EFFECT OF CORPORATE GOVERNANCE ON FIRM PERFORMANCE: A CASE OF FAMILY OWNED BUSINESSES LISTED ON THE NAIROBI SECURITIES EXCHANGE

BY

DAMARIS MUTHONI MBURU

UNITED STATES INTERNATIONAL UNIVERSITY - AFRICA

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DAMARIS MUTHONI MBURU

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

UNITED STATES INTERNATIONAL UNIVERSITY-AFRICA

SUMMER 2019
STUDENT’S DECLARATION

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

Signed: ___________________________ Date: _________________

Damaris Muthoni Mburu (ID 654175)

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

Signed: ___________________________ Date: _________________

Dr. Juliana Namada

Signed: ___________________________ Date: _________________

Dean, School of Business
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ABSTRACT

The ever increasing importance of family owned businesses in Kenya’s economy means policy makers, academicians and other stakeholders can no longer ignore the paramount economic function such entities play. The purpose of this study was to establish how corporate governance practices affect firm performance of family owned businesses listed on the NSE. The study sought to find answers to the questions; what is the effect of shareholders’ assembly on firm performance, how does the board of directors affect firm performance and how does top management team affect firm performance.

The study adopted a descriptive research design. The target population was the 64 companies listed on NSE as at December 2013 and all the 20 firms under family control listed on the NSE were used for purposes of data collection. The study adopted the survey methodology and the census sampling technique. Primary data was collected using open ended questionnaires. Secondary data was collected from audited annual reports of respective family owned firms. Data analysis was done using SPSS and presented by use of descriptive and inferential statistics.

The study indicated that shareholders’ assembly has a significant influence on firm performance since the principal drivers of performance in family businesses is the responsibility of primary shareholders. Further, the study established that the board of directors has a significant influence on firm performance due to the critical role they play during corporate strategy formulation. It is through effective strategies that a firm is able to monitor management, evaluate their practices and ensure the organization achieves its objectives through superior performance. Top management was also found to have a significant influence on firm performance. Top management’s focus helps provide guidance in response to turbulence within the environment. As stewards of the shareholders and agents of the board, their influence on firm performance is significant through having proper structures of governance in place.

The study concludes that corporate governance significantly affects financial firm performance. Further, the study concluded that top management, board of directors and shareholders’ assembly has a positive and significant effect on firm performance as
measured by ROI. The study also concludes that the non-financial performance aspects of a firm are a combination of other factors within the organisation other than corporate governance. The study therefore recommends that family-owned firms should look beyond the family when planning for succession.

The current environmental conditions require professional skills and experienced individuals to provide guidance during succession planning to ensure family businesses implement superior strategies that guarantee growth and firm survival during transitions through better performance. Family boards should ensure adequate training for the directors. To effectively monitor the actions of the top management and ensure better strategies are implemented, the board must be effectively trained and adequately equipped to ensure the right strategies as laid down are implemented. The family businesses’ top management team should have clearly stipulated key performance indicators. The rapidly changing global environment requires flexible and superior strategies that ensure the firm adapts to change and therefore clearly stipulated performance benchmarks for senior level managers will ensure sustained firm performance.
ACKNOWLEDGEMENT

I would like to thank the Almighty God for giving me this opportunity and strength to pursue my education. It is through His abundance of grace that this research project has come to fruition. I would also like to give special thanks to my supervisor Dr. Juliana Namada, for her moral support and academic guidance despite her busy schedules. I wish to express my sincere appreciation to my family for their understanding and support during the project. In a special way, I would like to express my heartfelt gratitude to Denis Wangila Simiyu for his encouragement and support throughout my period of study. I would also like to thank my employer for the support and patience I received during my studies. Thank you all and God bless you.
DEDICATION

I wish to dedicate this research project to my dear parents for the love, patience and support they offered to me during my studies. God bless you Dad and Mum.
# TABLE OF CONTENTS

STUDENT'S DECLARATION ....................................................................................... iii
COPY RIGHT ................................................................................................................. iv
ABSTRACT ..................................................................................................................... v
ACKNOWLEDGEMENT ............................................................................................... vii
DEDICATION ............................................................................................................... viii
TABLE OF CONTENTS .............................................................................................. ix
LIST OF TABLES .......................................................................................................... xi
LIST OF FIGURES ....................................................................................................... xiv
LIST OF ABBREVIATIONS .......................................................................................... xv

## CHAPTER ONE ........................................................................................................ 1

1.0 INTRODUCTION ................................................................................................. 1
1.1 Background of the Study ...................................................................................... 1
1.2 Problem Statement ............................................................................................... 6
1.3 Purpose of the Study ............................................................................................. 7
1.4 Research Questions ............................................................................................... 7
1.5 Importance of the Study ....................................................................................... 7
1.6 Scope of the Study ............................................................................................... 8
1.7 Definition of Terms ............................................................................................. 9
1.8 Chapter Summary .............................................................................................. 10

## CHAPTER TWO ...................................................................................................... 11

2.0 LITERATURE REVIEW ....................................................................................... 11
2.1 INTRODUCTION .................................................................................................. 11
2.2 Shareholders’ Assembly and Firm Performance ................................................... 11
2.3 Board of Directors and Firm Performance ............................................................ 16
2.4 Top Management Team and Firm Performance .................................................... 23
2.5 Chapter Summary .............................................................................................. 29

## CHAPTER THREE ................................................................................................ 30

3.0 RESEARCH METHODOLOGY ............................................................................ 30
3.1 INTRODUCTION ................................................................................................ 30
3.2 Research Design ................................................................................................ 30
3.3 Population and Sampling Design ....................................................................... 31
LIST OF TABLES

Table 3.1: Sample Size ........................................................................................................33

Table 4.1: Shareholders’ Assembly and Firm Performance ..............................................40

Table 4.2: Reliability Test .....................................................................................................43

Table 4.3: Multicollinearity Test ..........................................................................................43

Table 4.4: Skewness and Kurtosis .......................................................................................43

Table 4.5: Correlation Analysis with ROI as a Measure of Firm Performance ...............44

Table 4.6: Corporate Governance and Tobin Q as a Measure of Firm Performance ......45

Table 4.7: Model Summary ...............................................................................................46

Table 4.8: Analysis of Variance .........................................................................................46

Table 4.9: Regression Coefficients .....................................................................................47

Table 4.10: Model Summary ..............................................................................................47

Table 4.11: Analysis of Variance .......................................................................................47

Table 4.12: Regression Coefficients .....................................................................................48

Table 4.13: Board of Directors and Firm Performance .......................................................49

Table 4.14: Reliability Test ..................................................................................................52

Table 4.15: Multicollinearity Test .......................................................................................52

Table 4.16: Skewness and Kurtosis .....................................................................................53

Table 4.17: Correlation Analysis with ROI as a Measure of Firm Performance ...............54

Table 4.18: Corporate Governance and Tobin Q as a Measure of Performance .............54
Table 4.38: Determination of CGI .................................................................67

Table 4.39: Corporate Governance Indices ..................................................68
LIST OF FIGURES

Figure 4.1: Response Rate ................................................................. 37

Figure 4.2: Gender ............................................................................. 38

Figure 4.3: Highest Level of Education .............................................. 39

Figure 4.4: Position Held .................................................................... 39

Figure 4.5: Normal PP Plot ................................................................. 44

Figure 4.6: Normal PP Plot ................................................................. 53

Figure 4.7: Normal PP Plot ................................................................. 61
# LIST OF ABBREVIATIONS

<table>
<thead>
<tr>
<th>Abbreviation</th>
<th>Full Form</th>
</tr>
</thead>
<tbody>
<tr>
<td>ACCA</td>
<td>Association of Chartered Certified Accountants</td>
</tr>
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<td>AFBE</td>
<td>Association of Family Business Enterprises</td>
</tr>
<tr>
<td>ASEA</td>
<td>African Stock Exchanges Association</td>
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<tr>
<td>CDSC</td>
<td>Central Depository and Settlement Corporation</td>
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<tr>
<td>CEO</td>
<td>Chief Executive Officer</td>
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<td>CFO</td>
<td>Chief Financial Officer</td>
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<td>CIO</td>
<td>Chief Information Officer</td>
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<tr>
<td>CMA</td>
<td>Capital Markets Authority</td>
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<td>CTO</td>
<td>Chief Technology Officer</td>
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<tr>
<td>DSE</td>
<td>Dar es Salaam Stock Exchange</td>
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<tr>
<td>ICPAK</td>
<td>Institute of Certified Public Accountants of Kenya</td>
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<td>IFC</td>
<td>International Finance Corporation</td>
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<td>NSE</td>
<td>Nairobi Securities Exchange</td>
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<tr>
<td>OECD</td>
<td>Organization for Economic Co-operation and Development</td>
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<tr>
<td>PSICG</td>
<td>Private Sector Initiative for Corporate Governance</td>
</tr>
<tr>
<td>ROA</td>
<td>Return on Assets</td>
</tr>
<tr>
<td>ROE</td>
<td>Return on Equity</td>
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<tr>
<td>ROI</td>
<td>Return on Investments</td>
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<tr>
<td>SME</td>
<td>Small and Medium-sized Enterprises</td>
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<td>USE</td>
<td>Uganda Securities Exchange</td>
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CHAPTER ONE

1.0 INTRODUCTION

1.1 Background of the Study


In Africa, poor firm performance resulting from poor governance is evident in failures such as Cadbury in Nigeria and KPMG, Naspers and SAP scandal in South Africa. However according to Kyereboah-Coleman (2007), firm performance is strongly related to specific corporate governance aspects. For instance, a larger and independent board is directly responsible for high firm value and performance. After restoration of the East African economy, most countries have redirected their focus addressing and researching the bottom-line matters which could lead to a catastrophe such as the one experienced in the United States (Kusnadi & Mak, 2005).

In Kenya, a study conducted by Musila (2007) indicates that poor standards of corporate governance and a lack of transparency in the financial system have resulted in loss of confidence by investors. This is evidenced by poor firm performance and collapse of firms such as Nakumatt Limited, Uchumi Supermarkets and most recently Athi River Mining which is now under receivership. Further, Njenga (2017) conducted a study on the effect of corporate governance on financial performance of companies listed on the NSE and found that financial firm performance is strongly related to level of governance structures within the organisation.
Sarbah & Xiao (2015) defined corporate governance as the structures and processes necessary for the direction and control of relationships between different stakeholders including the management, board of directors and shareholders. Around the globe and specifically in the more developed western countries, the concept of governance has tremendously grown to include employee protection, environmental conservation, corporate social responsibility, social and environmental accounting as well as firm sustainability (Cadbury, 2000).

According to Solomon & Solomon (2004), in developed countries, the concept of corporate governance is well anchored by theories including the stakeholder’s theory, the agency theory and the stewardship theories having been proven by numerous academic studies including Jensen & Meckling (1976); Shleifer & Vishny (1997) and Mishra & Mohanty, (2014). The data and empirical evidence available as well as reports issued by various corporate governance committees like Hampel Committee, Cadbury Committee, Turnbull Committee and Green Buy Committee form the basis of corporate governance systems around the world (Denise, 2001).

Corporate governance practice in Africa is at its infancy stage and is characterized by a lack of understanding on the basic concepts, lack of transparency and accountability, high level managerial and boardroom corruption and outdated laws (African Development Bank, 2007). The structures and systems as developed in Western countries do not wholly suit the African business environment. This has led to more failures in corporate governance as evidenced by the Afri-Bank collapse in Nigeria and the Steinhoff scandal in South Africa (Andersen, 2015). This is due to numerous challenges and the lack of a body of extensive knowledge and research in corporate governance. These challenges require a variety of strategic solutions for corporates to be able to survive (Rwegasira, 2000). However, Kenya, Nigeria, Egypt, Mauritius and South Africa have updated their guidelines and codes on corporate governance (Yurtoglu, 2012).

In Kenya, corporate governance gained momentum in 1998 during the workshop organized by the PSICG. At the forefront promoting corporate governance included the NSE, ICPAK, ACCA, CMA, Kenyan Chapter and the PSICG. According to Njoroge & Gathungu (2013), Kenya has made efforts to review the legal and regulatory framework
with an aim of enhancing governance. The focus of corporate governance discourse has shifted from the prevention of corporate failure and limitation of owner’s liability to firm performance (Vinten, 2001).

In order to survive, firms need to perform better as well as cater for the ever changing business needs (Barontini & Caprio, 2006). According to Drucker (1993), firm performance can be defined and measured using three key parameters of profit, market growth and its ROE invested. Financial performance of a firm is measured in four different ways, making use of the ROE, ROA, equity ratio and liquidity ratio. Today’s corporate world calls for more rigorous performance measurement than mere quantification and accounting. Such measurements include customer satisfaction, employee turnover and product quality (Bauly, 1994).

In developed countries, firms usually report higher performance due to better governance systems, improved legislations and superior economic conditions (Bourne, Mills, & Wilcox, 2000). For instance, in the USA, Sarbanes-Oxley Act of 2002 enhanced the corporate governance systems and thus led to higher valuation of firms as a result of higher profits, ROE and sales revenue. Further, the Act eliminated agency problems and enhanced corporate responsibility by limiting Enron-like governance weaknesses (Garg, 2013).

The governance structure of any firm insulates the company’s strategy and helps protect a firm against probable financial risks, reinforces its corporate pillars and drives revenues for better and sustained performance (Oudah, Jabeen, & Dixon, 2018). The governance system of any firm is widely associated with the performance of the firm. In Africa, the governance structures are weak, poorly developed with unstable democracies which means that firms cannot attract better investments and thus unable to maximize on returns. Further the competitiveness and ease of doing business in these economies is poor (Krivogorsky, 2006).

Poor firm performance in Kenya even in listed firms continues to be reported as evidenced by Kenya Airways, Mumias Sugar, CMC Holdings and East African Portland Cement despite enhanced legislation in governance (Namusonge, Mugambi, & Koech,
2017). According to Namada, Aosa, Awino, & Wainaina (2014), firm performance whether financial or non-financial in Kenya, hinges majorly on a firm’s strategy. The governance structures of a firm only affect the internal business processes and not the overall firm performance in terms of growth in sales revenue, higher market value and ROI.

Family businesses are among the oldest and largest form of commercial enterprises with the oldest being Kongo Gumi, a Japanese construction company which has existed from 578AD to date and having been succeeded by over forty generations. Wal-Mart, which is the largest corporation in the world, is also a family owned business (Brenes, Madrigal, & Requena, 2011). The key characteristic of family owned businesses is where the business affairs are strictly under the control and supervision of family members with a few executives. In family businesses, ownership is unitary with management hence minimal or no agency problems (Ward, 2004).

Most companies around the globe started off as family businesses and as such, over 80% of the overall businesses in many countries are under family management. For instance, of Brazil’s 200 largest companies, 51.5% are family-run (Pearson, Carr & Shaw, 2008). Some of the best well-known companies around the world include Fiat Group, Salvatore Farragomo and Benetton in Italy; Ito-Yokado and Kikkoman in Japan; Siemens, Volkswagen, and BMW Motors in Germany; Carrefour Group, L’Oréal, LVMH and Michelin in France; Ford Motors, News Corp, Wal-Mart Stores, Nike and Oracle in the USA and Samsung, Hyundai Motors and LG Group in South Korea (International Finance Corporation, 2011).

Family businesses have traditionally operated in domestic markets, but increasingly find themselves obliged to internationalize in order to survive in a market that is becoming more and more globally competitive (PriceWaterhouse Coopers Kenya, 2012). In Africa, statistics on family businesses are largely nonexistent. Coupled with inadequate infrastructure, infant financial systems, and poor economic performance, only a few family businesses have posted good firm performance. Examples of family businesses in Africa include Pick n Pay and Remgro in South Africa, Dantata Organization and Ibru


Unlike publicly owned businesses, family businesses have a relatively short life span beyond their founders. Only 5% of family-run businesses survive past the third generation of ownership (Rodrigo, 2013). Listing a family business potentially increases the firm’s visibility, market value and enhances governance of such businesses. In Kenya, NSE is the only licensed securities market which was established in 1954 by volunteer stockbrokers in British Kenya (Nairobi Securities Exchange, 2018).

The NSE is licensed and regulated by the CMA to provide a trading platform for listed securities and overseeing its member firms. NSE is a member of the ASEA and has a memorandum of understanding with the USE and the DSE on the cross listing of various equities. Based on the type of products and services they provide, listed companies on the NSE are subdivided into eleven major segments; Agricultural, Automobiles and Accessories, Banking, Commercial and Services, Construction and Allied, Energy and Petroleum, Insurance, Investment, Manufacturing and Allied, Telecommunication and Technology, Real Estate Investment and Exchange Traded Fund (NSE, 2018).

Statistics on family owned businesses in Kenya are almost nonexistent. Even with the formation of the AFBE in 2014, extensive research within family businesses in Kenya is still lacking (AFBE, 2015). On the other hand, corporate failures due to governance issues like the CMC, Kenya National Assurance, BlueShield Insurance Company, and Uchumi Supermarkets continue to be reported. This study sought to take advantage of reporting requirements by the NSE, CMA, and CBK or IRA that listed companies are subjected to (Association of Chartered Certified Accountants, 2013).

