their company has met the CMA requirements regarding CEO duality.
Table 4.1 Descriptive Statistics on Board Composition

<table>
<thead>
<tr>
<th>Statement</th>
<th>Neutral</th>
<th>Agree</th>
<th>Strongly Agree</th>
<th>Mean</th>
<th>Standard Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>The company has met the CMA requirements on board size</td>
<td>19.80%</td>
<td>0.00%</td>
<td>80.20%</td>
<td>4.60</td>
<td>0.80</td>
</tr>
<tr>
<td>The company has met the CMA requirements on the number of non-executive directors</td>
<td>20.90%</td>
<td>41.90%</td>
<td></td>
<td>4.16</td>
<td>0.75</td>
</tr>
<tr>
<td>The company has met the CMA requirements regarding CEO duality</td>
<td>0.00%</td>
<td>33.70%</td>
<td>66.30%</td>
<td>3.97</td>
<td>0.82</td>
</tr>
<tr>
<td><strong>Average</strong></td>
<td></td>
<td></td>
<td></td>
<td>4.24</td>
<td>0.79</td>
</tr>
</tbody>
</table>

4.3.2 Correlation Analysis of Board Composition and Financial Distress

Correlation analysis was adopted to indicate the association between the study variables. A Pearson correlation was adopted. The findings in Table 4.2 indicates that board composition was negatively correlated with financial distress to mean that an increase in board composition leads to a decrease in financial distress. A large board size, lack of CEO duality and increased board independence leads to an improvement in firm performance thus reducing financial distress.
Table 4.2 Correlation Analysis of Board Composition and Financial Distress

<table>
<thead>
<tr>
<th></th>
<th>Board Composition</th>
<th>Financial Distress</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Board Composition</strong></td>
<td>Pearson Correlation</td>
<td>1</td>
</tr>
<tr>
<td></td>
<td>Sig. (2-tailed)</td>
<td></td>
</tr>
<tr>
<td></td>
<td>N</td>
<td>86</td>
</tr>
<tr>
<td><strong>Financial Distress</strong></td>
<td>Pearson Correlation</td>
<td>-.367**</td>
</tr>
<tr>
<td></td>
<td>Sig. (2-tailed)</td>
<td>0.001</td>
</tr>
<tr>
<td></td>
<td>N</td>
<td>86</td>
</tr>
</tbody>
</table>

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

4.3.3 Regression Analysis of Board Composition and Financial Distress

The study adopted an ordinary least square regression model to establish the effect of board composition on financial distress of listed non-financial firms at NSE. The findings for the model summary are presented in Table 4.3. The findings reveal an R (Pearson Correlation Value) of 0.367 which implies that board composition has a weak association with financial distress. An adjusted R square value of 0.125 implies that board composition explains up to 12.5% of the variation in financial distress of non-financial firms listed at NSE. Other factors other than board composition can explain up to 87.5% of the variation in financial distress of the non-financial firms listed at NSE.

Table 4.3 Board Composition and Financial Distress Model Summary

<table>
<thead>
<tr>
<th>R</th>
<th>R Square</th>
<th>Adjusted R Square</th>
<th>Std. Error of the Estimate</th>
</tr>
</thead>
<tbody>
<tr>
<td>.367</td>
<td>0.135</td>
<td>0.125</td>
<td>0.842171</td>
</tr>
</tbody>
</table>

Predictors: (Constant), Board Composition
The study also established the model ANOVA findings to show the model fitness as shown in Table 4.4. The findings indicate that the F value of 13.107 was significant at 5% level of significance (Sig = .001, <.05). This implies that the regression model linking board composition to financial distress was a good fit.

**Table 4.4 Board Composition and Financial Distress ANOVA**

<table>
<thead>
<tr>
<th></th>
<th>Sum of Squares</th>
<th>Df</th>
<th>Mean Square</th>
<th>F</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Regression</td>
<td>9.296</td>
<td>1</td>
<td>9.296</td>
<td>13.107</td>
<td>.001</td>
</tr>
<tr>
<td>Residual</td>
<td>59.577</td>
<td>84</td>
<td>0.709</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>68.874</td>
<td>85</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Dependent Variable: Financial Distress
Predictors: (Constant), Board Composition

The model coefficients are presented in Table 4.5. The beta coefficients show the relationship as well as the magnitude of the relationship between board composition and financial distress. The findings indicate that board composition has a negative (Beta = -.367 and significant (Sig = .001, < .05) effect on financial distress of non-financial firms listed at NSE. The findings imply that an improvement in board composition in terms of a balanced board size and high board independence through increased number of non-executive members leads to a reduction in financial distress.
Table 4.5 Board Composition and Financial Distress Model Coefficients

<table>
<thead>
<tr>
<th></th>
<th>Unstandardized Coefficients</th>
<th>Standardized Coefficients</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>B</td>
<td>Std. Error</td>
</tr>
<tr>
<td>(Constant)</td>
<td>5.613</td>
<td>0.589</td>
</tr>
<tr>
<td>Board Composition</td>
<td>-0.518</td>
<td>0.143</td>
</tr>
</tbody>
</table>

Dependent Variable: Financial Distress

4.4 Ownership Concentration and Financial Distress of Non-Financial Listed Firms

The second objective of the study was to examine the effect of ownership concentration on financial distress of non-financial firms listed at Nairobi Securities Exchange. This section presents the descriptive as well as the regression findings of the study.

4.4.1 Descriptive Statistics of Ownership Concentration

The study first sort to establish the percentage number of shares owned by the managers. The findings are presented in Figure 4.6. The findings revealed that 89% of the respondents agreed that below 15% of their shares are held by the managers while only 11% indicated that the management owns over 15% of the company shares.
The study also sorts to establish the percentage number of shares owned by foreign ownership. The findings are presented in Figure 4.7. The findings revealed that 64% of the respondents agreed that below 15% of their shares are held by foreign owners while only 36% indicated that foreign owners own over 15% of the company shares.