Some examples of family businesses listed on the NSE include NIC Bank Ltd, Kapchorua Tea Co. Ltd, Williamson Tea Kenya Ltd, and Longhorn Kenya Ltd. With relatively better
reporting regulations and governance structures, listed companies outperform the unlisted firms. This study sought to build on already existing literature on governance by studying the effect of corporate governance on firm performance in family owned businesses (NSE, 2018).

1.2 Problem Statement

Listed companies in Kenya are regulated by many laws and guidelines including the Companies Act, CMA Act, CDSC Act, CMA regulations and NSE listing rules. In addition, listed family owned companies are required to adopt other industry specific rules depending on their respective industries of operation. Some investors have actually argued that family owned companies in Kenya are over regulated resulting to higher cost of doing business as compared to other African countries, which eventually leads to poor firm performance (AFBE, 2015).

Several studies have been conducted on the effect of corporate governance and organizational performance. For instance, Abadi & Nematizadeh (2012) conducted a study on the impact of corporate governance and organizational learning on organizational performance in Iran. They found that corporate governance is significantly associated with organizational performance. AL-Azzam, AL-Qura'an, & AL-Mohameed (2015) investigated on how the corporate governance affects organizational performance. The study revealed that corporate governance is widely adopted and enacted in Jordan laws and regulations. In the Kenyan perspective, Manini & Abdilla (2015) and Nyamongo & Temesgen (2013) conducted a study on the effect of corporate governance on the performance of commercial banks in Kenya. Their findings indicated the importance of corporate governance on performance but failed to link corporate governance to sustainability. Further, Ndung’u (2015) looked at corporate governance as a strategic tool to improve performance of listed companies in Kenya. His study indicated that strict adherence to governance guidelines in listed companies enhances productivity. On the other hand, Nobanee & Ellili (2016) conducted a study on the effect of corporate sustainability disclosure in annual reports in Islamic banks in UAE. Their findings indicated a generality which can be seen on the basis of the notion that the disclosure of
annual reports cannot be taken to be the only basis of determining the pattern of sustainability.

Similar studies evaluated have been done outside Kenya with different environmental conditions like the Asian markets, while those in Kenya evaluated different variables from the proposed study. Their findings therefore might not be applicable. Further, there is an ever-increasing importance of family businesses as the oldest form of business enterprise to the economy, increased global competition and a lack of verifiable statistics in the Kenyan context. This study therefore sought to fill the gap in academic research on family businesses and corporate governance in its attempt to establish the effect of corporate governance on firm performance using the case of family owned businesses listed on the NSE.

1.3 Purpose of the Study

The purpose of this study was to analyze the effect of corporate governance on firm performance in family owned businesses listed on the Nairobi Securities Exchange.

1.4 Research Questions

1.4.1 What is the effect of shareholders’ assembly on firm performance of family owned businesses listed on the NSE?

1.4.2 How does the board of directors’ influence firm performance of family owned businesses listed on the NSE?

1.4.3 How does the top management team affect firm performance of family owned businesses listed on the NSE?

1.5 Importance of the Study

1.5.1 Shareholders of Family Businesses

A business that practices good governance commands higher valuation. Shareholders would derive value from this study by using the findings of the study to unlock the value of their investment by selling part of their investment by private or public offering.
1.5.2 Researchers and Academic Institutions

An academic study must be able to build into academia by adding new insights into a variable of study. This study would therefore not only add to the body of knowledge of corporate governance in family run businesses but would also form basis for further research to academia in the area of corporate governance and firm performance in family businesses.

1.5.3 Policy Makers

Policy makers need a reference point for policies regarding a particular subject. This study would provide such basis for articulating policies that would help family businesses transition into reputable firms and create wealth and employment in the economy.

1.5.4 Capital Markets

There were numerous businesses in Kenya that can raise cheap financing from the capital markets to help them grow. This study would create a framework that could be adopted by the capital markets in designing a corporate governance template for the challenges that continue to hinder businesses from raising capital from the public.

1.5.5 Institutional and Private Equity Investors

There are numerous businesses that are seeking equity or capital in order to grow their businesses. Institutional and private equity firms are seeking opportunities in businesses that they can invest their capital in order to grow those businesses and in return make money. This study would help this category of investors as they could grow their investment pipeline of potential deals that they can invest in.

1.6 Scope of the Study

The study sought to establish the effect of corporate governance on firm performance on the 20 family owned businesses listed on the NSE in Kenya. This study drew its population from all the sixty four companies listed at the NSE as at December 31, 2013 and includes CMC Holdings Ltd which was delisted in 2015 February. It was carried out
between January-April 2019. The study targeted 120 respondents within all the family listed companies through questionnaires and interviews.

The study aimed to directly benefit the family owned business investors, executives and regulatory bodies as well as the academic institutions. Since these companies were in different industries, it was difficult to compare industry trends and company modelling was not clear enough. Data problems were also encountered since there was a lack of data bank on family owned businesses even with the NSE and CMA disclosure requirements. Further, this study cannot be commercially used in its current state as it is solely meant for academic purposes.

1.7 Definition of Terms

1.7.1 Corporate Governance
Corporate governance is defined as “the control and direction system of a business (Organization for Economic Co-operation and Development, 2004).

1.7.2 Family Business
A family business is defined as a commercial organization in which decision making is influenced and controlled by multiple generations of a family member or related individual through blood or marriage and have been identified through leadership or ownership (Aras & Crowther, 2016).

1.7.3 Firm Performance
Firm performance is defined as how successful an organization is at achieving set goals in terms of its finances, product offering in the market place and maximization of shareholder’s value (Peng & Jiang 2014).

1.7.4 Shareholders Assembly
Shareholders assembly refers to a group of individuals registered in the company’s shares registry book and are holders of capital shares with the rights to vote, either personally or through a legal representative (Chen, Kim, Wang & Xu, 2007).
1.7.5 Board of Directors
It is a group of individuals elected to make fiduciary decisions on behalf of the shareholders are referred to as the board of directors (Amoli & Esmaeili, 2013).

1.7.6 Top Management Team
The top management team refers to the highest-ranking corporate executives (Hiller & Beauchesne, 2014).

1.8 Chapter Summary
This Chapter presents the background of corporate governance and its effect on firm performance of family owned businesses listed on the NSE. It also presents the problem statement, purpose of the study, research questions to be answered by the study, importance of the study, scope and definition of terms used. Further, the chapter introduces chapter two which reviews the literature underpinning the study based on the research questions.
CHAPTER TWO

2.0 LITERATURE REVIEW

2.1 INTRODUCTION

This chapter presents a review of existing literature about corporate governance including the structure, composition, role and practices in family owned businesses. The chapter provides an in-depth analysis of how the shareholders’ assembly, board of directors and top management team influence performance of family businesses.

2.2 Shareholders’ Assembly and Firm Performance

The primary responsibility of any business is to maximize profit. In family businesses, family values and interests in certain circumstances override the profit motive. Managers and shareholders of family businesses therefore need to help family members understand their role in helping businesses achieve their business goals (Erdem & Gul Baser, 2010). Typically, the governance structure in family owned businesses is the shareholder council and the family council. Firm performance in family run businesses are fully dependent on the principal shareholder. Other shareholders’ existence depends majorly on statutory compliance needs (Defond & Hung, 2004).

2.2.1 Role of Shareholders

Gordon (2013) highlights that determining the legal structure of a business is one of the most important aspects of starting a business. In his study, he found out that generally, the shareholders do not control day-to-day business decisions or management decisions, but do so through the executive board’s influence. However, most family-run businesses sparingly use their boards as compared to the frequency in use of the family council with regards to major strategic decisions (Gallucci, Santulli, & Calabro, 2015). Typically, shareholders set objectives and challenge management to work towards the set objectives. In family businesses however, management and ownership is unitary. There are no clear distinctions between management and shareholders (Anderson & Reeb, 2003).
Alkhafaji & Nelson (2013) observed that, besides being a mandatory requirement by the law, general annual shareholders meeting allows the organization to have a healthy corporate life. This is because it ensures proper communication among administration, surveillance bodies and the environment. In contrast, Cater & Justis (2010) explained that the family owned business’ growth becomes more complex with the corresponding increase in the family unit. Therefore, the health of such a business is dependent on the family members. Their study further found that it is important therefore, for family shareholders to create discipline amongst family members, ensure sustainability by constant firm performance of the business and institute a family charter to prevent family conflicts.

Mutunga (2013) argued that it is the responsibility of the owners to drive strategic decisions aimed at achieving high firm performance and governance practices of any business. Their support, willingness and investment determine the success or failure of the firm by setting achievable and realistic objectives and undertaking strategic actions that contribute to high firm performance. Companies therefore need to decide on the best governing body depending on the size and stage of their businesses. Strong businesses built to last generations are an investment of successful governance and sustained firm performance driven by the principal shareholder (Sacristan-Navarro, Gomez-Anson, & Cabeza-Garcia, 2011).

Further, Hoopes & Miller (2006) argued that most of the best practices presented by corporate governance usually harm family unity and do not sync with the basic nature of family companies which exhibit a solitary or concentrated shareholder power. Additionally, unlike publicly held firms, most family businesses do not have clear shareholder exit rules. Exit from such businesses usually happens in cases of family conflict. The lock-in of shareholding affects firm performance since continued family conflicts and threats hinder management from pursuing set objectives and thus firms post poor performance reducing the chances of such firms’ survival and long term continuity (Filatotchev, Lien & Piesse, 2005).
2.2.2 Family Charter & Ownership Structure

Hill, Jones & Schilling (2014) argued that the first rule in the shareholders meeting is the purposeful and consistent exchange of information. The core purpose of an organisation must be known to all key stakeholders. The organisation’s existence needs to be well understood by external stakeholders and the customers need to know what value the business provides for them, its vendors and the market. On the other hand, the direction of the organisation must be made known to internal stakeholders so that their work and goals are aligned in the same direction. Achievement of firm objectives is through well aligned strategic actions aimed at improving firm performance over a period of time (Ulucan, 2000).

Peng & Jiang (2014) found out that best corporate governance practices do not suit the family unit. However, a family owned business can instill its own best practices by laying out a strategic family charter that would address the structural needs necessary to provide accountability to the family. A board that is accountable to the shareholders also ensures management is accountable. Further results by Zheka (2005) added that a family charter is necessary to develop greater accountability and measurable performance from the board as well as the performance of the entire firm.

Barako & Tower (2007) argued that pursuance of further corporate governance within the financial industry is essential to enhance sector stability. They found out that the owners of financial intermediaries are key to governance and performance of such institutions. In family businesses, owners may assume different goals and responsibilities leading to conflicting positions. Usually, they may hold managerial, board and ownership positions. Establishment of a general assembly which comprises top management, directors and shareholders as the functional body is necessary to balance family and business needs necessary to enhance firm performance and sustainability (Zhu, 2000).

2.2.3 Family Member Shareholding Policies

Cassidy (2016) established that an increasingly important element of strategic planning process in any company is by building broad stakeholder commitment through engagement. However, in family owned businesses, the company’s stakeholders are all
related or known to the family members. Therefore, as the company grows, so does its stakeholders. Conflicts are bound to occur due to decreasing returns and dissatisfaction with the salaried members. Further, the salaried members overstay in positions of power resulting in prolonged family conflicts which actually hurt the firm’s fortunes and performance (Farrar, 2008).

As Groh (2014) states, for any business to realize its vision, stakeholders are key in making their messages visible. Firm goals must clearly be communicated and to all stakeholders. He proposes posting of company mission, strategies and vision throughout the organisation to create strategic roadmaps leading to better firm performance. Employees know their expected outputs and contribution and hence help in building commitment and engagement. However, involving all stakeholders in the strategic planning process aimed at achieving better firm performance is vital (Farag, Malin, & Ow-Yong, 2014).

According to Albrechts (2013), a roadmap, goal and organisational commitment would give direction to an organisation. Alignment of organisational goals towards a common desired outcome is necessary for the organisation’s survival. An organisation is able to identify the available options when it has a goal and committed stakeholders. Commitment of stakeholders ensures an organisation moves in one direction and therefore achieves its goals according to the overall plan (Evans, Evans, & Loh, 2002).

Typical family businesses come up with a shareholding policy at their early stages to define changes in ownership and control. This usually provides a means of mitigating potential conflicts. Unlike in traditional companies, shareholders in family businesses view their company as more than an asset. Therefore, when planning, they also consider the non-financial returns in all their decision making processes as well as the financial performance of the firm (Astrachan, Keyt & Lane, 2013).

### 2.2.4 Family Succession Planning

Succession planning is defined as the process of replacing key employees through systematic identification and preparation of suitable employees by mentorship, training, and job rotation. Succession planning is vital for family-run businesses in their quest for
success and survival as well as the overall economy. Talent management identifies succession planning as a key element of an effective strategy for an organisation to ensure attainment of its future goals through better organisational performance (Gomez-Mejia, Cruz, Berrone, & De Castro, 2011).

Civins & Shumaker (2015) found out that immediate family stock ownership precedes an individual’s stock ownership needs. Therefore, for purposes of governance, shareholders must observe statutory thresholds. Further, for purposes of various governance thresholds, determining control therefore would involve totalling up shares held by immediate family members, including grandparents, siblings, and children. They further state that the majority shareholder’s actions should not be detrimental to the minority shareholder’s rights. A peaceful co-existence between majority shareholders and minority shareholders is an essential internal organisational environment for better firm performance (Dyck, Mauws, Starke, & Mischke, 2002).

According to Gurarda, Ozsoz, & Ates (2016), fraud and mismanagement would eventually lead to collapse of the organization as happened with renowned global firms like Parmalat and Adelphia. It is imperative therefore, that companies irrespective of ownership and size maintain a certain level of governance. To perform better, family businesses must balance between generational desires and the business environmental needs and dynamics (Bruninge, Nordqvist, & Wiklund, 2007).

According to Yeh, Lee & Woidtke (2012), when family businesses move through successive generations, the business also goes through various configurations. The desires and needs of the subsequent family generations should be considered by significant shareholders in the formulation of a succession plan. Consideration of such desires and needs in determining the estate’s plan and its effect on firm performance preserves the value of the business within the majority and minority shareholders.

According to Habbershon & Williams (1999), family businesses are increasingly facing challenges due to globalization, technological advancement and turbulent environments. Consequently, the effect on performance of family businesses is huge. Coupled with a relatively short life span beyond their founders, such firms rarely survive past the third
According to PWC (2012) the global average life-span of such companies is only three generations with a paltry 3% making it past the fourth generation. This is usually a consequence of poor firm performance and a lack of a systematic governance structure implemented by subsequent managers within family generations.

Bennedsen & Wolfenzon (2010) state that legally, companies are assumed that they would last a lifetime. The shareholders assembly therefore needs to be very clear with regards to succession planning. The shareholders must evaluate the likely impact of successors in terms of firm performance. The greatest single challenge for family businesses is ensuring business survival. Close ties, overlapping management, board and ownership interests hinder objectivity in decisions aimed at achieving high returns and sustaining performance (Baker & Anderson, 2010). Coupled with globalization of financial markets, environmental turbulence and advanced technologies, family businesses can only survive with effective governance systems that would ensure management and the board strives to achieve better firm performance (Lauterbach & Vaninsky, 1999).

2.3 Board of Directors and Firm Performance

The governing unit of an organization goes by different names including the Board or Council. The family business is usually run by a family council or a business board of directors whose main function is to represent the shareholders’ views, family values and communicate basic performance goals of an organisation. Management of businesses usually is by a few board members. However, as provided under the collective responsibility doctrine, all the board members are liable for the effects of the firm’s policies, actions, and failures to act (Piesse, Filatotchev, & Lien, 2007).

2.3.1 Board Composition

Johnson (2016) argues that the board functions as effectively as its composition. Depending on the size of the organisation, boards usually vary from an average of a single member to an average of ten members. Usually, the board of directors includes a small number of senior members who are both executive and non-executive directors. The non-executive directors comprise outside members with expertise in certain fields of
management usually experts, or respected persons, invited from the wider community. These non-executive directors are usually responsible for driving certain organisational performance benchmarks (Poutziouris, Savva, & Hadjielias, 2015).

The role and effectiveness of the board usually is influenced by the composition. It is important to clarify the roles of each individual board member’s role with respect to set performance measures and goals (Abidin, Kamal, & Jusoff, 2009). How an organisation determines its long-term goals and the best approach for attainment of such goals is through sustained firm performance. Combination of the executive board of directors and the non-executive directors usually achieves better firm performance. However, this also may impede role clarification in terms of achievement of non-financial firm performance goals (Smith, 2013).

Miring’u & Muoria (2011) ascertain that the optimal size of a public corporation’s board is around ten, inclusive of three outsiders. They argued that the right board composition leads to better governance and higher returns. However, in family businesses, a non-family-controlled board is one of the most important components of the company survival. At times, a family-controlled board lacks sufficient independence and thus lacks additional knowledge and expertise. Independent directors usually challenge the family thinking pattern, help in creating focus and balance as well as the needed expertise to steer the firm towards better performance (Miralles-Marcelo, Miralles-Quiros, & Lisboa, 2014).

2.3.2 Board Diversity

Benn, Edwards & Williams (2014) state that several individuals with a common purpose of helping an organisation achieve its goals forms the firm’s board of directors. Board diversity is important in driving firm performance. Diversity in the board leads to better performance due to diverse knowledge with different perspectives coupled by several ways of approaching board matters, hence help cover diverse issues with practical solutions. From a financial, operational and strategic point of view, all performance aspects can be handled depending on the diversity of the board membership (San Martin-Reyna & Duran-Encalada, 2012).
Board diversity includes aspects such as age, gender, academic and professional experience, and corporate exposure (Abdullah, 2004). In the Kenyan corporate world, male dominance in boards of directors is the norm, usually as a result of societal, legislative and organizational concerns. Even when it comes to board appointments, male directors usually introduce their preferred candidates before expiry of their terms. However, in family businesses, diversity is difficult to achieve (Ekadah & Mboya, 2011).

According to Laffarga, Pillar, & Reguera-Alvarado (2015), board diversity specifically women would enhance the board’s decision-making process and steer the firm towards better performance. Most boards of family-controlled firms employ family relatives and their associates. There is usually a less degree of diversity thus harming the board’s decision processes. Their perspectives on various issues are usually limited and family oriented with less mutual exchange of ideas (Cheng, Evans III, & Nagarajan, 2008). These boards usually lack women and youth representation and as such, suffer from a lack of independence of thought and functioning. The performance of many family businesses usually suffers due to limited diversity in the board of directors. However, family firms that embrace good governance strive to achieve a good balance in their board of directors (Taras, Memili, Wang, & Harms, 2018).

2.3.3 Board Focus

Kyereboah-Coleman & Biekpe (2006) found out that two organisational traits underlie board behaviour. The traits relate either to the development stage, life cycle or the organisational activity. The core function of an organisation is directly related to how effective the board is in terms of firm performance and task execution. The most important factor in corporate governance and firm performance therefore relates to an organisation’s function and the focus of its board.

According to Pletzer, Nikilova, Kedzior & Voelpel (2015), directors’ involvement in strategic plan development, review and resource allocation and mobilisation is key to an organisation. The strategic plan of any firm should target at improving firm performance, its reputation and the marketability of the organisation’s products. The directors must provide insight and practical solutions to solving the organisation’s challenges. It is
through focus by which a board undertakes its mandate that determines the financial and non financial success of an organisation.

Schwartz-Ziv & Weisbach (2013) indicated that bringing the right people together for purposes of preparing and presenting the strategies aimed at improving firm performance is the first step towards the ideal board. The board’s key focus should be maximising the shareholders’ value and increasing firm profitability. However, besides this, an organisation needs the right structure, remuneration rates, meeting time and an environment that is conducive. To build interest, support and commitment, the strategy of an organisation needs to be communicated to all its key stakeholders (Ertugrul & Hedge, 2009). However, in family businesses, ensuring effective dynamics is difficult since family boards must also balance between family issues and company issues. Family boards must always strive at achieving the right balance between family needs and business needs if they are to attain the ideal firm performance that caters for the conflicting family and business needs (Abdullah, 2006).

2.3.4 Role of Board of Directors

Momanyi, Ragama & Kibati (2018) revealed that the board of directors’ role is fundamentally about formulating an organization’s strategy. The strategy must be effective enough to help the board monitor management, evaluate their practices and ensure the organization achieves its objectives (Chaganti, Mahajan, & Sharma, 1985). However, in family businesses, the role and size of the board is dependent on the growth stage of the company. The board at infancy does not have distinct roles from the management characterized by a lot of role duplication. However, the roles become clearer and distinct as the business expands at this stage. It should be noted that, avoidance of role overlap would involve a lot of consultation between the board and top-level managers over appropriate targets (Cheung, Connelly, Jiang, & Limpaphayom, 2011). However, the board must always ensure management steers the organisation towards better returns and maximising of shareholder’s wealth by achieving better returns on shareholder’s investment.
According to Bryson (2018), the mandate of the board includes formulation of an organisation’s policy, mission and vision as well as its objectives. The board therefore must determine an organisation’s structures and the position holders of the structures. The board is also involved in the selection of senior executives like the Chief Executive Officer and reviewing their remuneration, determining and authorisation of exceptional expenditure and ventures and investments, as well as key professional services like audit, legal and taxation. The board therefore must ensure it recruits better managers, approves better investment options that will ensure maximum returns and enhanced organisational image. In family businesses however, the board is expected to help the owners achieve a balance between better firm returns and catering for family needs, since appointment of management is entirely a family affair (Aydin & Cavdar, 2015).

According to a study by Mungai (2017), the board’s critical role is communication. The board must act as a link between shareholders and the management. It must also understand needs, vision and goals, communicate the same and monitor their implementation. Their task is to communicate basic strategic plans, family values, environmental challenges, company needs and reassure shareholders on their needs. Every investor undertakes an investment risk expecting a return. The critical role of a family board of directors is to communicate the investment plans and the results of the investments to the shareholders as well as family values in the investments undertaken to the employees (Dimitropoulos & Asteriou, 2010).

The board is expected by shareholders to specify boundaries and scope of engagement within senior level management in strategic planning processes and also set the organization's goals and performance benchmarks. Managers on the other hand must operate within these specified rules in their pursuit of the set goals. Additionally, managers are expected to operate as per the set constraints. In contrast, boards in family owned businesses usually comprise family members who take care of generational needs. The differences in generational needs must be well balanced to avoid family conflicts that may result in harming the family values, the firm’s reputation and performance (Rothaermel, 2015).
According to Reimer, Getimis & Blotevogel (2014), the fundamental core purpose of a family board of directors is satisfaction of primary beneficiaries and it is their duty to identify the right beneficiaries. The board must also identify the expected benefits and determine the satisfactory levels by setting realistic targets for the management. Usually, the beneficiaries are family members, their spouses or their nominees, and such benefits may include dividends, profit share and new ventures or divestitures.

Triana, Miller & Trzebiatowski (2013), state that the board is key in providing leadership during development and execution of organisational plans and strategies. The tone at the top approach is always mirrored in the appointment of the chief executive officer. The board must provide strategic oversight in terms of monitoring and adjustment of the plan. Historically, boards focused on strategy once annually, often at a one-to-two-day off-site retreat (De Toledo, 2007). This is evolving into a discussion on strategy at each board meeting to ensure that appropriate progress is being made and that new competition or technology is being assessed in a fast-moving world to ensure the firm performs as per laid strategies. In family units, this role includes the board acting as the final arbiter by assuring timely conflict resolution and removing personal conflicts and emotion so as to ensure peaceful co-existence of family and business needs. Such a co-existence is necessary for a firm to achieve a reasonable return on its investments, and the lack of it may result to poor firm performance and erosion of market gains of the business (Dogan, Elitas, Agga, & Ogel, 2013).

2.3.5 Board Meetings

According to Hickman & Silva (2018), boards of directors usually meet on a pre-planned schedule to attend to different organisational challenges and issues. One key organisational factor is the review of firm performance and evaluation of results posted while measuring firm performance during implementation. The board is also mandated to review the performance an organisation should it deem fit. This is usually when the board finds the reported performance not on track (Dragomir, 2008). Organizations are successful when they spend the bulk of the board’s time and intelligence focusing on strategy, growing the business, anticipating and working with disruptive technology,
understanding the competitive landscape and identifying contacts to form strategic alliances with or expand into emerging markets (Senge, 2014).

According to Chaghdadari, (2011), the organization should know how much time in its board meeting is spent reviewing past performance, measuring metrics and discussing risk and compliance. Despite all being very important topics, discussing strategy and identifying growth opportunities should take precedence. The key is balance, not doing one while sacrificing the other but doing both at an appropriate level and depth. Pugliese, Minichilli & Zatoni (2014) further explained that the specific ratio is situational, varying on the company and its needs and must be determined by the board and management.

According to Friend & Jessop (2013), the board would traditionally meet for an off-site two-day strategic review once a year. This one-time event is not optimal in a fast-paced world impacted by frequent changes. The process today is interactive and better served by boards addressing strategy at multiple meetings, perhaps every meeting, like four to eight times per year. At the very least, there should be a review of current status and discussion on appropriate revisions in firm performance and the overall strategic objectives of the firm (Farber, 2005).

2.3.6 Board Practices

According to the study conducted by Larcker, Richardson & Tuna (2014), it was discovered that best practices for the board of directors involve improving the understanding of firm performance goals, strategic planning process by explaining the process of development, change and implementation. This usually includes details of the strategic plan, market information, customers, distribution channels along with financial data and technology updates, individual director expertise, whether as part of the meeting or offline, to extend understanding and foster agreement. In family businesses, the technologies, director expertise and financial data are usually family oriented. Therefore, firm performance depends on the practices of the board (Bauer, Frijns, Otten, & Tourani-Rad, 2008).

According to (Nguyen & Nguyen, 2016), another important aspect is to have regular communication between the CEO and the board, to keep the board of directors up to date
on strategy and execution, offer strategic options for the board to discuss versus outlining one plan for the board to approve or reject and brief the shareholders on leadership and organisational resources required to implement strategies, including investments that need to be made, where staffing, compensation or training gaps exist, and whether the company culture supports the strategy (Baysinger & Hoskisson, 1990).

The board of directors usually takes two dimensions in the corporate setting; conformity or performance. Therefore, whether a business is non-profit or for profit, involvement of the board of directors in strategic planning is always beneficial depending on its dimension. The quest for the ideal board by corporates sets in motion different dimensions with which the board takes. However, the overriding need is to ensure exemplary firm performance (Wanyama, Burton & Helliar, 2013).

2.4 Top Management Team and Firm Performance

The Chief Executive Officer and executives who report to him are referred to as the top management team. Top management team therefore comprises senior level executives that include Chief Technology Officer (CTO), Chief Executive Officer (CEO), Chief Operation Officer (COO), Chief Financial Officer (CFO) and presidents or owners (Abdullah & Valentine, 2009). Empirical research highlights the importance of top management and its effect on firm performance (Karahanna & Preston, 2013). The most critical aspect in achieving objectives set by the shareholders and the board of directors is implementation which is done by the top management team.

Top management implements the board’s strategy in an organisation and as directly affect firm performance. All successful businesses must undertake strategic planning. The responsibility of developing and implementing effective strategies lies with the top team management irrespective of size or number. Through the strategies developed, the top management team is able to influence and drive an organisation’s focus towards achieving profits, controlling costs, growth and strategic goals (Nielsen & Nielsen, 2013).
2.4.1 Role of Top Management Team in Corporate Governance

Top management refers to the C-level executives in larger corporations. They include the Chief Technology Officer (CTO); Chief Financial Officer (CFO); Chief Executive Officer (CEO); Chief Information Officer (CIO) to one-person small business owners. Their responsibilities vary with the size of an organization, with small business owners having multiple duties and titles. In family businesses, the top management team usually comprises family members who double up as members of the board, close relatives and friends and a few outside but loyal employees (Koiranen, 2002).

Robert, Chuck, & Donald (1981) suggest that in order to enhance the performance of organizations, top management must be involved. The organizational outcomes and employee perspectives vary widely depending on the perception of top management team towards the objectives and performance goals set by the shareholders. The role of top management team includes employee motivation, ensuring job satisfaction and budgeting for allocation of scarce resources. These responsibilities hugely affect firm performance and in turn all organizational activities (Dey, 2008).

Smith and Kofron (2016) believe that top managers are critical in the formulation and implementation of organizational strategy. How an organization determines its long term goals and adopts the courses of action towards achievement of such goals is what is referred to as its strategies. Usually, it is the responsibility of top managers to determine these goals and implement such actions towards firm performance. They undertake this by establishing focus and providing guidance in response to turbulence within the environment as stewards of the shareholders and agents of the board.

In family businesses, the top management team usually comprise relatives, close friends and associates of the family members. Therefore, the strategies undertaken and implemented must conform to the family needs and preferences. Usually, family needs and priorities take precedence over business needs (Chen, Lin, & Yi, 2008). The managers in such firms usually are evaluated in line with family loyalty rather than firm performance. Top managers are leaders of the organization and leadership in any area of management is vital. An organization cannot achieve its goals without leadership. The
board is responsible for laying down strategies of attaining certain goals and alternatives should the primary goal fail. Leaders usually plan on how to achieve their goals. Organizations, through strategic planning identify their goals and top managers give focus and direction on how to achieve higher firm performance (Naser, 2016).

According to Nambisan and Baron (2013), as stewards, top managers should undertake due diligence in every corporate action. The manager must implement strategic plans from the board in good faith with the objective of maximizing shareholder wealth. Managers therefore must abstain from fraudulent activities, and actions that potentially conflict with the organizational goals. The managers must work for the common good of all majority and minority shareholders and reduce bias in their actions (Donaldson & Davis, 1991).

The CEO should focus on strategic corporate issues. Tactical issues must be delegated to other corporate executives to allow the CEO effectively assists the board. The functions of a CEO towards helping the board include board meeting scheduling, planning for succession, and undertaking risk planning (Elsayed, 2007). Unfortunately for family owned businesses, the CEOs often find themselves caught up in day-to-day operational issues with limited time to plan for business strategy. Top managers should focus on establishing a performance reward environment where long term success is envisioned (Mathenge, 2013).

According to Nyamongo & Temesgen (2013), the role of managers is to engage employees in planning and educating all other stakeholders of the importance of their involvement and commitment. The management should create time for feedback, encourage criticism of the plans and establish direction among the stakeholders as well as control of the process so as to achieve intended results. Further, the managers should ensure involvement of every stakeholder as well as aligning the plan to fit a common vision, mission and aim at achieving organisational goals that include firm performance (Ehikioya, 2009).
2.4.2 Top Management Practices

The skills and qualities of managers involved in strategic planning process and implementation affects the organizational performance of any business. Managerial qualities include experience, knowledge, attitudes and behavioral capabilities that are necessary in the performance of a specific task or position (Al-Khateeb, 2015). Further Viseras, Baines, & Sweeney (2005) noted that the key factors for success can be classified into three aspects; systems, people and the organization. They observed that success of the firm performance is determined by the quality of people involved and to a less extent the organization and its systems.

2.4.2.1 Top Management Commitment

Hrebiniak & Snow (1982) found that commitment to an organisation’s plans by the senior level executives is achieved by extensive interaction and participation in the planning process. Managers would be able to articulate strategies with ease during implementation if they were involved in the planning and development stages. Further, management commitment is by expressed acceptance of responsibilities, by full utilisation of their expertise. The success of implementation depends on the commitment of senior level executives to the organisational plans and strategies. This can only be successful if the process of interaction and participation among the top management team typically leads to greater commitment to the firm’s goals and strategies (Erickson, Park, Reising, & Shin, 2005).

The role and effectiveness of the board usually is influenced by the composition. It is important to clarify the roles of each individual board committee and member’s role with respect to set performance measures and goals (Daily & Dalton, 1995). How an organisation determines its long term goals and the best approach for attainment of such goals is through sustained firm performance. Combination of the executive board of directors and the non-executive directors usually achieves better firm performance. However, this also may impede role clarification in terms of achievement of non-financial firm performance goals (Umans, 2013).

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On the other hand, Eden & Ackermann (2013) suggested that to ensure smooth inter-relationships, the organization makes use of all communication means available. He further argues that an organisation must be consistent in its messages and in their use as well. The employees must be shown how they fit into the organisations plan, their contribution and the results achieved with the aim of coaching the employees towards strategic firm performance.

2.4.2.2 Leadership Style

Kahveci (2011) noted that the leader of an organisation drives strategy. Top managers therefore must wholly embrace organisational strategies. The study highlights the importance of a figurehead role in the implementation process of organisational strategy. The figurehead maintains focus and directs the company’s resources towards attainment of company objectives as laid down by the strategies. In family businesses, this is usually undertaken by the family management executives because they can easily find balance between family needs and business plans. Such a family executive helps reduce potential conflicts between business and family desires (Fikelstein & Boyd, 1998).

Karsten, Keulen, Kroeze, & Peters (2009) mentioned that as a medium of planning, managers use different styles of leadership. A leader’s personal character affects the strategic planning process. Individual issues if not well addressed by the leader, also could affect firm performance. In addition, having a charismatic and transformational leader is very significant in the performance of a company and is very important in determining its stability and long term survival (Chen, Li, & Shapiro, 2011).

According to Towers Watson Limited (2013), an organisation’s plans and performance greatly benefit from positive relationships between top managers, middle management and the subordinates. On the other hand, Kahveci (2016) notes that managers must effectively participate in the strategic actions for the organization to achieve higher performance. The leadership style is important in such an undertaking to achieve company wide support. The leader must incorporate knowledge management into strategy to achieve higher productivity and core competency advantages.
2.4.2.3 CEO-Director Duality

Appointing a current director to the CEO position is beneficial since it would act as a hybrid inside-outside CEO. This would make transition smooth since the CEO understands the company strategy and business model. Also, there already exists a personal relationship with other company executives. However, he notes that such CEOs do not remain in the same role for long (Fama & Jensen, 1983a). Such a high succession rate therefore leads to distortion of strategic plan implementation. CEO tenures are of critical importance to firm performance. The CEOs main role is to implement goals, objectives and plans set by the board. These goals and objectives include performance of the firm which can only be achieved with continuity. In family businesses, holders of such positions rarely change and therefore usually exhibit performance stability (Kiratu, 2016).