The study established the percentage number of shares owned by the government and government institutions. The findings are presented in Figure 4.8. The findings revealed that 49% of the respondents agreed that below 15% of their shares are held by the government.
and government institutions while 51% indicated that the government and government institutions own over 15% of the company shares.

**Figure 4.8 Number of Shares Owned by the Government and Government Institutions**

The study further asked likert scale questions on statements on ownership concentration and the findings are presented in Table 4.6. The findings showed that majority of the respondents, 62.8%, agreed that their company has a policy regarding the maximum number of shares to be owned by managers, a total of 48.8% agreed that their company has a policy regarding the maximum number of shares to be owned by the government while 76.8% indicated that their company has a policy regarding the maximum number of shares to be owned by foreign owners.
Table 4.6 Descriptive Statistics of Ownership Concentration

<table>
<thead>
<tr>
<th>Statement</th>
<th>Strongly Agree</th>
<th>Disagree</th>
<th>Neutral</th>
<th>Agree</th>
<th>Strongly Agree</th>
<th>Mean</th>
<th>Standard Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>The company has a policy regarding the maximum number of shares to be owned by managers</td>
<td>4.70%</td>
<td>11.60%</td>
<td>20.90%</td>
<td>0.00%</td>
<td>62.80%</td>
<td>4.05</td>
<td>1.32</td>
</tr>
<tr>
<td>The company has a policy regarding the maximum number of shares to be owned by the government</td>
<td>9.30%</td>
<td>22.10%</td>
<td>19.80%</td>
<td>2.30%</td>
<td>46.50%</td>
<td>3.55</td>
<td>1.48</td>
</tr>
<tr>
<td>The company has a policy regarding the maximum number of shares to be owned by foreign owners</td>
<td>7.00%</td>
<td>9.30%</td>
<td>7.00%</td>
<td>%</td>
<td>54.70%</td>
<td>4.08</td>
<td>1.28</td>
</tr>
<tr>
<td>Average</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>3.89</td>
<td>1.36</td>
</tr>
</tbody>
</table>

4.4.2 Correlation Analysis of Ownership Concentration and Financial Distress

Correlation analysis was adopted to indicate the association between the ownership concentration and financial distress. A Pearson correlation was adopted. The findings in Table 4.7 indicates that ownership concentration was positively correlated with financial distress to mean that an increase in the number of shares held by the managers, foreign owners or the government in the board leads to an increase in financial distress. Block shareholders leads to sole decisions on the board and that can affect a firm negatively.
Table 4.7 Correlation Analysis of Ownership Concentration and Financial Distress

<table>
<thead>
<tr>
<th>Ownership Concentration</th>
<th>Ownership Concentration Correlation</th>
<th>Financial Distress</th>
<th>Financial Distress Correlation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ownership Concentration</td>
<td>Pearson Correlation</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td></td>
<td>Sig. (2-tailed)</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>N</td>
<td>86</td>
<td>86</td>
</tr>
<tr>
<td>Financial Distress</td>
<td>Pearson Correlation</td>
<td>.325**</td>
<td>1</td>
</tr>
<tr>
<td></td>
<td>Sig. (2-tailed)</td>
<td>0.002</td>
<td></td>
</tr>
<tr>
<td></td>
<td>N</td>
<td>86</td>
<td>86</td>
</tr>
</tbody>
</table>

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

4.4.3 Regression Analysis of Ownership Concentration and Financial Distress

The study adopted an ordinary least square regression model to establish the effect of ownership concentration on financial distress of listed non-financial firms at NSE. The findings for the model summary are presented in Table 4.8. The findings reveal an R (Pearson Correlation Value) of 0.325 which implies that ownership concentration has a weak association with financial distress. An adjusted R square value of 0.095 means that ownership concentration explains up to 9.5% of the variation in financial distress of non-financial firms listed at NSE. Other factors other than ownership concentration can explain up to 90.5% of the variation in financial distress of the non-financial firms listed at NSE.
Table 4.8 Ownership Concentration and Financial Distress Model Summary

<table>
<thead>
<tr>
<th>R</th>
<th>R Square</th>
<th>Adjusted R Square</th>
<th>Std. Error of the Estimate</th>
</tr>
</thead>
<tbody>
<tr>
<td>.325</td>
<td>0.106</td>
<td>0.095</td>
<td>0.856206</td>
</tr>
</tbody>
</table>

Predictors: (Constant), Ownership Concentration

The study also established the model ANOVA findings to show the model fitness as shown in Table 4.9. The findings indicate that the F value of 9.95 was significant at 5% level of significance (Sig = .002, < .05). This implies that the regression model linking ownership concentration to financial distress was a good fit.

Table 4.9 Ownership Concentration and Financial Distress ANOVA

<table>
<thead>
<tr>
<th>Sum of Squares</th>
<th>Df</th>
<th>Mean Square</th>
<th>F</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Regression</td>
<td>7.294</td>
<td>1</td>
<td>7.294</td>
<td>9.95</td>
</tr>
<tr>
<td>Residual</td>
<td>61.579</td>
<td>84</td>
<td>0.733</td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>68.874</td>
<td>85</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Dependent Variable: Financial Distress

The model coefficients are presented in Table 4.10. The beta coefficients show the relationship as well as the magnitude of the relationship between board composition and financial distress. The findings indicate that ownership concentration has a positive (Beta = .325) and significant (Sig = .002, < .05) effect on financial distress of non-financial firms listed at NSE.

The findings imply that an increase in ownership concentration in terms of the management, foreign owners or the government having block shareholding, leads to an increase in financial distress. This is because block owners can overrule key decisions on the board and
can misuse their powers to make appointments to the board thus affecting a firm performance negatively and increasing financial distress.

**Table 4.10 Ownership Concentration and Financial Distress Model Coefficients**

<table>
<thead>
<tr>
<th></th>
<th>Unstandardized Coefficients</th>
<th>Standardized Coefficients</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>B</td>
<td>Std. Error</td>
</tr>
<tr>
<td>(Constant)</td>
<td>1.061</td>
<td>0.781</td>
</tr>
<tr>
<td>Ownership Concentration</td>
<td>0.648</td>
<td>0.205</td>
</tr>
</tbody>
</table>

Dependent Variable: Financial Distress

**4.5 Board Diversity and Financial Distress of Listed Non-Financial Firms**

The third objective of the study was to determine the effect of board diversity on financial distress of non-financial firms listed at Nairobi Securities Exchange. Both descriptive and regression analysis were conducted and presented in this section.

**4.5.1 Descriptive Statistics of Board Diversity**

The study first sought to establish the number of female members who sit on the board. The findings on Figure 4.9 indicate that 86% of the respondents agreed that they have more than 2 female board members on their board.
Figure 4.9 Number of Female Board Members

The study further asked likert scale questions on statements on board diversity and the findings are presented in Table 4.11. The findings indicate that majority of the respondents, 57%, agreed that the company has a balance in the age mix of the board members, 52.3% also agreed that the company has a balance in the gender mix of the board members while those who agreed that the company has a balance in the educational qualifications of the board members were 67.4%.
Table 4.11 Descriptive Statistics on Board Diversity

<table>
<thead>
<tr>
<th>Statement</th>
<th>Strongly Agree</th>
<th>Disagree</th>
<th>Neutral</th>
<th>Agree</th>
<th>Strongly Agree</th>
<th>Mean</th>
<th>Standard Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>The company has a balance in the age mix of the board</td>
<td>10.50%</td>
<td>3.50%</td>
<td>29.10%</td>
<td>14.00%</td>
<td>43.00%</td>
<td>3.76</td>
<td>1.33</td>
</tr>
<tr>
<td>members</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>The company has a balance in the gender mix of the</td>
<td>0.00%</td>
<td>22.10%</td>
<td>25.60%</td>
<td>26.70%</td>
<td>25.60%</td>
<td>3.56</td>
<td>1.10</td>
</tr>
<tr>
<td>board members</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>The company has a balance in the educational qualifications of the board members</td>
<td>0.00%</td>
<td>0.00%</td>
<td>32.60%</td>
<td>40.70%</td>
<td>26.70%</td>
<td>3.94</td>
<td>0.77</td>
</tr>
<tr>
<td>Average</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>3.75</td>
<td>1.07</td>
</tr>
</tbody>
</table>

4.5.2 Correlation Analysis of Board Diversity and Financial Distress

Correlation analysis was adopted to indicate the association between board diversity and financial distress. A Pearson correlation was adopted. The findings in Table 4.12 indicates that board diversity was negatively correlated with financial distress to mean that an increase in board diversity in terms of gender diversity, education diversity and age diversity leads to a decrease in financial distress. A highly diversified board brings different opinion,
experience and education as well as understanding on board decisions which leads to better performance in turn reducing financial distress.

Table 4.12 Correlation Analysis of Board Diversity and Financial Distress

<table>
<thead>
<tr>
<th></th>
<th>Board Diversity</th>
<th>Financial Distress</th>
</tr>
</thead>
<tbody>
<tr>
<td>Board Diversity</td>
<td>Pearson Correlation</td>
<td>1</td>
</tr>
<tr>
<td></td>
<td>Sig. (2-tailed)</td>
<td>N: 86</td>
</tr>
<tr>
<td></td>
<td>Pearson Correlation</td>
<td>-.487**</td>
</tr>
<tr>
<td></td>
<td>Sig. (2-tailed)</td>
<td>Sig.: 0.000</td>
</tr>
<tr>
<td></td>
<td>N</td>
<td>N: 86</td>
</tr>
</tbody>
</table>

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

4.5.3 Regression Analysis of Board Diversity and Financial Distress

The study adopted an ordinary least square regression model to establish the effect of board diversity on financial distress of listed non-financial firms at NSE. The findings for the model summary are presented in Table 4.13. The findings reveal an R (Pearson Correlation Value) of 0.487 which implies that board diversity has a weak association with financial distress. An adjusted R square value of 0.228 means that board diversity explains up to 22.8% of the variation in financial distress of non-financial firms listed at NSE. Other factors other than board diversity can explain up to 77.2% of the variation in financial distress of the non-financial firms listed at NSE.

Table 4.13 Board Diversity and Financial Distress Model Summary

<table>
<thead>
<tr>
<th>R</th>
<th>R Square</th>
<th>Adjusted R Square</th>
<th>Std. Error of the Estimate</th>
</tr>
</thead>
<tbody>
<tr>
<td>.487</td>
<td>0.237</td>
<td>0.228</td>
<td>0.791003</td>
</tr>
</tbody>
</table>

Predictors: (Constant), Board Diversity
The study also established the model ANOVA findings to show the fitness as shown in Table 4.14. The findings indicate that the F value of 26.077 was significant at 5% level of significance (Sig = .000, < .05). This implies that the regression model linking board diversity to financial distress was a good fit.

**Table 4.14 Board Diversity and Financial Distress ANOVA**

<table>
<thead>
<tr>
<th>Sum of Squares</th>
<th>df</th>
<th>Mean Square</th>
<th>F</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Regression</td>
<td>16.316</td>
<td>16.316</td>
<td>26.077</td>
<td>.000</td>
</tr>
<tr>
<td>Residual</td>
<td>52.558</td>
<td>0.626</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>68.874</td>
<td>85</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Dependent Variable: Financial Distress

Predictors: (Constant), Board Diversity

The model coefficients are presented in Table 4.15. The beta coefficients show the relationship as well as the magnitude of the relationship between board diversity and financial distress. The findings indicate that board diversity has a negative (Beta = - .487) and significant (Sig = .000, < .05) effect on financial distress of non-financial firms listed at NSE. The findings imply that an increase in board diversity in terms of education diversity, gender diversity and age diversity bring diversified experience, education and opinions on the board which can help improve the performance of the firm and reduce financial distress.