On the other hand, Dogan, Elitas, Agga, & Ogel (2013) argued that CEO duality has a negative effect on both the financial and non-financial performance aspects of a firm. According to the agency theory, firms whose CEOs are separate from the board perform better due to the increased supervision and better governance. However, in family businesses, agency problem rarely exists since the owners are board members who still form the majority of the top management team.

2.4.3 Top Management Evaluation and Compensation

In family-owned businesses, founding CEOs usually determine their own compensation. However, the private boards can coach and evaluate their performance during board meetings. A firm must always strive to align its remuneration policy with its long-term interests. The board must determine the executive pay structure in line with its shareholders’ interests to avoid potential future conflicts (Chen, Chen, & Wei, 2009). Perception of equity and fairness by top management impacts heavily on the effectiveness of the strategic plans of the organisation. Further, the managers’ integration of behaviour can also be influenced by total pay with respect to the organisation’s critical demands (Henderson & Fredrickson, 1996).
2.4.4 Top Management Diversity

According to Singal & Gerde (2015), workforce diversity includes aspects such as educational background, gender, country of origin and professional backgrounds. Firms are increasingly adopting top management team diversity as a result of increased competition, globalization and advances in technology. These strategic human resource policies implemented are aimed at enhancing the company’s performance. As Stewart & Hitt (2013) argued, diversity in top management team results in better firm performance. According to their study, listed family firms that embraced workforce diversity usually outperformed non-family firms in financial aspects.

2.5 Chapter Summary

This chapter presents a review of existing literature which addresses the research questions posed; how the shareholders’ assembly influences firm performance, what is the influence of the board of directors on firm performance and how does the top management team affect the performance of the firm. The chapter gives an in-depth analysis of how the structure, composition and practices of the shareholders, board of directors and top level management affect firm performance. It also lays a foundation for chapter three where the methodology and measurement of variables would be discussed.
CHAPTER THREE

3.0 RESEARCH METHODOLOGY

3.1 INTRODUCTION

The study sought to determine the effect of corporate governance on firm performance in family owned firms listed on the NSE. This was due to lack of consensus in the results in the vast majority of the literature reviewed in the previous two chapters. Further, the existence of mixed evidence in relevant studies has prompted re-examination for possible effect in order to establish clear and sound conclusions. This chapter introduces the methods of analysis that will be adopted for this research, population and sampling design, data collection methods, research procedures, data analysis methods, method of analysis and model specification. It also discusses the validity and reliability tests to be used in the study (Kothari, 2009).

3.2 Research Design

Research design refers to a blueprint on how to conduct a research in order to answer the posed research questions (Saunders, Lewis, & Thornhill, 2009). It is classified as exploratory, descriptive and explanatory research design. It helps in minimising on errors and maximising on the data collection instuments and techniques used to ensure validity and reliability of the research (Bouma & Atkinson, 1995).

This study employed a descriptive research design in responding to the research questions on the effect of corporate governance on firm performance in family owned businesses listed on the NSE. According to Yin (2017), a descriptive design is concerned with finding out the what, when, where and how of a phenomenon. This design looks at collecting data that is useful in analyzing phenomena and coming up with relevant conclusions and recommendations. The selected research design helped in identifying and describing the effect of corporate governance on firm performance of family owned firms listed on the NSE (Ngechu, 2004).
A descriptive study is an in-depth attempt to clearly determine and describe various aspects of a phenomenon, which in this study is the governance effect on listed family firms on the NSE and their performance. The descriptive study allowed an in-depth examination of a variable in its unchanged environment into a quantifiable and involves the study of selected variable which represent or have experienced the phenomena being considered (Creswell, 2007). In this context, the researcher attempted to establish the effect of governance on performance of all listed family owned firms on the NSE. The advantage of using the descriptive research design was that it was a flexible method which allowed the researcher to use multiple methods to collect data such as interviews, observation and surveys (Ketchn, Boyd, & Berg, 2008). The study applied the survey methodology.

3.3 Population and Sampling Design

3.3.1 Population

Population is defined as elements or members of a particular group in which the research is to be conducted (Matthews & Ross, 2015). It is also defined as a large collection of individuals or objects with observable characteristics about which inferences can be made and is the main focus of a scientific query. It is for the benefit of the population that research is done (Creswell & Cresswell, 2017). The target population is the collection of elements or objects that possess the information sought by the researcher and about which inferences are made (Mugenda & Mugenda, 2003). This definition ensures that a population of interest is homogenous. The population of this study included all the 64 companies listed on the NSE. The study used the listed firms since the NSE is one of the institutions leading the drive to institutionalize corporate governance in Kenyan firms. Further, the strict statutory reporting requirements by CMA on all listed firms made it easy to collect relevant data on all variables of study.
3.3.2 Sampling Design

3.3.2.1 Sampling Frame

According to Omair (2014), a sampling frame is a list of elements from which the sample is actually drawn and closely related to the population. In this study, the sampling frame was drawn from the 20 family firms listed on the Nairobi Securities Exchange.

3.3.2.2 Sampling Technique

Sampling is part of statistical practice concerned with the selection of an unbiased or random subset of individual observations within a population of individuals intended to yield some knowledge especially for the purposes of making predictions based on statistical inference (Flick, 2007). Sampling is an important aspect of data collection. A sampling technique is the method a researcher applies to determine the members or items of the target population in the study. Sampling techniques include simple random, sampling, stratified sampling, cluster sampling, systematic sampling and multistage sampling or census (Silverman, 2014).

The study adopted a census where the researcher selected all the firms under family control and are listed on the NSE. A census refers to the wholesome enumeration of the universe either in terms of place, group of people or location for purposes of data collection. The advantage of using a census is that it was a suitable method for heterogynous units, it guarantees a higher degree of accuracy and in this case it is indispensable since the number of firms being investigated is not large (Kothari, 2004).

3.3.2.3 Sample Size

A sample refers to a subset of the whole population that a researcher selects analyses and obtains results in order to describe and represent the whole population (Patton, 2006). The sample for this study consisted of 20 listed firms on the Nairobi Securities Exchange (NSE) that met the definition of a family-owned business. For purposes of this study, a family owned business refers to a firm listed on the NSE and at least 25% of its share capital and voting rights were owned and controlled by one family or its descendants. The
data to be used was for the financial years spanning from 2013-2017. This period of study was significant because it was a post global financial crisis, post promulgation and a new governmental dispensation that was premised on digitization of the economy.

Table 3.1: Sample Size

<table>
<thead>
<tr>
<th>Industry/Sector</th>
<th>Number of Firms</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agricultural</td>
<td>4</td>
</tr>
<tr>
<td>Telecommunication and Technology</td>
<td>1</td>
</tr>
<tr>
<td>Banking</td>
<td>3</td>
</tr>
<tr>
<td>Commercial &amp; Services</td>
<td>3</td>
</tr>
<tr>
<td>Energy and Petroleum</td>
<td>1</td>
</tr>
<tr>
<td>Investment</td>
<td>4</td>
</tr>
<tr>
<td>Construction &amp; Allied</td>
<td>1</td>
</tr>
<tr>
<td>Manufacturing &amp; Allied</td>
<td>3</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>20</strong></td>
</tr>
</tbody>
</table>

3.4 Data Collection

This section discusses the methods of data collection and types of data to be collected for the study. Since the purpose of this study was to analyze the effect of corporate governance on firm performance, the required information was collected from family owned firms listed on the NSE, the NSE website, firm annual reports and the CMA as well as relevant journal articles.

3.4.1 Data Collection Methodology

Data collection instruments are methods and tools the researcher uses to collect data after defining the research problem (Cooper & Schindler, 2006). Data is either primary or secondary where primary data refers to data observed or collected at first-hand experience whereas secondary data refers to data already collected and has already gone through the statistical process (Smith, 2015).

There are various types of data collection instruments including interviews, questionnaires and observation. The researcher used both secondary data and primary
data. Secondary data was sourced from the NSE website; firm annual reports, CMA handbook on corporate governance and journals in order to answer the research questions, while primary data was collected using questionnaires. The questionnaire was divided into three with each part dealing with each research question posed (Creswell & Schindler, 2006). The data covered a period of five years from 2013 to 2017 both years included.

Ghauri & Gronhaug (2010) suggests that secondary data is an essential method and that there is no need to collect primary data if secondary data available can answer the research questions. The research used both secondary and primary data to measure corporate governance mechanisms and firm performance since secondary data did not adequately respond to all the research questions.

The data required for the study included family shareholding, family ownership structure, shareholding policies, succession planning, board composition, board diversity, board focus, board dynamics, board meetings and practices, top management practices, commitment, leadership style, CEO-director duality and evaluation and compensation of top team management.

3.5 Research Procedures

The researcher extracted primary data by use of questionnaires which were open ended while secondary data was extracted from the annual financial reports of all the twenty family owned firms listed on the NSE for the period of five years from 2013 to 2017. The study sought to establish the effect of corporate governance on firm performance among listed family owned companies. Financial firm performance was computed by use of ROI while non financial firm performance was computed using Tobin Q.

Validity shows whether the items measure what they are designed to measure and measures them accurately. To achieve validity, the researcher reviewed extensive literature to carefully identify concepts and ideas or relationships under study, develop the instrument from the literature and undertake pre-testing with executives of the respondents and academic experts (Bauer & Gaskell, 2014). Based on the analysis of the pre-test results, the researcher made corrections, adjustments and additions to some
research instruments. Thereafter, a reliability test was carried out using the Cronbach’s alpha which measures the internal consistency of a construct (Borg & Gall, 1995).

3.6 Data Analysis and Presentation

Data analysis is the steps the researcher undertakes to organize the data in order to deduce and make inferences about the data in order to find answers for the study (Kothari, 2009). The data was analyzed to summarize the essential features and relationships of data in order to generalize and determine patterns of behavior and particular outcomes. The analysis of collected data was carried out by use of descriptive statistics. Inferential statistics were carried out by testing multiple regression analysis models. Before subjecting the data to a regression analysis, a descriptive statistic test was conducted to provide a general view of the distribution and behavior of the variables in use.

The results of the analysis were presented in the form of tables, charts and percentages in a manner that is both simple and comprehensive and then used to complete the research report as per the study’s purpose and research questions. The study tested for multicollinearity and normality as some of the diagnostic tests.

3.6.1 Model Specification

The proposed model for the study to understand the effect of corporate governance on firm performance was as follows;

Model (1)

\[
\text{ROI} = \beta_0 + \beta_1 \text{FC} + \beta_2 \text{FM} + \beta_3 \text{FSP} + \beta_4 \text{BC} + \beta_5 \text{BD} + \beta_6 \text{BF} + \beta_7 \text{Bd} + \beta_8 \text{BM} + \beta_9 \text{BP} + \\
\beta_{10} \text{TM} + \beta_{11} \text{LS} + \beta_{12} \text{CD} + \beta_{13} \text{CZ} + \beta_{14} \text{CE} + \beta_{15} \text{CI} + \varepsilon,
\]

Model (2)

Tobin’s Q = \beta_0 + \beta_1 \text{FC} + \beta_2 \text{FM} + \beta_3 \text{FSP} + \beta_4 \text{BC} + \beta_5 \text{BD} + \beta_6 \text{BF} + \beta_7 \text{Bd} + \beta_8 \text{BM} + \beta_9 \text{BP} + \\
\beta_{10} \text{TM} + \beta_{11} \text{LS} + \beta_{12} \text{CD} + \beta_{13} \text{CZ} + \beta_{14} \text{CE} + \beta_{15} \text{CI} + \varepsilon
Where, Y=Firm Performance denoted either by ROI as financial firm performance or Tobin Q as the non-financial performance.

ROI=Return on Investment; (Net Income/Average shareholder’s equity),

Tobin Q= Total market value of the firm/Total asset value of the firm;

FC is family ownership and Charter, FM is Family shareholding, FSP is family succession planning, BC is board composition, BD is board diversity, BF is board focus, Bd is board dynamics, BM is board meetings, BP is board practices, TM is top management commitment, LS is leadership style, CD is CEO-director duality, CZ is company size, CE is Company age and CI is industry.

\( \beta_0 = \) captures all other explanatory variables which affect firm performance, but are not captured in the model.

\( \beta_1 \) to \( \beta_3 = \) are the coefficients of the variables, while \( \varepsilon \) captures the error term in the model.

The study used company size, number of years of establishment (firm age), and industry as the control variables.

### 3.7 Chapter Summary

This chapter presents a review of the assumptions that underlie the research methodology on the effect of corporate governance on firm performance. From introducing us to the study’s research design as a descriptive survey, the chapter also presents the population and sampling design. It further presents data collection methods, research procedures to be undertaken during data collection and data analysis and presentation. The chapter also proposes the ethical principles during the research and the steps to be undertaken to ensure the data collected is valid and reliable for the purposes of achieving the purpose of the study. This chapter lays basis for chapter four which presents the results and findings of the study.
CHAPTER FOUR

4.0 RESULTS AND FINDINGS

4.1 INTRODUCTION

This chapter presents an analysis of the findings on data that was collected and is divided into two sections; primary data and secondary data analysis. The analyzed data was presented in the form of tables, proportions, charts, and graphs.

4.2 Primary Data Analysis

4.2.1 Response Rate

The researcher distributed 120 questionnaires to board of directors, senior management staff and shareholders of family-owned businesses listed on the Nairobi Securities Exchange. Out of these, 94 respondents completely filled and returned their questionnaires. These gave a response rate of 78% which was considered sufficient for the study. This rate of response, according to Babbie & Mouton (2010) is sufficient and reliable for the study. The findings are as shown in Figure 4.1.

Figure 4.1: Response Rate

4.2.2 Demographic Information

The researcher sought the respondents to indicate their demographic information with regards to their gender, highest level of education and the position held in their respective
firms. This information helped the researcher in establishing how relevant and suited they were for the current study. The findings are as shown in subsequent sub sections.

4.2.2.1 Gender Distribution

Majority of the respondents were male at 58%, implying that the majority of shareholding, board and top management positions in the 20 family owned businesses are held by male. The findings do not however necessarily mean that majority of employees in these firms are male with regards to their overall human resource establishment. The findings also indicate that there are no distinctive differences between the number of male and female staff in the firms.

Figure 4.2: Gender

4.2.2.2 Level of Education

Respondents were asked to indicate their highest level of education; the findings are as shown in Figure 4.3. The findings show that 41% of the respondents’ highest level of education was undergraduate, followed by 30.8% who had post graduate degrees, 17.9% who had diplomas and 10.3% who had certificates. The findings show that all the respondents were educated, thus were literate and understood the question asked and therefore gave a reliable response.
4.2.2.3 Position Held

The researcher asked the respondents to indicate the positions held in their current firms and the findings are as shown in Figure 4.4. The majority of respondents at 50% were top management staff while 35.9% were shareholders and 14.1% were board members. All the respondents sampled were well conversant with corporate governance as applied within their firms and its effect on the financial and non-financial performance aspects of the firm.

4.3 Shareholders’ Assembly and Firm Performance

To answer this research question, both descriptive as well as inferential statistics were used as shown in subsequent sections.
4.3.1 Descriptives of Shareholders’ Assembly and Firm Performance

The first research question analyzed the effect of shareholders’ assembly on firm performance. The respondents were therefore asked to indicate the effect of shareholders’ assembly on firm performance. Their responses were summarized into statements that reflected the research question and were analyzed according to the level of agreement, with regards to the effect of shareholders’ assembly on firm performance using a five-point Likert scale and the findings presented in Table 4.1.