**Table 4.15 Board Diversity and Financial Distress Model Coefficients**

<table>
<thead>
<tr>
<th>Unstandardized Coefficients</th>
<th>Standardized Coefficients</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>B</td>
</tr>
<tr>
<td>(Constant)</td>
<td>7.314</td>
</tr>
<tr>
<td>Board Diversity</td>
<td>-0.887</td>
</tr>
</tbody>
</table>

Dependent Variable: Financial Distress
4.6 Chapter Summary

The chapter has presented the findings of the study based on the collected data. Descriptive, correlation and regression analysis have been presented per objective. The study findings indicate that board composition has a negative and significant effect on financial distress of non-financial firms listed at NSE, ownership concentration has a positive and significant effect on financial distress of non-financial firms listed at NSE and board diversity has a negative and significant effect on financial distress of non-financial firms listed at NSE. These findings guide the conclusions and recommendations in the next chapter, chapter 5.
CHAPTER FIVE

5.0 DISCUSSION, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

The chapter presents the summary of findings, discussion, conclusions and recommendations of the study. First, the summary of key findings is presented, discussed then conclusions drawn from the findings. The conclusions then guide recommendations of the study for policy and for future studies.

5.2 Summary

The general objective of the study was to determine the effect of corporate board structure on financial distress of non-financial firms listed at Nairobi securities exchange. The specific objectives of the study were to determine the effect of board composition on financial distress of non-financial firms listed at Nairobi Securities Exchange, to examine the effect of ownership concentration on financial distress of non-financial firms listed at Nairobi Securities Exchange and to determine the effect of diversity on financial distress of non-financial firms listed at Nairobi Securities Exchange.

The study adopted a descriptive research design. Both primary and secondary data was used for analysis. Primary data was collected through a structured likert scale questionnaire while secondary data was collected through a secondary data coaction template. The study adopted both descriptive, correlation and regression analysis to achieve the objectives. The descriptive findings described the data in terms of mean and frequencies, correlation analysis and regression analysis were used to establish the relationship between variables.

The first objective was to establish the effect of board composition on financial distress of non-financial firms listed at Nairobi Securities Exchange. The descriptive findings indicated that majority of the non-financial firms had above a third of non-executive board members. On whether there is CEO duality among the non-financial listed at the NSE, it was established that none of the firms had CEO duality where the chair of the board is also the CEO. This means that all the non-financial firms listed at NSE obey the Capital Market Authority code of governance regarding CEO duality where no company is supposed to have
CEO duality. The findings also showed that the non-financial firms listed at NSE had met the CMA requirements on board size, number of non-executive directors and CEO duality. The correlation findings indicated that board composition was negatively and significantly related to financial distress ($r = -.367$, Sig = .001). Regression findings also revealed that board composition was negatively and significantly related to financial distress ($\text{Beta} = -.367$, Sig = .001). The findings imply that an increase in the number of board members leads to a decrease in financial distress. This is the case since a large board size is able to oversee the performance of the firm well thus reducing the possibility of financial distress. Larger board is more effective in preventing corporate failure. It can also be argued that higher board independence was a significant determinant of reduced financial distress. Independence can increase the boards’ ability to be more efficient in monitoring the top management since the outside directors have more motivation to efficiently keep a keen eye on the management due to a strong need to improve their status as professional decision makers thus reducing financial distress. In regard to CEO duality, the study established that presence of CEO duality led to financial distress while absence reduced financial distress. Holding the two positions of CEO and Chairperson by a single person may rob the board of the required checks and balances in the discharge of duties. The two posts of CEO and chairperson play a significant role in minimizing the possibility of violating accounting the Generally Accepted Accounting Principles (GAAP) hence the two should be separated.

The second objective of the study was to examine the effect of ownership concentration on financial distress of non-financial firms listed at Nairobi Securities Exchange. It was established that majority of the shareholders (government, managers and foreign owners) of the non-financial firms listed at NSE held less than 15% of the total shares. It was also established that the non-financial firms listed at NSE have a policy regarding the maximum number of shares owned by managers, government and foreign owners. The correlation findings indicated that ownership concentration was positively and significantly related to financial distress ($r = .325$, Sig = .002). Regression findings also revealed that ownership concentration was positively and significantly related to financial distress ($\text{Beta} = .325$, Sig = .002). This implies that an increase in the number of shares held by the managers, foreign owners or the government in the board leads to an increase in financial distress. Block
shareholders leads to sole decisions on the board and that can affect a firm negatively. When
the managers hold block number of shares that can affect earnings quality because they can
prioritize private benefits of control at the expense of other investors, which is called the
entrenchment effect. Large shareholders have greater incentives to monitor management,
because the costs associated with monitoring management are less than the expected benefits
to their large equity holdings in the firm. Government institutions owning majority shares in
a firm has also been linked to an increase in financial distress. Foreign ownership has
however been linked to a decrease in financial distress. Foreign investors adopt a long-term
investment horizon and employ a buy and hold strategy to exploit potential growth prospects.
These investors also avoid firms with riskier financial management practices and where
information asymmetries provide advantages to domestic investors.

The third objective was to determine the effect of board diversity on financial distress of non-
financial firms listed at Nairobi Securities Exchange. The findings indicated that majority of
the non-financial firms listed at NSE have more than 2 female board members on their board,
a balance in the age mix of the board members, a balance in the gender mix of the board
members as well as a balance in the educational qualifications of the board members. The
correlation findings indicated that board diversity was negatively and significantly related to
financial distress (r = -.487, Sig = .000). Regression findings also revealed that board
diversity was negatively and significantly related to financial distress (Beta = -.487, Sig =
.000). This implies that an increase in board diversity in terms of gender diversity, education
diversity and age diversity lead to a decrease in financial distress. A highly diversified board
brings different opinion, experience and education as well as understanding on board
decisions which leads to better performance in turn reducing financial distress. Another
explanation for the negative effect of diversity on financial distress is that it increases
creativity and innovation by adding complementary knowledge, skills, and experience. In
terms of gender diversity, it can be argued that those companies with the highest share of
women in executive committees have lower experiences of financial crisis. Education
diversity also decreases the financial distress among firms. A board with members who have
a highly diversified level of education brings on board a mix of experiences and skills which
can be used to propel the firm’s performance forward and decrease financial distress.
5.3 Discussion

The section presents a discussion of the findings presented per objective. In the section, the findings have been interpreted and compared to the literature. The section has been organized per objective of the study.

5.3.1 Board Composition on Financial Distress of Non-Financial Firms listed Firms

The study established the effect of board composition on financial distress of non-financial firms listed at Nairobi Securities Exchange. It was established that board composition is negatively and significantly related to financial distress. This implies that an increase in board composition leads to a decrease in financial distress. A large board size, lack of CEO duality and increased board independence leads to an improvement in firm performance thus reducing financial distress.

The findings imply that an increase in the number of board members leads to a decrease in financial distress. This is the case since a large board size is able to oversee the performance of the firm well thus reducing the possibility of financial distress. Larger board is more effective in preventing corporate failure. This is consistent with the findings of a study by Shah (2016) to examine the effect of corporate governance attributes like board size on financial distress and established a significant association between board size and probability of financial distress. The findings also agrees with Muranda (2006) on the influence of corporate governance on financial distress on the financial sector of Zimbabwe and revealed that weaker boards tend to lead to weak internal system which in turn plays a significant role in increasing the financial distress in an organization. Similarly, Shahwan (2015) carried a study on the effects of corporate governance on financial performance and financial distress: evidence from Egypt and indicated that there is an insignificant negative relationship between board size practices and financial distress. The findings are also consistent with Bredart (2014) who studied the financial distress and corporate governance; the impact of board Configuration and revealed that board size was negatively related to financial distress.

It can also be argued that higher board independence was a significant determinant of reduced financial distress. Independence can increase the boards’ ability to be more efficient in monitoring the top management since the outside directors have more motivation to
efficiently keep a keen eye on the management due to a strong need to improve their status as professional decision makers thus reducing financial distress. This is consistent with Li et al. (2008) who carried a study on the relationship of independent board and agency cost on the financial distress in the Chinese listed companies and established that the firms having the higher proportion of independent directors in their board have lesser probabilities of financial distress. Similarly, the findings agree with Maina and Sakwa (2012) who indicated that the main determinants of financial distress were management style, corporate governance and capacity, and government policies. The findings are also consistent with Khalil and Ozkan (2016) who revealed that the effect of board independence on financial distress is dependent on the levels of ownership held by executive directors and large shareholders, as well as the composition of board committee.

In regard to CEO duality, the study established that presence of CEO duality led to financial distress while absence reduced financial distress. Holding the two positions of CEO and Chairperson by a single person may rob the board of the required checks and balances in the discharge of duties. The two posts of CEO and chairperson play a significant role in minimizing the possibility of violating accounting the Generally Accepted Accounting Principles (GAAP) hence the two should be separated. Studies have supported the separation of CEO position from the Chairperson position. A study by Hashim and Devi (2008) suggested that chairman duality reduce the occurrence of financial distress in developing economies, where high concentration on ownership exists. On the other hand, Peasnell et al. (2010) argued that there is a need to separate the positions of CEO (chief executive officer) and board chairman to guarantee the board independence and improve the firm transparency. However, Wajid, and Shah (2017) revealed that probability of financial distress in lower when the Chairman and the Chief Executive Officer is one person. Alshehri (2015) similarly indicated that the effect of Chief Executive Officer Duality on financial distress was only partial.
5.3.2 Ownership Concentration on Financial Distress of Non-Financial Firms Listed Firms

The study examined the effect of ownership concentration on financial distress of non-financial firms listed at Nairobi Securities Exchange. The study findings indicated that ownership concentration is positively and significantly related with financial distress. This implies that an increase in the number of shares held by the managers, foreign owners or the government in the board leads to an increase in financial distress. Block shareholders leads to sole decisions on the board and that can affect a firm negatively. When the managers hold block number of shares that can affect earnings quality because they can prioritize private benefits of control at the expense of other investors, which is called the entrenchment effect. Large shareholders have greater incentives to monitor management, because the costs associated with monitoring management are less than the expected benefits to their large equity holdings in the firm. This agrees with Aksu, Muradoglu and Tansel Cetin (2013) who established poor performance among firms with highly concentrated shares among the managers. It was established that concentrated block shareholders can influence key decisions in the board in regard to financial reporting and management of the firm. It is also consistent with Mitton (2013) who predicted more financial crisis among firms with more managerial ownership as compared to those with higher outside ownership concentration. Compared to Ahmad and Jusoh (2014), the findings are consistent that managerial ownership and market-based performance indicators are negatively related.

Government institutions owning majority shares in a firm has also been linked to an increase in financial distress. Just as other studies such as Beuselinck, Cao, Deloof, and Xia (2017) revealed that government ownership experienced a smaller reduction in firm value than firms without government ownership. Similarly, the study by Borisova et al (2015) indicated that government ownership is generally associated with a higher cost of debt, consistent with state-induced investment distortions, but is associated with a lower cost of debt during
financial crises and for firms more likely to be distressed, when implicit government guarantees become the dominant effect. Megginson, Ullah and Wei (2014) who examined state ownership, soft-budget constraints, and cash holdings among China’s privatized firms and predicted a negative effect of government increase in shares and financial distress. The study established that the marginal value of cash increases as state ownership declines. This is because block managerial shareholding can affect earnings quality because they can prioritize private benefits of control at the expense of other investors. In as much as large shareholders have greater incentives to monitor management, because the costs associated with monitoring management are less than the expected benefits to their large equity holdings in the firm, there is the problem of agency costs which hinders effective monitoring.