Table 4.1: Shareholders’ Assembly and Firm Performance

<table>
<thead>
<tr>
<th>Description</th>
<th>Mean</th>
<th>Std. Dev</th>
<th>Rank</th>
</tr>
</thead>
<tbody>
<tr>
<td>The shareholders set objectives that challenge management to improve on performance</td>
<td>4.085</td>
<td>1.267</td>
<td>5</td>
</tr>
<tr>
<td>There are clear shareholder exit rules in the company</td>
<td>3.797</td>
<td>1.122</td>
<td>10</td>
</tr>
<tr>
<td>The company instills its own best practices by laying out a strategic family charter</td>
<td>4.106</td>
<td>.725</td>
<td>4</td>
</tr>
<tr>
<td>The strategic family charter addresses the structural needs necessary to provide accountability to the business</td>
<td>3.585</td>
<td>1.020</td>
<td>13</td>
</tr>
<tr>
<td>The family charter develops greater accountability in our business</td>
<td>3.766</td>
<td>.909</td>
<td>12</td>
</tr>
<tr>
<td>The firm goals are clearly communicated to all stakeholders</td>
<td>4.074</td>
<td>.819</td>
<td>6</td>
</tr>
<tr>
<td>There is a shareholding policy in place that defines changes in ownership of the firm</td>
<td>3.574</td>
<td>.710</td>
<td>14</td>
</tr>
<tr>
<td>The shareholding policy mitigates against potential conflicts in the firm</td>
<td>3.329</td>
<td>1.331</td>
<td>15</td>
</tr>
<tr>
<td>Our shareholders’ assembly is clear with regards to succession planning</td>
<td>4.148</td>
<td>.789</td>
<td>3</td>
</tr>
<tr>
<td>The shareholders usually evaluate the likely impact of successors in terms of firm performance</td>
<td>4.212</td>
<td>.982</td>
<td>2</td>
</tr>
<tr>
<td>For purposes of governance, our shareholders observe statutory thresholds</td>
<td>4.031</td>
<td>.848</td>
<td>7</td>
</tr>
<tr>
<td>Policies are in place to ensure that majority shareholders’</td>
<td>4.319</td>
<td>.819</td>
<td>1</td>
</tr>
</tbody>
</table>
actions are not detrimental to the minority shareholders’ rights

A peaceful co-existence between majority and minority shareholders is an essential internal organizational environment for better firm performance

| The needs of the subsequent family generations are considered by significant shareholders in the formulation of a succession plan of the firm |
|---|---|---|
| Consideration of these needs in determining succession plans preserves the value of the business within the majority and minority shareholders |

**Overall Mean Score**

| 3.911 | 1.043 |

The findings indicated that majority of the firms’ shareholders are key in setting firm vision, objectives and mission for their boards and management to improve firm performance. This is supported by a mean of 4.085 of the responses received with a standard deviation of 1.267. The respondents also indicated that there were clear shareholder exit rules in their companies necessary to avoid business and operational interruption with a mean of 3.797 and a standard deviation of 1.122. Majority of the respondents revealed that their companies instill own best practices by laying out strategic family charters as supported by a mean of 4.106 with standard deviation of 0.725. These family charters are necessary drivers of performance. Further, majority of the respondents pointed out that the strategic family charter addresses the structural needs necessary to provide accountability to the business as supported by a mean of 3.585 with standard deviation of 1.020. The study also established that the family charter is the major driver of accountability in the family owned businesses as supported by a mean of 3.766 of the respondents with standard deviation of 0.909. In addition, the respondents alluded that firm goals were clearly communicated to all stakeholders as supported by a mean of 4.074 with standard deviation of 0.819. Clear communication of firm goals they agreed, were necessary drivers for improved firm performance. The researcher further established that there exists shareholding policies that define changes in ownership of the firms as supported by a mean of 3.574 with standard deviation of 0.710. An average number of the
respondents however, felt that family conflicts cannot merely be avoided by implementing a strong shareholding policy as supported by a mean of 3.329 with standard deviation of 1.331. This, they pointed out does not necessarily interrupt business performance, however, continued family feuds erode the firm’s reputation.

The study established that majority of the shareholders have a clear succession plan as supported by a mean of 4.148 with standard deviation of 0.982. Further, the shareholders usually evaluate the likely impact of successors in terms of firm performance as supported by a mean of 4.212 with standard deviation of 0.982. The respondents highlighted that the shareholders observe statutory thresholds for purposes of governance as supported by a mean of 4.031 with standard deviation of 0.848. Majority of the respondents pointed out that the policies in place ensured that majority shareholders’ actions are not detrimental to the minority shareholders’ rights as supported by a mean of 4.319 with standard deviation of 0.848.

The study further established that majority of the respondents indicated that peaceful coexistence between majority and minority shareholders is an essential internal organizational environment for better firm performance, represented by a mean of 3.883 with standard deviation of 1.234. Respondents further alluded that the needs of the subsequent family generations being considered by significant shareholders in the formulation of a succession plan of the firm is essential to sustain firm continuity and performance as supported by a mean of 3.776 with standard deviation of 1.467. The respondents further revealed that consideration of the needs in determining succession plans preserves the value of the business within the majority and minority shareholders as supported by a mean of 3.989 with standard deviation of 1.603.

4.3.2 Pre Tests on Shareholders’ Assembly and Firm Performance

4.3.2.1 Reliability Tests

The researcher conducted a reliability test by use of pilot test and a Cronbach alpha was used to measure the consistency of the research instruments. The findings in Table 4.2 show that shareholders assembly had a Cronbach alpha coefficient of 0.879. Since the
value Cronbach Alpha coefficient is above 0.7, this shows that a reliable scale was used in the study.

Table 4.2: Reliability Test

<table>
<thead>
<tr>
<th>Variable</th>
<th>Number of Items</th>
<th>Research Instruments</th>
</tr>
</thead>
<tbody>
<tr>
<td>Shareholders Assembly</td>
<td>5</td>
<td>0.879</td>
</tr>
<tr>
<td>Board of Directors</td>
<td>5</td>
<td>0.799</td>
</tr>
<tr>
<td>Top Management Team</td>
<td>5</td>
<td>0.826</td>
</tr>
</tbody>
</table>

4.3.2.2 Diagnostic Tests

Before embarking on regression analysis, the study carried out diagnostic tests including normality and multicollinearity tests. To determine multicollinearity, the researcher employed Variance of Inflation Factor (VIF) as shown in Table 4.3. From the findings, all the variables had VIF values ranging from 1 to 10. This signifies that multicollinearity was not an issue in the data set and thus was suitable for analysis.

Table 4.3: Multicollinearity Test

<table>
<thead>
<tr>
<th>Collinearity Statistics</th>
<th>Tolerance</th>
<th>VIF</th>
</tr>
</thead>
<tbody>
<tr>
<td>Shareholders’ assembly</td>
<td>.204</td>
<td>4.913</td>
</tr>
</tbody>
</table>

Normality test was carried out to determine whether the data set is normally distributed. The values of Skewness and Kurtosis as well as the Normal PP plots were used to test for normality as shown below. From Table 4.4, the values of Skewness and Kurtosis of the study variables were all within the prescribed thresholds for normality (+2 or -2). This shows that the data set was normally distributed. The findings in Table 4.1 are consistent with Figure 4.5 showing the Normal PP plot with all the data points falling closely along the normal PP line showing that the data set was normally distributed.

Table 4.4: Skewness and Kurtosis

<table>
<thead>
<tr>
<th>N</th>
<th>Skewness</th>
<th>Kurtosis</th>
</tr>
</thead>
<tbody>
<tr>
<td>Statistic</td>
<td>Statistic</td>
<td>Std. Error</td>
</tr>
<tr>
<td>Shareholders assembly</td>
<td>94</td>
<td>-0.406</td>
</tr>
</tbody>
</table>
A correlation analysis was carried out to determine the relationship between corporate governance and firm performance of family owned businesses. According to Yin (2017), correlation coefficient values are either positive or negative and range from 0-1, with correlation coefficients values of between 0 to 0.29 indicating weak correlation, 0.3-0.49 values indicating moderate correlation and 0.5 to 1 indicating strong correlation. The interpretation of the p values was done at 5% level of significance. As indicated in Table 4.5, the study revealed that shareholders’ assembly (r=0.397, p<0.05) had a significant and positive relationship with firm performance.

Table 4.5: Correlation Analysis with ROI as a Measure of Firm Performance

<table>
<thead>
<tr>
<th></th>
<th>Return on Investment</th>
<th>Shareholders’ Assembly</th>
</tr>
</thead>
<tbody>
<tr>
<td>Return on Investment</td>
<td>Pearson Correlation</td>
<td>1</td>
</tr>
<tr>
<td>Sig. (2-tailed)</td>
<td></td>
<td>N=94</td>
</tr>
<tr>
<td>Shareholders’ assembly</td>
<td>Pearson Correlation</td>
<td>.397**</td>
</tr>
<tr>
<td>Sig. (2-tailed)</td>
<td></td>
<td>.000</td>
</tr>
<tr>
<td>N</td>
<td>94</td>
<td>94</td>
</tr>
</tbody>
</table>

**. Correlation is significant at the 0.01 level (2-tailed).
Further, the study sought to determine the relationship between corporate governance and firm performance using the market value as measured by Tobin Q, as shown in Table 4.6. The study found out that shareholders assembly ($r = -0.521$, $p<0.05$) had a negative and significant correlation with Tobin Q as a measure of performance. The findings indicated that corporate governance has a negative correlation with Tobin Q as a measure of the non-financial performance of the listed family owned firms. The study revealed that the total market value of the firm is therefore, a factor of all other internal and external market determinants other than corporate governance.

### Table 4.6: Corporate Governance and Tobin Q as a Measure of Firm Performance

<table>
<thead>
<tr>
<th>Tobin Q</th>
<th>Pearson Correlation</th>
<th>Shareholders’ Assembly</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Sig. (2-tailed)</td>
<td>1</td>
</tr>
<tr>
<td></td>
<td>N</td>
<td>94</td>
</tr>
<tr>
<td>Shareholders’ Assembly</td>
<td>Pearson Correlation</td>
<td>-.521**</td>
</tr>
<tr>
<td></td>
<td>Sig. (2-tailed)</td>
<td>.000</td>
</tr>
<tr>
<td></td>
<td>N</td>
<td>94</td>
</tr>
</tbody>
</table>

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

#### 4.3.4 Regression Analysis on Shareholders’ Assembly and Firm Performance

Regression analysis was conducted to determine the effect of corporate governance on firm performance. The analysis was done by regressing corporate governance against the measures of performance; ROI and Tobin Q.

#### 4.3.4.1 Regression Analysis with ROI as a Measure of Firm Performance

The study sought to determine the influence of shareholders on firm performance as measured by ROI. Table 4.7 gives the findings of the model summary. From the findings, the value of R square is 0.895; this shows that 89.5% change in firm performance as measured by ROI is explained by changes in shareholders’ assembly. This indicates that apart from shareholders assembly, 10.5% change in performance is caused by other
factors other than the corporate governance factors within the shareholders’ assembly’s influence.

Table 4.7: Model Summary

<table>
<thead>
<tr>
<th>Model</th>
<th>R</th>
<th>R Square</th>
<th>Adjusted R Square</th>
<th>Std. Error of the Estimate</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>.946a</td>
<td>.895</td>
<td>.891</td>
<td>.00996</td>
</tr>
</tbody>
</table>

a. Predictors: (Constant), shareholders’ assembly

An Analysis of Variance (ANOVA) was conducted at 5% level of significance. Table 4.8 gives the findings of the analysis. The regression model’s value of F calculated is 776.889, which indicates that the overall regression model was significant.

Table 4.8: Analysis of Variance

<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>.076</td>
<td>1</td>
<td>.025</td>
<td>776.889</td>
</tr>
<tr>
<td>Residual</td>
<td>.009</td>
<td>92</td>
<td>.000</td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>.085</td>
<td>93</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

a. Dependent Variable: ROI
b. Predictors: (Constant), shareholders’ assembly

The findings of the beta coefficients and p-values of the study are shown in Table 4.9. From the findings, the following equation I is established;

\[ Y = 1.750 + 0.920X_1 \]  
\[ \text{.......................... (i)} \]

Where \( Y \) = performance as measured by ROI and \( X_1 \) is shareholders’ assembly.

Table 4.9 indicates that a unit change in shareholders’ assembly holding other factors constant, would result into a 0.920 increase in firm performance. When all other variables are held constant, firm performance as measured by ROI would be at 1.750. At 5% level of significance, shareholders assembly (p<0.05) has significant effect on firm performance as measured by ROI.
Table 4.9: Regression 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>1.750</td>
<td>1.465</td>
</tr>
<tr>
<td>Shareholders’ assembly</td>
<td>.625</td>
<td>.190</td>
</tr>
</tbody>
</table>

a. Dependent Variable: ROI

4.3.4.2 Regression Analysis with Tobin Q as a Measure of Firm Performance

The study analyzed the influence of corporate governance on performance as measured by Tobin Q. The findings in Table 4.10 showed that the value of the coefficient of determination R square is 0.888, which implies that 88.8% change in performance of family owned business as measured by Tobin Q is explained by shareholders’ assembly.

Table 4.10: Model Summary

<table>
<thead>
<tr>
<th>Model</th>
<th>R</th>
<th>R Square</th>
<th>Adjusted R Square</th>
<th>Std. Error of the Estimate</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>.942a</td>
<td>.888</td>
<td>.884</td>
<td>.01044</td>
</tr>
</tbody>
</table>

a. Predictors: (Constant), shareholders assembly

An ANOVA was carried out at 5% level of significance and the findings showed the value of F calculated is 717.600. This can be interpreted to mean that the overall regression model was significant in predicting the interaction between corporate governance and performance as measured by Tobin Q. Table 4.11 presents the findings of the analysis.

Table 4.11: Analysis of Variance

<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>.078</td>
<td>1</td>
<td>.078</td>
<td>717.600</td>
<td>.000b</td>
</tr>
<tr>
<td>Residual</td>
<td>.010</td>
<td>92</td>
<td>.000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>.087</td>
<td>93</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

a. Dependent Variable: Tobin Q
b. Predictors: (Constant), shareholders assembly
The beta coefficients of the study with p-values showing significance are indicated in Table 4.11. From the findings, the following regression equation II is established;

\[ Y = 0.817 + 0.277X_1 \]  \[\text{.......................... (ii)}\]

Where \( Y \) = performance as measured by Tobin Q and \( X_1 \) is shareholders assembly.

From the findings in equation II, holding other factors constant, performance of family firms listed at the NSE would be at 0.817. A unit change in shareholders’ assembly other factors held constant, would lead to a 0.277 increase in firm performance as determined by Tobin Q. At 5% level of significance, shareholders’ assembly (\( p<0.05 \)) has significant effect on performance of family owned businesses as measured by Tobin Q.

Table 4.12: Regression Coefficients

<table>
<thead>
<tr>
<th>Unstandardized Coefficients</th>
<th>Standardized Coefficients</th>
</tr>
</thead>
<tbody>
<tr>
<td>( B )</td>
<td>( \text{Std. Error} )</td>
</tr>
<tr>
<td>(Constant)</td>
<td>.817</td>
</tr>
<tr>
<td>Shareholders assembly</td>
<td>.122</td>
</tr>
</tbody>
</table>

a. Dependent Variable: Tobin Q

4.3.5 Qualitative Analysis on Shareholders’ Assembly and Firm Performance

The study sought to determine the views of respondents on how shareholders’ assembly affected firm performance. From the findings, most respondents agreed that shareholders assembly play an important role by availing all the required sources of funds needed in running the day to day operations of the firm. Some other respondents indicated that shareholder assembly plays important decisions in the firm for example through expression of their voting rights.

Other respondents indicated that shareholders of the firm oversee the crafting of objectives, mission and the general direction of their families and firms whereas it’s the responsibility of the board and top management team to implement successfully these objectives. The respondents reported that the shareholders assembly is responsible for the existence of separation of control from ownership within their firms.
4.4 Board of Directors and Firm Performance

The second research question investigated the effect of board of directors on firm performance of family owned firms listed at the NSE. The findings are presented in subsequent sections.

4.4.1 Descriptives on Board of Directors and Firm Performance

The respondents were asked to indicate the effect of the board of directors on firm performance. Their responses were summarized into statements that reflected the research question and were analyzed according to the level of agreement with regards to the effect of the board on firm performance using a five-point Likert scale, and the findings presented in Table 4.13.