The findings of this study can also be linked to the findings of Mei (2013) conducted on State ownership and financial distress: Empirical evidence from Chinese listed companies and established that a higher level of state ownership is superior to a dispersed ownership structure due to the benefits of government support and political connections. Tran, Nonneman and Jorissen (2014) also predicted a negative effect of state ownership on firm profitability and labor productivity.

In as much as the findings predict that ownership concentration increase financial distress, other studies have been of contrary findings especially with foreign ownership. Foreign investors adopt a long-term investment horizon and employ a buy and hold strategy to exploit potential growth prospects. It has been argued that foreign owners have a keen scrutiny on the board members and prefer to have more non-executive board members to enhance efficiency and check and balances on the board. Since they are mostly not around, foreign owners prefer to have their own representatives in form of non-executive board members on the board to report to them of the goings in the board. These investors also avoid firms with riskier financial management practices and where information asymmetries provide advantages to domestic investors.

Through selection of firms which are performing well to invest in, the foreign investors avoid firms which are likely to have financial distress. After acquiring those firms, they put in place measures to enhance the performance which helps to reduce the chances of financial distress.
Therefore, most studies have predicted a negative effect of foreign ownership on financial distress, as opposed to government and managerial ownership which have been seen to promote financial distress. A study by Batten and Vo (2015) agree that foreign ownership is associated with reduced financial distress. This is also consistent with Min and Bowman (2015) who indicate that foreign investors place considerable value on the appointment of independent directors who are good overseers which reduce financial distress. Cooke and Huang (2011) indicated that foreign owners played monitoring or disciplinary roles and thus improve firm efficiency and performance thus reducing financial distress.

5.3.3 Board Diversity on Financial Distress of Non-Financial Firms Listed Firms

The study also established the effect of board diversity on financial distress of non-financial firms listed at Nairobi Securities Exchange. The study findings indicated that board diversity is negatively and significantly related with financial distress. This implies that an increase in board diversity in terms of gender diversity, education diversity and age diversity lead to a decrease in financial distress. A highly diversified board brings different opinion, experience and education as well as understanding on board decisions which leads to better performance in turn reducing financial distress. Another explanation for the negative effect of diversity on financial distress is that it increases creativity and innovation by adding complementary knowledge, skills, and experience.

In terms of gender diversity, it can be argued that those companies with the highest share of women in executive committees have lower experiences of financial crisis. The presence of women on the board increases creativity and innovation by adding complementary knowledge, skills, and experience. It can be argued that women on board can increase effectiveness of board control as they are stricter and more trustworthy than their male counterparts. Their participation in board governance can help to avoid risky projects as they are generally more financial risk-averse than men. Most companies select women into board based on the resource to which they can provide access. They bring resources such as prestige, skills, knowledge, and connection to external resources. Other studies such as Nguyen, Locke, Reddy, (2015) supported this argument and observed that the marginal positive performance effect of board gender diversity ceases when the percentage of female
directors reaches a breakpoint of about 20%. Reguera-Alvarado et al. (2017) also indicated that the increase in the number of women on the boards is positively related to higher economic results and reduced financial distress. The findings are also consistent with Terjesen, Couto and Franscisco (2013) who established that firms with more female directors have higher firm performance in terms of market efficiency measured by Tobin’s Q.

Other studies established that regardless of the number of women who sit on the board, the performance of the firm is not affected significantly. This is consistent with a study by Sila, Gonzalez and Hagendorff (2016) which investigated the relationship between boardroom gender diversity and firm risk and to identify a causal effect of gender on risk, the study adopted a dynamic model that controls for reverse causality and for gender and risk being influenced by unobservable firm factors and found no evidence that female boardroom representation influences equity risk.

Education diversity also decreases the financial distress among firms. A board with members who have a highly diversified level of education brings on board a mix of experiences and skills which can be used to propel the firm’s performance forward and decrease financial distress. According to Kristanti, Rahayu and Huda (2016), firms formed and managed by educated managers tend to perform better than those managed by uneducated managers. Ujunwa (2012) also found a positive and significant relationship between directors with PhD and company’s financial performance in Nigeria. The findings are also consistent with Gul et al., (2013) who found that share price reactions to director’s professional qualification, especially in the area of accounting and finance and Manzaneque, et al. (2016) who established a positive relationship between accounting education of board members and disclosure of information.

Age diversity is also a significant determinant of better firm performance and reduced financial distress. Firms with young managers experience higher growth than those with older managers. On the other hand, older managers have been termed as aversive to new technology which can help improve the firm performance. Therefore, it has been argued that the effect of age diversity on firm performance and financial distress is mixed. Young
managers have the tendency not to accept status quo but willing to accept new ideas (Akpan & Amran, 2014). Furthermore, young managers are risky takers without much consideration which can also plunge the firm into a crisis. This is consistent with Mahadeo et al. (2012) who reported a positive association between age different age groups and company performance and reduced financial crisis. Ararat, Aksu and Tansel (2015) also established that age diversity significantly and positively affects corporate performance and helps reduce financial distress.

5.4 Conclusion

The section presents the conclusions of the study based on the findings presented per objective. In the section, the findings guided the study conclusions per objective.

5.4.1 Board Composition on Financial Distress of Non-Financial Firms Listed Firms

Based on the study findings, the study concludes that board composition is negatively and significantly related to financial distress implying that an increase in board composition leads to a decrease in financial distress. A large board size, lack of CEO duality and increased board independence leads to an improvement in firm performance thus reducing financial distress.

An increase in the number of board members leads to a decrease in financial distress. This is the case since a large board size is able to oversee the performance of the firm well thus reducing the possibility of financial distress. Larger board is more effective in preventing corporate failure. Higher board independence was a significant determinant of reduced financial distress. Independence can increase the boards’ ability to be more efficient in monitoring the top management since the outside directors have more motivation to efficiently keep a keen eye on the management due to a strong need to improve their status as professional decision makers thus reducing financial distress.

In regard to CEO duality, it can be argued that the presence of CEO duality led to financial distress while absence reduced financial distress. Holding the two positions of CEO and Chairperson by a single person may rob the board of the required checks and balances in the discharge of duties. The two posts of CEO and chairperson play a significant role in
minimizing the possibility of violating accounting the Generally Accepted Accounting Principles (GAAP) hence the two should be separated.

5.4.2 Ownership Concentration on Financial Distress of Non-Financial Firms Listed Firms

Based on the study findings, the study concludes that ownership concentration is positively and significantly related with financial distress implying that an increase in the number of shares held by the managers, foreign owners or the government in the board leads to an increase in financial distress. Block shareholders leads to sole decisions on the board and that can affect a firm negatively. When the managers hold block number of shares that can affect earnings quality because they can prioritize private benefits of control at the expense of other investors, which is called the entrenchment effect. Large shareholders have greater incentives to monitor management, because the costs associated with monitoring management are less than the expected benefits to their large equity holdings in the firm.

Government ownership is generally associated with a higher cost of debt, consistent with state-induced investment distortions, but is associated with a lower cost of debt during financial crises and for firms more likely to be distressed, when implicit government guarantees become the dominant effect. On the other hand, foreign ownership is associated with decreased financial distress. Foreign investors adopt a long-term investment horizon and employ a buy and hold strategy to exploit potential growth prospects. These investors also avoid firms with riskier financial management practices and where information asymmetries provide advantages to domestic investors.

5.4.3 Board Diversity on Financial Distress of Non-Financial Firms listed Firms

Based on the study findings, the study concludes that board diversity is negatively and significantly related with financial distress implying that an increase in board diversity in terms of gender diversity, education diversity and age diversity leads to a decrease in financial distress. A highly diversified board brings different opinion, experience and education as well as understanding on board decisions which leads to better performance in turn reducing financial distress. In terms of gender diversity, it can be argued that those companies with the highest share of women in executive committees have lower experiences
of financial crisis. The presence of women on the board increases creativity and innovation by adding complementary knowledge, skills, and experience. It can be argued that women on board can increase effectiveness of board control as they are stricter and more trustworthy than their male counterparts. Their participation in board governance can help to avoid risky projects as they are generally more financial risk-averse than men.

Most companies select women into board based on the resource to which they can provide access. They bring resources such as prestige, skills, knowledge, and connection to external resources. Education diversity also decreases the financial distress among firms. A board with members who have a highly diversified level of education brings on board a mix of experiences and skills which can be used to propel the firm’s performance forward and decrease financial distress. Age diversity is also a significant determinant of better firm performance and reduced financial distress. Firms with young managers experience higher growth than those with older managers. Young managers have the tendency not to accept status quo but willing to accept new ideas.

5.5 Recommendations

The section presents the recommendations in terms of recommendations for improvements and recommendations for further studies.

5.5.1 Recommendations for Improvements

5.5.1 Board Composition on Financial Distress of Non-Financial Firms listed Firms

The study recommends the non-financial firms to observe the CMA code on the requirements of the CEO duality and board independence. There is a need to have more non-executive board members on the board so as to increase the board independence and the overseeing role. The firms also need to have a balanced number of board members so as to enhance the board overseeing role. In doing that, the performance of the firms would improve and the financial distress decrease.

The non-financial firms are also encouraged to separate the role of CEO and Chair. Holding the two positions of CEO and Chairperson by a single person may rob the board of the required checks and balances in the discharge of duties. The two posts of CEO and
chairperson play a significant role in minimizing the possibility of violating accounting the Generally Accepted Accounting Principles (GAAP) hence the two should be separated.

5.5.2 Ownership Concentration on Financial Distress of Non-Financial Firms listed Firms

The study also recommends that non-financial firms should have a policy in place to manage the maximum number of shares that a single individual, manager, foreign owners or government can hold in the firm. This will go a long way in reducing block ownership which has been established to positively fuel poor performance and increase financial distress.

Block owners influence key strategic decisions of the board as well as determine he board appointees which can in turn poorly affect the firm. There is a need to balance the shareholding since large shareholders have greater incentives to monitor management, because the costs associated with monitoring management are less than the expected benefits to their large equity holdings in the firm.

5.5.3 Board Diversity on Financial Distress of Non-Financial Firms listed Firms

The study also recommends that non-financial firms listed at NSE should come up with policies to ensure a diversified board. The firms can come up with policies to ensure that there is gender diversity in the board, age diversity as well as educational diversity by including members on the board from such diversified categories. This leads to diversified skills, experience and knowledge on the board which leads to an improvement in performance and reduced financial distress. Those companies with the highest share of women in executive committees have lower experiences of financial crisis.

The presence of women on the board increases creativity and innovation by adding complementary knowledge, skills, and experience. A board with members who have a highly diversified level of education brings on board a mix of experiences and skills which can be used to propel the firm’s performance forward and decrease financial distress. Age diversity is also a significant determinant of better firm performance and reduced financial distress. Firms with young managers experience higher growth than those with older managers. Young managers have the tendency not to accept status quo but willing to accept new ideas.
5.5.2 Recommendations for Further Research

The study focused on establishing the effect of corporate board structure on financial distress of non-financial firms listed at Nairobi securities exchange. The study focused on the corporate structure aspect of corporate governance. Other studies can focus on other aspects of corporate governance such as systems, processes and procedures. The study also focused on non-financial firms listed at NSE only. Other studies can focus on other firms such as financial firms other than the non-financial firms only. There is also a need to focus on the family owned businesses so as to compare the findings.
REFERENCES


APPENDICES

Appendix 1: Secondary Data Collection Instrument

<table>
<thead>
<tr>
<th></th>
<th>Board Size</th>
<th>Board Independence</th>
<th>CEO Duality</th>
<th>Management ownership (% number of shares held by executive directors)</th>
<th>Foreign ownership (% number of shares held by foreign shareholders)</th>
<th>Government ownership (% number of shares held by state institutions)</th>
<th>Gender</th>
<th>Education</th>
<th>Age</th>
</tr>
</thead>
<tbody>
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<td>2014</td>
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Appendix II: Introduction Letter

Date: ..............................