Table 4.13: Board of Directors and Firm Performance

<table>
<thead>
<tr>
<th>Description</th>
<th>Mean</th>
<th>Std. Dev</th>
<th>Rank</th>
</tr>
</thead>
<tbody>
<tr>
<td>Our board comprises of executive directors</td>
<td>4.351</td>
<td>.714</td>
<td>1</td>
</tr>
<tr>
<td>The board also comprised of non-executive directors</td>
<td>4.210</td>
<td>.502</td>
<td>2</td>
</tr>
<tr>
<td>The non-executive directors comprise of outside members with expertise in</td>
<td>3.989</td>
<td>1.213</td>
<td>9</td>
</tr>
<tr>
<td>certain fields of management</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>The non-executive directors are responsible for driving certain</td>
<td>4.133</td>
<td>.632</td>
<td>4</td>
</tr>
<tr>
<td>organizational performance benchmarks in the firm</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>The roles of each individual board members are clarified with</td>
<td>3.861</td>
<td>.477</td>
<td>14</td>
</tr>
<tr>
<td>respect to set performance goals of the firm</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Existence of independent directors usually challenge the family</td>
<td>4.008</td>
<td>.737</td>
<td>7</td>
</tr>
<tr>
<td>thinking pattern of the firm</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Our board has diverse knowledge with different perspectives</td>
<td>3.755</td>
<td>1.033</td>
<td>17</td>
</tr>
<tr>
<td>Women representation in the board has increased independence of thought in</td>
<td>3.962</td>
<td>1.270</td>
<td>11</td>
</tr>
<tr>
<td>our boards</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>The directors provide practical solutions to solving the</td>
<td>3.904</td>
<td>1.068</td>
<td>13</td>
</tr>
<tr>
<td>organization’s challenges</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Statement</td>
<td>Mean Score</td>
<td>SD</td>
<td></td>
</tr>
<tr>
<td>--------------------------------------------------------------------------</td>
<td>------------</td>
<td>-----</td>
<td></td>
</tr>
<tr>
<td>It is through focus that our board undertakes its mandate that determines the success of the organization.</td>
<td>4.202</td>
<td>.712</td>
<td></td>
</tr>
<tr>
<td>The key focus of the board is to maximize the shareholders’ value through increased firm profitability</td>
<td>3.946</td>
<td>.965</td>
<td></td>
</tr>
<tr>
<td>The key role of our board it to ensure the management steers the organization for maximization of shareholder’s wealth by achieving better returns on shareholder’s investments</td>
<td>3.702</td>
<td>.913</td>
<td></td>
</tr>
<tr>
<td>The board in our firm is mandated to formulate organizations’ policies</td>
<td>4.127</td>
<td>.819</td>
<td></td>
</tr>
<tr>
<td>Our board helps in the selection of senior executives including the Chief Executive Officers</td>
<td>3.681</td>
<td>.642</td>
<td></td>
</tr>
<tr>
<td>Our board provide strategic oversight in terms of monitoring with adjustment of the plans</td>
<td>3.840</td>
<td>1.280</td>
<td></td>
</tr>
<tr>
<td>The board removes personal conflicts so as to ensure peaceful co-existence of family and business needs of the firm</td>
<td>3.968</td>
<td>.873</td>
<td></td>
</tr>
<tr>
<td>Our boards of directors usually meet on a pre-planned schedule to attend to different organizational issues</td>
<td>4.085</td>
<td>.825</td>
<td></td>
</tr>
<tr>
<td>During board meetings, firm performance are reviewed</td>
<td>3.851</td>
<td>1.106</td>
<td></td>
</tr>
<tr>
<td>The practice of the board influence performance of our firm</td>
<td>3.989</td>
<td>.848</td>
<td></td>
</tr>
<tr>
<td>Overall Mean Score</td>
<td>3.977</td>
<td>0.875</td>
<td></td>
</tr>
</tbody>
</table>

The findings in Table 4.13 show that majority of the respondents agreed that their boards comprised executive directors as supported by a mean of 4.351 with standard deviation of 0.714. Respondents further revealed that their boards comprised non-executive directors as supported by a mean of 4.210 with standard deviation of 0.502. Also, the respondents indicated that the non-executive directors were outside members with expertise in certain fields of management and were responsible for driving organizational performance as supported by a mean of 3.989 with standard deviation of 1.213. In addition, the study revealed that the existence of independent directors challenged the family unit into
strategic thinking as supported by a mean of 4.008 with standard deviation of 0.737. The study further established that women representation in the boards increased independence of thought in their boards as supported by a mean of 3.962 with standard deviation of 1.270.

Results from the study established that majority of the board members had clear roles in line with set performance goals in their organizations as supported by a mean of 3.861 with standard deviation of 0.477. The respondents also alluded that their board members had diverse knowledge with different perspectives as supported by a mean of 3.755 with standard deviation of 1.033. Further, majority of the respondents agreed that their boards provided practical solutions to the organizations’ challenges as supported by a mean of 3.904 with standard deviation of 1.068. Majority of the respondents revealed that it was through board focus that their directors undertook their mandates in determining the success of the organization as supported by a mean of 4.202 with standard deviation of 0.712. The respondents also indicated that the key focus of their boards was to maximize the shareholders’ value through increased firm profitability as supported by a mean of 3.946 with standard deviation of 0.965. Additionally, the respondents pointed out that the key role of their boards was to ensure management steers their firms towards shareholders’ value maximization by achieving better returns on shareholders’ investments as supported by a mean of 3.702 with standard deviation of 0.913. The respondents also pointed out that majority of the boards are mandated to formulate organizations’ policies as supported by a mean of 4.127 with standard deviation of 0.819.

The study further established that the boards are responsible for the selection of senior executives including the Chief Executive Officers as represented by a mean of 3.681 with standard deviation of 0.642. Also, the respondents indicated that their boards provide strategic oversight in terms of monitoring with adjustment to the organizations’ performance plans as supported by a mean of 3.840 with standard deviation of 1.280. The study further found out that the boards’ role is to reduce personal conflicts and act as the arbiters in case of such conflicts to ensure peaceful co-existence of family and business needs of the firm as supported by a mean of 3.968 with standard deviation of 0.873. In addition the study established that their boards usually meet on a pre-planned schedule to attend to different organizational issues including firm performance as supported by a
mean of 4.085 with standard deviation of 0.825. During these meetings, the boards review the firms’ performance as supported by a mean of 3.851 with standard deviation of 1.106. The respondents also indicated that the practices of the boards influenced performance of their firms as supported by a mean of 3.989 with standard deviation of 0.848.

4.4.2 Pretests on Board of Directors and Firm Performance

4.4.2.1 Reliability Tests

The researcher conducted a reliability test by use of pilot test and a Cronbach alpha was used to measure the consistency of the research instruments. The findings in Table 4.14 show that board of directors had a Cronbach alpha coefficient of 0.799. The findings show that all of the respondents had a Cronbach alpha coefficient of 0.7 and above indicating that the research instruments are reliable and sufficient for the study.

<table>
<thead>
<tr>
<th>Variable</th>
<th>Number of Items</th>
<th>Research Instruments</th>
</tr>
</thead>
<tbody>
<tr>
<td>Board of Directors</td>
<td>5</td>
<td>0.799</td>
</tr>
</tbody>
</table>

4.4.2.2 Diagnostic Tests

Before embarking on regression analysis, the study carried out diagnostic tests including normality and multicollinearity tests. To determine multicollinearity, the researcher employed Variance of Inflation Factor (VIF) as shown in Table 4.15. From the findings, all the variables had VIF values ranging from 1 to 10. This signifies that multicollinearity was not an issue in the data set and thus was suitable for analysis.

<table>
<thead>
<tr>
<th>Variable</th>
<th>Tolerance</th>
<th>VIF</th>
</tr>
</thead>
<tbody>
<tr>
<td>Board of directors</td>
<td>.351</td>
<td>2.846</td>
</tr>
</tbody>
</table>

Normality test was carried out to determine whether the data set is normally distributed. The values of Skewness and Kurtosis as well as the Normal PP plots were used to test for normality as shown below. From Table 4.16, the values of Skewness and Kurtosis of the
study variables are all within the prescribed thresholds for normality (+2 or -2). This shows that the data set was normally distributed. The findings in Table 4.12 are consistent with Figure 4.6 showing the Normal PP plot with all the data points falling closely along the normal PP line showing that the data set was normally distributed.

### Table 4.16: Skewness and Kurtosis

<table>
<thead>
<tr>
<th>N</th>
<th>Skewness Statistic</th>
<th>Skewness Std. Error</th>
<th>Kurtosis Statistic</th>
<th>Kurtosis Std. Error</th>
</tr>
</thead>
<tbody>
<tr>
<td>Board of directors</td>
<td>94</td>
<td>-.722</td>
<td>.249</td>
<td>.905</td>
</tr>
</tbody>
</table>

![Normal P-P Plot of Regression Standardized Residual](image)

**Figure 4.6: Normal PP Plot**

#### 4.4.3 Correlation Tests on Board of Directors and Firm Performance

A correlation analysis was carried out to determine the relationship between corporate governance and firm performance of family owned businesses. According to Yin (2017), correlation coefficient values are either positive or negative and range from 0-1, with correlation coefficients values of between 0 to 0.29 indicating weak correlation, 0.3-0.49 values indicating moderate correlation and 0.5 to 1 indicating strong correlation. The interpretation of the p values was done at 5% level of significance. As indicated in Table 4.17, the study revealed that the board of directors (r=0.421, p<0.05) had a positive and significant relationship with performance. Thus, the findings indicated that corporate governance is significantly and positively correlated with financial firm performance.
Table 4.17: Correlation Analysis with ROI as a Measure of Firm Performance

<table>
<thead>
<tr>
<th></th>
<th>Return on Investment</th>
<th>Board of directors</th>
</tr>
</thead>
<tbody>
<tr>
<td>Return on Investment</td>
<td>Pearson Correlation 1</td>
<td></td>
</tr>
<tr>
<td>Sig. (2-tailed)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>N</td>
<td>94</td>
<td></td>
</tr>
<tr>
<td>Board of directors</td>
<td>Pearson Correlation 0.421**</td>
<td>1</td>
</tr>
<tr>
<td>Sig. (2-tailed)</td>
<td>0.000</td>
<td></td>
</tr>
<tr>
<td>N</td>
<td>94</td>
<td>94</td>
</tr>
</tbody>
</table>

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

Further, the study further sought to determine the relationship between corporate governance and firm performance using the market value as measured by Tobin Q, as shown in Table 4.18.

Table 4.18: Corporate Governance and Tobin Q as a Measure of Performance

<table>
<thead>
<tr>
<th></th>
<th>Tobin Q</th>
<th>Board of directors</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tobin Q</td>
<td>Pearson Correlation 1</td>
<td></td>
</tr>
<tr>
<td>Sig. (2-tailed)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>N</td>
<td>94</td>
<td></td>
</tr>
<tr>
<td>Board of directors</td>
<td>Pearson Correlation -0.453**</td>
<td>1</td>
</tr>
<tr>
<td>Sig. (2-tailed)</td>
<td>0.000</td>
<td></td>
</tr>
<tr>
<td>N</td>
<td>94</td>
<td>94</td>
</tr>
</tbody>
</table>

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

The study found out that board of directors (r= -0.453, p<0.05) had a negative and significant correlation with Tobin Q as a measure of performance. The findings indicated that corporate governance has a negative correlation with Tobin Q as a measure of the non-financial performance of the listed family owned firms. The study revealed that the total market value of the firm is therefore, a factor of all other internal and external market determinants other than corporate governance.
4.4.4 Regression Analysis on Board of Directors and Firm Performance

Regression analysis was conducted to determine the effect of board of directors on firm performance. The analysis was done by regressing board of directors against the measures of performance; ROI and Tobin Q.

4.4.4.1 Regression Analysis with ROI as a Measure of Firm Performance

The study sought to determine how corporate governance influences financial performance of firms as measured by Return on Investment (ROI). The study found out that the coefficient of determination R square is 0.895, which implies that 89.5% change in ROI is explained by board of directors. Therefore, there are other factors (apart from corporate governance) that explain 10.5% change in performance of firms that future studies should focus on. Table 4.19 gives a breakdown of the findings.

<table>
<thead>
<tr>
<th>Model</th>
<th>R</th>
<th>R Square</th>
<th>Adjusted R Square</th>
<th>Std. Error of the Estimate</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>.946(^a)</td>
<td>.895</td>
<td>.891</td>
<td>.00996</td>
</tr>
</tbody>
</table>

a. Predictors: (Constant), board of directors

An analysis of variance was conducted at 5% level of significance. The study found out that F calculated is 776.889, which indicated that the overall regression model was significant. The findings are shown in Table 4.20.

<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>.076</td>
<td>1</td>
<td>.076</td>
<td>776.889</td>
</tr>
<tr>
<td>Residual</td>
<td>.009</td>
<td>92</td>
<td>.000</td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>.085</td>
<td>93</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

a. Dependent Variable: ROI
b. Predictors: (Constant), board of directors

The findings in Table 4.21 result into the following equation III

\[ Y = 1.750 - 0.323X_1 \]  

Where Y=performance as measured by ROI and X_1 is board of directors.
A unit increase in board of directors, other factors kept constant, would lead to a 0.323 decrease in performance of listed family owned firms at NSE as determined by ROI. Thus, when all the factors are held constant, performance of listed family owned firms at the NSE as measured by ROI would be at 1.750. The p values of the study were used to determine significance of the study variables. The findings indicate that board of directors (p<0.05) has significant effect on performance as measured by ROI. These findings are reported in Table 4.21.

Table 4.21: Regression 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>1.750</td>
<td>1.465</td>
</tr>
<tr>
<td>Board of directors</td>
<td>-.250</td>
<td>.177</td>
</tr>
</tbody>
</table>

a. Dependent Variable: ROI

4.4.4.2 Regression Analysis with Tobin Q as a Measure of Firm Performance

The study analyzed the influence of corporate governance on performance as measured by Tobin Q. The findings showed that the value of the coefficient of determination R square is 0.888, which implies that 88.8% change in performance of family owned business is explained by board of directors. Table 4.22 gives a summary of the findings.

Table 4.22: Model Summary

<table>
<thead>
<tr>
<th>Model</th>
<th>R</th>
<th>R Square</th>
<th>Adjusted R Square</th>
<th>Std. Error of the Estimate</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>.942 a</td>
<td>.888</td>
<td>.884</td>
<td>.01044</td>
</tr>
</tbody>
</table>

a. Predictors: (Constant), board of directors

An ANOVA was carried out at 5% level of significance and the findings showed the value of F calculated as 717.600. This can be interpreted to mean that the overall regression model was significant in predicting the interaction between corporate governance and performance as measured by Tobin Q. These findings are shown in Table 4.23.
Table 4.23: Analysis of Variance

<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>0.078</td>
<td>1</td>
<td>0.078</td>
<td>717.600</td>
<td>.000b</td>
</tr>
<tr>
<td>Residual</td>
<td>0.010</td>
<td>92</td>
<td>0.000</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>0.087</strong></td>
<td><strong>93</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

a. Dependent Variable: Tobin Q  
b. Predictors: (Constant), board of directors

Table 4.24 gives the findings of regression beta coefficients and the p-values showing significance. From the findings, the following equation (IV) is formulated:

\[ Y = 0.817 + 0.145X_1 \]  

Where \( Y \) = performance as measured by Tobin Q and \( X_1 \) is board of directors.

Thus, holding other factors constant, performance of family owned firms listed at the NSE would be at 0.817. A unit change in board of directors keeping other factors constant, would lead to a 0.145 increase in firm performance represented by Tobin Q. As shown in Table 4.24, board of directors (p<0.05) has significant effect on performance of family owned businesses.

Table 4.24: Regression Coefficients

<table>
<thead>
<tr>
<th></th>
<th>Unstandardized Coefficients</th>
<th>Standardized Coefficients</th>
<th>t</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>(Constant)</td>
<td>.817</td>
<td>.759</td>
<td>.450</td>
<td></td>
</tr>
<tr>
<td>Board of directors</td>
<td>.072</td>
<td>.145</td>
<td>3.846</td>
<td>.000</td>
</tr>
</tbody>
</table>

a. Dependent Variable: Tobin Q

4.4.5 Qualitative Analysis of Board of Directors and Firm Performance

The study sought to determine the influence of board of directors on firm performance. From the findings, majority of the respondents indicated that the board of directors plays an important role by acting as oversight to the management of the firm. Through the board of directors, the study established that the management of the firm is monitored. Respondents said that the board of directors helps in aligning the behavior and actions of the firm to the shareholders’ main objective which is maximization of their wealth.
Respondents said that the manner in which boards are constituted is critical in shaping and influencing performance of the firm. Most of the respondents said that directors help in ratification and approval of key long term decisions to be undertaken by the management team of the firm. Respondents further established that the board of directors is responsible for acquisition and hiring of key and strategic positions in the firm including the chief executive officer (CEO).

4.5 Top Management Team and Firm Performance

The last research question analyzed the influence of top management team on performance of family owned firms listed at the NSE. The findings are presented in sections below.

4.5.1 Descriptives on Top Management Team and Firm Performance

The respondents were asked to indicate the effect of top management teams on firm performance. Their responses were summarized into statements that reflected the research question and were analyzed according to the level of agreement with regards to the effect of the top management teams on firm performance using a five-point Likert scale and the findings presented in Table 4.17

<table>
<thead>
<tr>
<th>Statement</th>
<th>Mean</th>
<th>Std. Dev</th>
<th>Rank</th>
</tr>
</thead>
<tbody>
<tr>
<td>Our top management implements the board’s strategy</td>
<td>3.747</td>
<td>1.226</td>
<td>11</td>
</tr>
<tr>
<td>The responsibility of developing effective strategies lies with the top team management of our firm</td>
<td>3.989</td>
<td>1.347</td>
<td>5</td>
</tr>
<tr>
<td>The management team establish focus by providing guidance in response to turbulence within the environment as stewards of the shareholders</td>
<td>4.117</td>
<td>1.025</td>
<td>2</td>
</tr>
<tr>
<td>The management ensures that the strategies undertaken conform to the family needs</td>
<td>4.085</td>
<td>.946</td>
<td>3</td>
</tr>
<tr>
<td>The managers in our firms usually are evaluated in line with family loyalty rather than firm performance</td>
<td>4.057</td>
<td>1.227</td>
<td>4</td>
</tr>
</tbody>
</table>
The managers usually implement strategic plans from the board in good faith with the objective of maximizing shareholders’ wealth  

3.755 1.333

The management of our organization has adequate skills  

3.984 .885 5

The senior level executives are strongly committed to the organizational plans and strategies  

3.978 .567 6

The managers effectively participate in the strategic actions for the organization to achieve higher performance.  