Dear respondent,

**RE: PERMISSION FOR DATA COLLECTION**

I am a master’s student at United States International University carrying out a study titled “to determine the effect of corporate board structure on financial distress of non-financial firms listed at Nairobi securities exchange”.

I am humbly requesting you to cooperate in answering the questionnaire/responding to the questions which I will provide in the questionnaires attached here-with. This will help me collect the necessary data which will help me in carrying out the analysis, hence, achieve the objectives of the study.

The information that you will provide will remain confidential and will be used exclusively for this research and not for any other purpose whatsoever. Your response and cooperation in this matter will be highly appreciated. Thank you in advance,

Yours Faithfully,

**Thuranira Maorwe**

**Research Student**

**USIU**
Appendix III: Questionnaire

Kindly provide the information as required by the questionnaire. The findings will be used exclusively for the purposes of the research and no individual shall be intimidated based on their response. The study results shall be availed to the interested parties upon request.

SECTION A: PERSONAL INFORMATION

1. Kindly indicate your position
   a) Head of Department [ ]
   b) Senior Management [ ]
   c) Manager [ ]
   d) Assistant Manager [ ]

2. Indicate your Work Experience
   a) Less than 1 year [ ]
   b) 1-5 years [ ]
   c) 5-10 years [ ]
   d) Over 10 years [ ]

3. Indicate the highest Level of Education Completed
   a) Diploma [ ]
   b) Undergraduate [ ]
   c) Postgraduate [ ]

SECTION B: BOARD COMPOSITION

1. How many board members sit on the company board?

2. What is the percentage of non-executive board members on the board?
3. Is there CEO Duality?

Yes ☐

No ☐

4. Using the scale of 1-5 provided, indicate extent to which you agree with the following statement as relating to board composition where; 1-very low extent, 2-low extent, 3-moderate extent, 4-high extent, 5-very high extent.

<table>
<thead>
<tr>
<th>Description</th>
<th>Response</th>
<th></th>
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<tbody>
<tr>
<td>1 The company has met the CMA requirements on board size</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
</tr>
<tr>
<td>2 The company has met the CMA requirements on the number of non-executive directors</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
</tr>
<tr>
<td>3 The company has met the CMA requirements regarding CEO duality</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
</tr>
</tbody>
</table>

**SECTION C: OWNERSHIP CONCENTRATION**

1. What percentages of shares are owned by the managers and directors?

Below 15% ☐

Above 15% ☐
2. What percentages of shares are owned by the foreign owners?

   Below 15%  □

   Above 15%  □

3. What percentages of shares are owned by the government and government institutions?

   Below 15%  □

   Above 15%  □

4. Using the scale of 1-5 provided, indicate extent to which you agree with the following statement as relating to ownership concentration where; 1-very low extent, 2-low extent, 3-moderate extent, 4-high extent, 5-very high extent.

<table>
<thead>
<tr>
<th>Description</th>
<th>Response</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. The company has a policy regarding the maximum number of shares to be owned by managers</td>
<td>1 2 3 4 5</td>
</tr>
<tr>
<td>2. The company has a policy regarding the maximum number of shares to be owned by the government</td>
<td></td>
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<tr>
<td>3. The company has a policy regarding the maximum number of shares to be owned by foreign owners</td>
<td></td>
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</tbody>
</table>

**SECTION D: BOARD DIVERSITY**

1. How many females sit on the board?
Below 2  
More than 2  

2. Using the scale of 1-5 provided, indicate extent to which you agree with the following statement as relating to board diversity where; 1-very low extent, 2-low extent, 3-moderate extent, 4-high extent, 5-very high extent.

<table>
<thead>
<tr>
<th>Description</th>
<th>Response</th>
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<tbody>
<tr>
<td></td>
<td>1</td>
</tr>
<tr>
<td>1   The company has a balance in the age mix of the board members</td>
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<tr>
<td>2   The company has a balance in the gender mix of the board members</td>
<td></td>
</tr>
<tr>
<td>3   The company has a balance in the educational qualifications of the board members</td>
<td></td>
</tr>
</tbody>
</table>

THANK YOU FOR YOUR PARTICIPATION
### Appendix IV: List of Non-Financial Firms Listed at NSE

<table>
<thead>
<tr>
<th>S/N</th>
<th>Company Name</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Eaagads Ltd</td>
</tr>
<tr>
<td>2.</td>
<td>Kakuzi Plc</td>
</tr>
<tr>
<td>3.</td>
<td>Kapchorua Tea Co. Ltd</td>
</tr>
<tr>
<td>4.</td>
<td>The Limuru Tea Co. Ltd</td>
</tr>
<tr>
<td>5.</td>
<td>Sasini Ltd</td>
</tr>
<tr>
<td>6.</td>
<td>Williamson Tea Kenya Ltd</td>
</tr>
<tr>
<td>7.</td>
<td>Car &amp; General (K) Ltd</td>
</tr>
<tr>
<td>8.</td>
<td>Atlas African Industries Ltd</td>
</tr>
<tr>
<td>9.</td>
<td>Deacons (East Africa) Plc</td>
</tr>
<tr>
<td>10.</td>
<td>Eveready East Africa Ltd</td>
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<tr>
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<td>Nairobi Business Ventures Ltd</td>
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<td>Bamburi Cement Ltd</td>
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<td>Crown Paints Kenya Plc</td>
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<td>24.</td>
<td>E.A.Cables Ltd</td>
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<td>E.A. Portland Cement Co. Ltd</td>
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<td>KenolKobil Ltd</td>
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<td>Total Kenya Ltd</td>
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<td>B.O.C Kenya Ltd</td>
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<td>Carbacid Investments Plc</td>
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<td>Kenya Orchards Ltd</td>
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<td>Mumias Sugar Co. Ltd</td>
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<td>Unga Group Ltd</td>
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<td>Safaricom Ltd</td>
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**Source:** Capital Markets Authority