4.119 1.101 1

The CEOs main role is to implement goals set by the board of the firm  

3.797 1.053 9

Our firm always strive to align its remuneration policy with its long-term interests  

3.840 1.148 8

The board determine the executive pay structure in line with its shareholders’ interests to avoid potential future conflicts  

3.914 1.103 7

The diversity in top management team has resulted in better firm performance  

3.617 1.108 12

**Overall Mean score**  

3.923 1.082


The study established that it’s the role of top management teams to implement the firms’ strategies as set by the boards. Majority of the respondents indicated that their senior executives were responsible for implementation of their companies’ strategies as supported by a mean of 3.747 with standard deviation of 1.226. The study also established the top management teams implemented the boards’ strategic plans in good faith, with the objective of maximizing shareholders’ value as supported by a mean of 3.755 with standard deviation of 1.333.

The study indicated that it’s the responsibility of the C-level executives to develop effective functional strategies responsible for better firm performance as supported by a mean of 4.117 with standard deviation of 1.025. Further, respondents revealed that the top management teams within the listed family firms are usually evaluated in line with family
loyalty rather than firm performance as supported by a mean of 4.057 with standard deviation of 1.227. Moreover, the study established that management of their organizations had adequate skills as supported by a mean of 3.984 with standard deviation of 0.885. The study also revealed strong commitment by senior level executives towards organizational goals as supported by a mean of 3.978 with standard deviation of 0.567.

The study found that the managers effectively participated in the strategic actions for the organization to achieve higher performance as supported by a mean of 4.119 with standard deviation of 1.101. Additionally, it is the CEOs’ main role to implement goals set by the boards as evidenced by a mean of 3.797 with standard deviation of 1.053. The study further established that majority of the respondents indicated that their firms always strived to align the remuneration policy with the long-term interests as backed by a mean of 3.840 with standard deviation of 1.148. To reduce agency problems, the study established that the board determines the executive pay structure in line with its shareholders’ interests as supported by a mean of 3.914 with standard deviation of 1.103. Further, the respondents revealed that top management team diversity results in better firm performance as supported by a mean of 3.617 with standard deviation of 1.108.

4.5.2 Pretests on Top Management Team and Firm Performance

4.5.2.1 Reliability Tests

The researcher conducted a reliability test by use of pilot test and a Cronbach alpha was used to measure the consistency of the research instruments. The findings in Table 4.26 show that top management team had a Cronbach alpha coefficient of 0.826. The findings show that all of the respondents had a Cronbach alpha coefficient of 0.7 and above indicating that the research instruments are reliable and sufficient for the study.

Table 4.26: Reliability Test

<table>
<thead>
<tr>
<th>Variable</th>
<th>Number of Items</th>
<th>Research Instruments</th>
</tr>
</thead>
<tbody>
<tr>
<td>Top Management Team</td>
<td>5</td>
<td>0.826</td>
</tr>
</tbody>
</table>
4.5.2.2 Diagnostic Tests

Before embarking on regression analysis, the study carried out diagnostic tests including normality and multicollinearity tests. To determine multicollinearity, the researcher employed Variance of Inflation Factor (VIF) as shown in Table 4.27. From the findings, all the variables had VIF values ranging from 1 to 10. This signifies that multicollinearity problems were not encountered during data analysis.

**Table 4.27: Multicollinearity Test**

<table>
<thead>
<tr>
<th></th>
<th>Tolerance</th>
<th>VIF</th>
</tr>
</thead>
<tbody>
<tr>
<td>Top management</td>
<td>.213</td>
<td>4.699</td>
</tr>
</tbody>
</table>

Normality test was carried out to determine whether the data set is normally distributed. The values of Skewness and Kurtosis as well as the Normal PP plots were used to test for normality as shown below. From Table 4.20, the values of Skewness and Kurtosis of the study variables are all within the prescribed thresholds for normality (+2 or -2). This shows that the data set was normally distributed. The findings in Table 4.28 are consistent with Figure 4.7 showing the Normal PP plot with all the data points falling closely along the normal PP line showing that the data set was normally distributed.

**Table 4.28: Skewness and Kurtosis**

<table>
<thead>
<tr>
<th></th>
<th>N</th>
<th>Skewness</th>
<th>Kurtosis</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Statistic</td>
<td>Std. Error</td>
</tr>
<tr>
<td>Top management</td>
<td>94</td>
<td>-1.003</td>
<td>.249</td>
</tr>
</tbody>
</table>

The above information in Table 4.20 is further illustrated in Figure 4.7.

---

**Figure 4.7: Normal PP Plot**
4.5.3 Correlation Analysis

A correlation analysis was carried out to determine the relationship between corporate governance and firm performance of family owned businesses. According to Yin (2017), correlation coefficient values are either positive or negative and range from 0-1, with correlation coefficients values of between 0 to 0.29 indicating weak correlation, 0.3-0.49 values indicating moderate correlation and 0.5 to 1 indicating strong correlation. The interpretation of the p values was done at 5% level of significance. As indicated in Table 4.29, the study revealed that top management team \((r=0.468, p<0.05)\) in all the family owned firms as measured by ROI. Thus, the findings indicated that corporate governance is significantly and positively correlated with financial firm performance.

Table 4.29: Correlation Analysis with ROI as a Measure of Firm Performance

<table>
<thead>
<tr>
<th>Return on Investment</th>
<th>Pearson Correlation</th>
<th>Top management</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Sig. (2-tailed)</td>
<td>94</td>
</tr>
<tr>
<td>Return on Investment</td>
<td></td>
<td>1</td>
</tr>
<tr>
<td></td>
<td>N</td>
<td>94</td>
</tr>
<tr>
<td>Top management</td>
<td>Pearson correlation</td>
<td>.468**</td>
</tr>
<tr>
<td></td>
<td>Sig. (2-tailed)</td>
<td>.000</td>
</tr>
<tr>
<td></td>
<td>N</td>
<td>94</td>
</tr>
</tbody>
</table>

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

Further, the study further sought to determine the relationship between corporate governance and firm performance using the market value as measured by Tobin Q, as shown in Table 4.30. The study found out that top management team \((r=-0.640, p<0.05)\) had a negative and significant relationship with Tobin Q as a measure of performance. The findings indicated that corporate governance has a negative correlation with Tobin Q as a measure of the non-financial performance of the listed family owned firms. The study revealed that the total market value of the firm is therefore, a factor of all other internal and external market determinants other than corporate governance.
Table 4.30: Correlation Analysis with Tobin Q as a Measure of Performance

<table>
<thead>
<tr>
<th></th>
<th>Tobin Q</th>
<th>Top management</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tobin Q</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>94</td>
</tr>
<tr>
<td>Top management</td>
<td>Pearson Correlation</td>
<td>-.640**</td>
</tr>
<tr>
<td></td>
<td>Sig. (2-tailed)</td>
<td>.000</td>
</tr>
<tr>
<td></td>
<td>N</td>
<td>94</td>
</tr>
</tbody>
</table>

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

4.5.4 Regression Analysis on Top Management Team and Firm Performance

Regression analysis was conducted to determine the effect of corporate governance on firm performance. The analysis was done by regressing corporate governance against the measures of performance; ROI and Tobin Q.

4.5.4.1 Regression Analysis with ROI as a Measure of Firm Performance

The study sought to determine how corporate governance influences financial performance of firms as measured by Return on Investment (ROI). The study found out that the coefficient of determination R square is 0.895, which implies that 89.5% change in ROI is explained by top management. Therefore, there are other factors (apart from corporate governance) that explain 10.5% change in performance of firms that future studies should focus on. Table 4.31 gives a breakdown of the findings.

Table 4.31: Model Summary

<table>
<thead>
<tr>
<th>Model</th>
<th>R</th>
<th>R Square</th>
<th>Adjusted R Square</th>
<th>Std. Error of the Estimate</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>.946a</td>
<td>.895</td>
<td>.891</td>
<td>.00996</td>
</tr>
</tbody>
</table>

a. Predictors: (Constant), top management

An analysis of variance was conducted at 5% level of significance. The study found out that F calculated is 776.889, which indicated that the overall regression model was significant. The findings are shown in Table 4.32.
The p values of the study were used to determine significance of the study variables. The findings indicate that top management (p<0.05) has insignificant effect on performance as measured by ROI. The following equation (V) is established based on the findings in Table 4.33.

\[ Y=1.750-0.421X_1 \]  

Where \( Y \) = performance as measured by ROI and \( X_1 \) is board of directors.

Thus, when other factors are held constant, performance of family owned firms listed at the NSE would be at 1.750. A unit change in top management team, keeping other factors constant would lead to a 0.421 decrease in firm performance represented by ROI. As shown in Table 4.33, top management (p<0.05) has significant effect on performance of family owned businesses.
square is 0.888, which imply that 88.8% change in performance of family owned business is explained by top management. Table 4.34 gives a summary of the findings.

Table 4.34: Model Summary

<table>
<thead>
<tr>
<th>Model</th>
<th>R</th>
<th>R Square</th>
<th>Adjusted R Square</th>
<th>Std. Error of the Estimate</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>.942a</td>
<td>.888</td>
<td>.884</td>
<td>.01044</td>
</tr>
</tbody>
</table>

a. Predictors: (Constant), top management

An ANOVA was carried out at 5% level of significance and the findings showed the value of F calculated as 717.600. This can be interpreted to mean that the overall regression model was significant in predicting the interaction between corporate governance and performance as measured by Tobin Q. The findings are indicated in Table 4.35.

Table 4.35: Analysis of Variance

<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>.078</td>
<td>1</td>
<td>.078</td>
<td>717.600</td>
</tr>
<tr>
<td>Residual</td>
<td>.010</td>
<td>92</td>
<td>.000</td>
<td></td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>.087</strong></td>
<td><strong>93</strong></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

a. Dependent Variable: Tobin Q
b. Predictors: (Constant), top management

As shown in Table 4.36, top management (p=0.000<0.05) has significant effect on performance of family owned businesses as measured by Tobin Q. The following equation (VI) is formulated based on the findings in Table 4.36.

\[ Y=0.817+0.838X_1 \]  \hspace{1cm} (vi)

Where \( Y \) = performance as measured by Tobin Q and \( X_1 \) is board of directors.

Thus, holding other factors constant, performance of family owned firms listed at the NSE would be at 0.817. A unit change in top management keeping other factors constant would lead to a 0.838 increase in firm performance represented by Tobin Q. As shown in Table 4.36, board of directors (p<0.05) has significant effect on performance of family owned businesses.
Table 4.36: Regression 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>.817</td>
<td>1.076</td>
</tr>
<tr>
<td>Top management</td>
<td>.205</td>
<td>.012</td>
</tr>
</tbody>
</table>

a. Dependent Variable: Tobin Q

4.5.5 Qualitative Analysis on Top Management and Firm Performance

Respondents were further asked to indicate the effect of top management on firm performance. From the findings, most of the respondents said that the management team is responsible for the day to day operations of the firm. Respondents said that the management of the firm is responsible for among other things, communication of the vision and mission to staff, formulation of long term goals and availing all the required resources for realization of the goals and objectives in an organization. Some respondents however indicated that not all time will the management of the firm be motivated to meet the goals of the firm because of existence of the conflict of interest.

The majority of the respondents reported that they viewed corporate governance as purely a financial aspect which top management team is tasked by the board and shareholders to achieve and grow performance annually. The respondents held that the non-financial factors of performance of any firm are as a result of other organizational factors which the top management team is meant to review based on experience and skillset.

4.6 Corporate Governance and Firm Performance

The respondents were asked to indicate the effect of corporate governance practices on firm performance within their organizations. Their responses were summarized into statements that reflected the research objectives and were analyzed using a five-point Likert scale and the findings presented in Table 4.37. The findings indicated that majority of the respondents revealed that their firms had realized increased profits as backed by a mean of 3.680 with standard deviation of 1.415. Further, level of return on equity consistently increased as indicated by a mean of 3.872 with standard deviation of 0.765,
while the return on investment increased as supported by a mean of 3.766 with standard deviation of 1.282.

Table 4.37: Firm Performance

<table>
<thead>
<tr>
<th>Mean</th>
<th>Std. Dev</th>
<th>Rank</th>
</tr>
</thead>
<tbody>
<tr>
<td>3.680</td>
<td>1.415</td>
<td>3</td>
</tr>
<tr>
<td>3.872</td>
<td>.765</td>
<td>1</td>
</tr>
<tr>
<td>3.766</td>
<td>1.282</td>
<td>2</td>
</tr>
<tr>
<td>3.772</td>
<td>1.154</td>
<td>4</td>
</tr>
</tbody>
</table>

4.7 Secondary Data Analysis

From the primary data above, the following information is summarized in Table 4.38 for determination of the Corporate Governance Index. From the findings, board of directors had the highest mean (M=3.977) while firm performance (M=3.772) had the least mean. At the same time, the board of directors has the largest maximum mean (M=4.351) with the mean of firm performance at (M=3.872).

Table 4.38: Determination of CGI

<table>
<thead>
<tr>
<th>Variable</th>
<th>Mean</th>
<th>Std. Dev</th>
<th>Max</th>
<th>Min</th>
</tr>
</thead>
<tbody>
<tr>
<td>Shareholders’ Assembly</td>
<td>3.911</td>
<td>1.043</td>
<td>4.319</td>
<td>3.329</td>
</tr>
<tr>
<td>Board of Directors</td>
<td>3.977</td>
<td>0.875</td>
<td>4.351</td>
<td>3.681</td>
</tr>
<tr>
<td>Top Management Team</td>
<td>3.923</td>
<td>1.082</td>
<td>4.119</td>
<td>3.617</td>
</tr>
<tr>
<td>Firm Performance</td>
<td>3.772</td>
<td>1.154</td>
<td>3.872</td>
<td>3.680</td>
</tr>
<tr>
<td>CGI</td>
<td><strong>3.895</strong></td>
<td><strong>1.038</strong></td>
<td><strong>4.165</strong></td>
<td><strong>3.576</strong></td>
</tr>
</tbody>
</table>

The corporate governance indices for individual firms are shown in Table 4.39 below. The Likert scale was used to rate the various aspects of corporate governance among listed family owned firms at the NSE. The weighted average score was determined by totaling up respective composite means of each aspect of corporate governance. Means ranging from 1-1.4 indicated very low corporate governance; 1.4-2.4 indicated low corporate governance; 2.4-3.4 indicated moderate; 3.5-4.4 was categorized as high and 4.4-5.0 being the highest corporate governance.
Table 4.39, presents the weighted indices of the practice of corporate governance among family owned firms listed on the NSE ranging from moderate to high. The CGI index indicates that most of the listed family owned firms practice corporate governance and have implemented high governance structures due to strict statutory requirements by the CMA and NSE.

Table 4.39: Corporate Governance Indices

<table>
<thead>
<tr>
<th>Company</th>
<th>Shareholder Assembly</th>
<th>Board of Directors</th>
<th>Top Management</th>
<th>Weighted Average</th>
</tr>
</thead>
<tbody>
<tr>
<td>Standard Group</td>
<td>3.25</td>
<td>3.89</td>
<td>3.89</td>
<td>3.68</td>
</tr>
<tr>
<td>Sasini</td>
<td>3.75</td>
<td>3.78</td>
<td>3.33</td>
<td>3.62</td>
</tr>
<tr>
<td>Eveready</td>
<td>3.75</td>
<td>3.11</td>
<td>3.33</td>
<td>3.40</td>
</tr>
<tr>
<td>Rea Vipingo</td>
<td>3.75</td>
<td>4.00</td>
<td>3.78</td>
<td>3.84</td>
</tr>
<tr>
<td>Sameer</td>
<td>4.25</td>
<td>3.33</td>
<td>3.56</td>
<td>3.71</td>
</tr>
<tr>
<td>KenolKobil</td>
<td>3.00</td>
<td>4.00</td>
<td>3.78</td>
<td>3.59</td>
</tr>
<tr>
<td>Williamson</td>
<td>3.50</td>
<td>3.78</td>
<td>3.44</td>
<td>3.57</td>
</tr>
<tr>
<td>Kapchorua</td>
<td>3.50</td>
<td>3.78</td>
<td>3.44</td>
<td>3.57</td>
</tr>
<tr>
<td>ARM</td>
<td>3.75</td>
<td>4.22</td>
<td>4.00</td>
<td>3.99</td>
</tr>
<tr>
<td>Longhorn</td>
<td>3.50</td>
<td>3.44</td>
<td>3.11</td>
<td>3.35</td>
</tr>
<tr>
<td>Access</td>
<td>4.25</td>
<td>3.00</td>
<td>3.11</td>
<td>3.45</td>
</tr>
<tr>
<td>Carbacid</td>
<td>3.50</td>
<td>3.44</td>
<td>3.56</td>
<td>3.50</td>
</tr>
<tr>
<td>Centum</td>
<td>3.50</td>
<td>4.22</td>
<td>4.33</td>
<td>4.02</td>
</tr>
<tr>
<td>NIC</td>
<td>4.00</td>
<td>4.44</td>
<td>4.89</td>
<td>4.44</td>
</tr>
<tr>
<td>Unga Group</td>
<td>3.77</td>
<td>3.84</td>
<td>3.40</td>
<td>3.67</td>
</tr>
<tr>
<td>Home Africa</td>
<td>3.96</td>
<td>3.40</td>
<td>3.48</td>
<td>3.61</td>
</tr>
<tr>
<td>Kurwitu Ventures</td>
<td>4.07</td>
<td>3.31</td>
<td>3.68</td>
<td>3.69</td>
</tr>
<tr>
<td>I&amp;M Holdings Ltd</td>
<td>3.87</td>
<td>3.80</td>
<td>3.59</td>
<td>3.75</td>
</tr>
<tr>
<td>HF Group</td>
<td>3.59</td>
<td>3.42</td>
<td>3.50</td>
<td>3.50</td>
</tr>
<tr>
<td>Olympia Capital</td>
<td>3.83</td>
<td>3.56</td>
<td>3.74</td>
<td>3.71</td>
</tr>
</tbody>
</table>

4.8 Chapter Summary

This chapter presented findings of the study according to the data collected from the respondents and the annual reports field of each family owned business. The findings revealed that corporate governance is positively and significantly related to the financial performance of a firm as represented by ROI whereas the firm’s non-financial performance as represented by Tobin Q is negatively and significantly related to corporate governance. The next chapter presents the discussions, conclusions and recommendations which were drawn from this study.
CHAPTER FIVE

5.0 SUMMARY, DISCUSSION, CONCLUSIONS AND RECOMMENDATIONS

5.1 INTRODUCTION

As set out in Chapter One, the purpose of this study was to determine the effect of corporate governance on firm performance in family owned firms listed on the NSE. This was due to lack of consensus in results in the vast majority of literature reviewed in the previous two chapters. Further, the existence of mixed evidence in relevant studies has prompted re-examination for possible effect in order to establish clear and sound conclusions. This chapter presents the summary of findings, discussion and conclusions from the analysis as well as policy recommendations and suggestions for further studies.

5.2 Summary of Findings

The purpose of the study was to analyze the effect of corporate governance on firm performance in family owned businesses listed on the Nairobi Securities Exchange. The study was guided by three research questions; what is the effect of shareholders’ assembly on firm performance of family owned businesses listed on the NSE? How does the board of directors influence firm performance of family owned businesses listed on the NSE? How does the top management team affect firm performance of family owned businesses listed on the NSE? A descriptive research design was used in the study. The descriptive study was relevant for the study since it allowed the researcher an in-depth examination of corporate governance and firm performance variables in their unchanged environment.

The population of the study comprised all the sixty four companies listed on the NSE as at December 2013. However, CMC was delisted in 2015 and a total of twenty companies under family control were used. Census was used to collect data from the respondents. For this study there were 94 participants which gave a response rate of 78% which was adequate for this study. This study used descriptive and inferential statistics to analyze the variables. The independent variable for the study was corporate governance while the dependent variable was firm performance.
The study established that corporate governance is positively and significantly responsible for driving financial firm performance. It is worth noting that 10.5% of financial firm performance is a result of other strategic organizational factors. However, non-financial performance of the firm is negatively correlated to corporate governance. The findings indicate that non-financial firm performance therefore is a result of combination of other strategic firm factors.

On effect of shareholders’ assembly on firm performance of family owned businesses listed on the NSE, the study established that the shareholders’ assembly is significantly and positively related to firm performance. The study established that at 5% level of significance, shareholders’ assembly has a significant effect on firm performance as measured by both ROI and Tobin Q. The value of the coefficient of determination R square is 0.895 for ROI and 0.888 for Tobin Q; which implies that 89.5% change in financial firm performance and 88.8% in non-financial firm performance is explained by changes in shareholders’ assembly. Further the study established that a unit change in shareholders’ assembly holding other factors constant, would result into a 0.920 increase in financial firm performance and a corresponding 0.277 increase in non-financial firm performance.

The study indicated that shareholders’ assembly influences firm performance through their active role in establishing the company’s mission, vision and objectives through exercising control by way of family charters or councils and establishing fair and equitable shareholding policies as well as proper succession planning. However, the regression analysis indicated that despite having strong objectives as well as a clearly established family charter or council and a properly laid down succession plan, the firm’s total market value is negatively and significantly related to shareholder’s assembly’s actions. This implies that other than corporate governance, total market value is dependent on other strategic firm factors and the firm’s market performance of its products.

On effect of board of directors on firm performance of family owned businesses listed on the NSE, the study established that the board of directors is significantly and negatively related to financial firm performance while on the other hand, the board of directors has a
significant and positive relationship with non-financial performance of the firm. The study established that at 5% level of significance, board of directors has a significant effect on firm performance as measured by both ROI and Tobin Q. The value of the coefficient of determination R square is 0.895 for ROI and .0888 for Tobin Q; which implies that 89.5% change in financial firm performance and 88.8% in non-financial firm performance is explained by changes in board of directors. Further the study established that a unit change in board of directors holding other factors constant would result into a 0.323 decrease in financial firm performance and a corresponding 0.145 increase in non-financial firm performance.

The findings indicated that the board of directors’ influence is significantly and positively responsible for financial performance of their firms. The study revealed that the board of directors influences firm performance through their active roles in measuring and evaluating top team and firm performance, ensuring the right diversity in terms of gender and expertise, composition and regular board meetings, as well as superior practices and focus that aim to position their firms competitively. The board is responsible for driving performance of an organization through correct membership, regular meetings to evaluate performance, and ethical practices to enhance corporate culture. However, despite best practices by the board, its focus and diversity as well as the presence of non-executive expert directors, the study indicated that financial performance of the firm is dependent on the caliber of the board and not the factors within the board.

On effect of top management team on firm performance of family owned businesses listed on the NSE, the study established that top management team is significantly and negatively related to financial firm performance while on the other hand, top management team has a significant and positive relationship with non-financial performance of the firm. The study established that at 5% level of significance, top management team has a significant effect on firm performance as measured by both ROI and Tobin Q. The value of the coefficient of determination R square is 0.895 for ROI and .0888 for Tobin Q; which implies that 89.5% change in financial firm performance and 88.8% in non-financial firm performance is explained by changes in shareholders’ assembly. Further the study established that a unit change in top management team holding other factors
constant, would result into a 0.421 decrease in financial firm performance and a corresponding 0.838 increase in the non-financial firm performance.

On the influence of top management team on firm performance of family owned businesses listed on the NSE, the findings of the study indicated that top management team is significantly and positively related to financial firm performance. Firm performance is influenced by the top management team through their role in implementing the boards’ strategy to enhance organizational performance, implementing best practices, commitment to the organization and transformational leadership styles. The top management team implements the boards’ strategic plans and is responsible for driving performance of an organization through their functional or departmental actions, and avoiding agency problems. However, despite top management’s best governance practices, the study indicated that the organization’s total market value is negatively and significantly related to the governance actions of the top team management. Regression analysis findings indicate top management teams’ influence on the non-financial performance of the firm is negative and significant.

5.3 Discussion

5.3.1 Shareholders’ Assembly and Firm Performance

The findings indicated that shareholders’ assembly has a significant influence on firm performance. The findings are in agreement with Denise (2001), who stated that firm performance in family owned businesses is fully dependent on the principal shareholder and other shareholders’ existence are majorly for statutory compliance needs. The principal shareholder is responsible for the vision and mission of the firm.

The findings further indicated that the businesses are run and controlled by a family governing body referred to as the family charter. These family councils are important in instilling best practices in the businesses by laying out necessary structures for accountability. They are also important in ensuring the family businesses incorporate within their strategic business decisions the family interests. As Hoopes and Miller (2006) argued, most of the best practices presented by corporate governance usually harm the family unity and do not sync with the basic nature of family companies, which exhibit a
solitary or concentrated shareholder power. The lock-in of family members in the shareholding structure affects firm performance since continued family conflicts and threats hinder management from pursuing set objectives and thus firms post poor performance reducing the chances of such firms’ survival and long term continuity. On the other hand, family charters reduce family conflicts, allow for family needs and interests to be reflected within the firms’ decisions by developing greater accountability and therefore increasing family cohesiveness as well as firm performance.

The study further established that equitable shareholding policy influences firm performance through clearly defined conflict resolution mechanisms, protected minority family shareholder rights and clearly spelt out shareholding changes. These actions by the shareholders greatly influence firm discipline, reduce family feuds and ensure business continuity as held by Sarbah et al (2015). He established that shareholders need to create discipline amongst family members, ensure sustainability by constant performance of the business and institute a family charter to prevent family conflicts.

The study further found that the shareholders’ assembly plan with regards to principal shareholder and key position succession plays a major role in influencing the company’s future direction. Future firm actions are usually evaluated in terms of their likely impact to firm performance. The choice of the successor to key positions within the firm for instance the chairman of the board and shareholding positions, is usually on the principal shareholder. The successors will be responsible for the future direction of the company. The findings support the need to consider subsequent family generations in the formulation of succession plans to avoid conflicts and stagnation. The findings further indicated that succession planning is important in preservation of family values from one generation to the other so as to maintain the family values within the businesses.

The study further revealed that family businesses performance is primarily dependent on the shareholders assembly’s actions. The peaceful co-existence between majority and minority shareholders is an essential internal organizational environment for better firm performance. Further, the objectives, mission and goals of a family firm are primarily dependent on the principal family shareholder. The findings are in support of Mutunga (2013) who argued that it is the responsibility of the owners to drive strategic decisions
aimed at achieving high firm performance and governance practices of any business. Firm performance of family owned businesses are therefore the sole responsibility of shareholders.

5.3.2 Board of Directors and Firm Performance

Survey respondents indicated that the family businesses had a board of directors to serve as a management committee in evaluating firm operations. Findings of the study indicated that boards of directors in family business are directly involved in evaluation and monitoring of firm performance. The study revealed that each individual board member was tasked with a specific role and a set of performance goals within the firm. This finding is in support of Hill, Jones and Schilling (2014), who argued that the first rule in the board of directors’ meeting is the purposeful and consistent evaluation of firm operations and monitoring performance.

The findings also established that achievement of firm objectives is through well aligned strategic actions aimed at improving firm performance over a period of time and it is the role of the board to align the firm’s strategy with the family goals. Survey respondents pointed out that existence of independent non-executive directors usually challenged the family thinking pattern of the firm. As Peng and Jiang (2014) found out, the best corporate governance practices do not suit the family unit. However, a family owned business can instill its own best practices by having a diverse and expert board of directors who are able to craft out a strategy and governance structures that would address the structural needs necessary to provide accountability to the family as well as sustain and drive better performance.

A diverse expert board of directors is able to develop greater accountability and measurable performance from the top management team as well as the performance of the entire firm. The findings are in support of Barako and Tower (2007) who argued that pursuance to further corporate governance within the financial industry by the board of directors is essential to enhance sector stability and performance. The survey respondents further indicated that the non-executive directors with expertise in certain fields of
management were responsible for driving certain organizational performance benchmarks within the firms.

The study also revealed that board diversity is important in driving firm performance. Survey respondents pointed out that their boards had diverse knowledge with different perspectives. As Benn, Edwards and Williams (2014) stated, several individuals with a common purpose of helping an organisation achieve its goals forms the firm’s board of directors. The study also revealed that the directors must work together for a common purpose of helping their firms perform better. Further, the respondents held that women representation in the boards increased independence of thought. This is in support of Laffarga, Pillar and Reguera-Alvarado (2015) who established that board diversity specifically women, would enhance the board’s decision-making process and steer the firm towards better performance.

The study points out that it is the responsibility of the board of directors to provide practical solutions to the organization’s challenges. The focus of any board of directors must be to implement a strategy that drives firm performance. The board must therefore focus on undertaking its mandate effectively to drive organizational success. Schwartz-Ziv and Weisbach (2013) indicated that bringing the right people together for purposes of preparing and presenting strategies aimed at improving firm performance is the first step towards the ideal board.

Survey respondents alluded that the key focus of the board is to maximize the shareholders’ value through increased firm profitability. They held that the key role of their board was to ensure management steers the organization towards maximization of shareholders’ wealth by achieving better returns on shareholders’ investments. Namusonge, Mugambi and Koech (2017) indicated that the most important factor in corporate governance and firm performance relates to an organisation’s function and the focus of its board. Further, Pletzer, Nikilova, Kedzior and Voelpel (2015) stated that directors’ involvement in strategic plan development, review and resource allocation and mobilisation is key to an organisation. The strategic plan of any firm should target improving firm performance, reputation and marketability of the organization’s products.
The study findings indicated that it’s the board’s role to formulate organizational policies responsible for driving and sustaining firm performance. The survey respondents revealed that family business boards serve for the fundamental purpose of satisfying the principal shareholder. However, they must evolve their strategies to steer the firm towards greater performance. The findings are in agreement with Reimer, Getimis and Blotevogel (2014) who indicated that the fundamental core purpose of a family board of directors is satisfaction of primary beneficiaries and it is their duty to identify the right beneficiaries. The board must also identify the expected benefits and determine the satisfactory levels by setting realistic targets for the management. Cassidy (2016) indicated that the board must always ensure management steers the organisation towards better returns and maximising of shareholders’ wealth by achieving better returns on shareholders’ investments.

The study further found that it is the board of directors’ function to ensure equitable and fair recruitment of the Chief Executive officer. Since top management team is responsible for the implementation of the board’s strategy and firm goals, the board must ensure the selection of the Chief Executive officer and his remuneration is fair to avoid and minimize agency problems. Bryson (2018) stated the board is involved in the selection of senior executives like the Chief Executive Officer; reviewing their remuneration; determining and authorization of exceptional expenditure and ventures and investments, as well as key professional services like audit, legal and taxation. The board therefore must determine organizations’ structures and the position holders of the structures. It is the role of the board therefore to provide strategic oversight in terms of monitoring with adjustment of the plans where necessary.

Momanyi, Ragama and Kibati (2018) indicated that the board of directors’ role is fundamentally formulating an organization’s strategy. The strategy must be effective enough to help the board monitor management, evaluate their practices and ensure the organization achieves its objectives. Triana, Miller & Trzebiatowski (2013) further stated that the board is vital in providing leadership during development and execution of organisational plans and strategies. The survey respondents revealed that its tone at the top approach always mirrored in the appointment of the chief executive officer that determines the performance and culture of the firm. The board therefore, must provide
strategic oversight in terms of monitoring and adjustment of these plans to accommodate environmental and structural needs of the firm in terms of top management recruitment and strategy formulation.

In a family business, generational differences and family disputes usually disrupt business plans and operations. Usually most businesses get sucked into family feuds that end up eroding the firm’s revenue and profit generation capacity. The study revealed that existence of the board with non-family members usually act as an arbiter in cases of family feuds threatening the firm continuity plans especially when it involves succession planning. The boards usually insulate their firms from family feuds and enable the top management team to focus on organizational actions that generate earnings and therefore sustain performance. The study further pointed out that the board removes personal conflicts so as to ensure peaceful co-existence of family and business needs of the firm. These findings are in support of Rothaermel (2015) who depicts that managers are expected to operate as per the set constraints. The differences in generational needs must be well balanced to avoid family conflicts that may result in harming the family values, the firms’ reputation and performance.

Additionally, study established that the boards’ meeting frequency is one of the major factors that determine the performance levels of their firms. The respondents held that, boards that meet frequently to review the firm’s performance achieve better overall performance. The meetings are usually on a pre-planned schedule either monthly, quarterly or semiannually to specifically attend to different organizational issues. The findings are supported by Hickman and Silva (2018), who stated that boards usually plan meetings in order to discuss matters firm performance and attend to different organisational challenges and issues. Survey respondents further revealed that that during these board meetings, firm performance is usually reviewed. Garg (2013) indicated that the organization should know how much time the board spent reviewing past performance, measuring metrics and discussing risk and compliance. As the study revealed, the practice of the board is influenced by performance of their firms. The findings are supported by Alkhafaji & Nelson (2013) who observed that, besides being a mandatory requirement by the law, general annual shareholders meeting allows the organization to have a healthy corporate life through considering annual reports and
considering dividend allocation as well as suggesting improvements and new long term plans from their boards and management.

5.3.3 Top Management Team and Firm Performance

The study indicated that top management team significantly influences firm performance. It is through their efforts and stewardship actions in their firms that profits earned and sustained performance achieved. The study indicated that top management teams implement the board’s strategy and it is their responsibility to help the board in developing effective strategies. The findings are consistent with Smith and Kofron (2016) who explained that top managers are critical in the formulation and implementation of organizational strategy. Similarly, Robert, Chuck, & Donald (1981) suggested that in order to enhance the performance of organizations, top management must be involved in strategy formulation.

Further, to achieve higher firm performance, top managers must participate effectively in the strategic actions of the firm for the organization to achieve higher performance. As, Andersen (2015) noted that managers must effectively participate in the formulation of the strategy and implementation of all strategic firm actions for the organization to achieve higher performance. Therefore top managers must always perceive the firm actions as fair and equitable since this perception impacts heavily on the effectiveness of the organizational strategic plans. Further, the managers’ integration of behaviour can also be influenced by total pay with respect to the organisation’s critical demands to avoid agency problems (Henderson & Fredrickson, 1996).

Al-Khateeb, (2015) established that the skills and qualities of managers involved in strategic planning process and implementation affects the organizational performance of any business. Managerial qualities include experience, knowledge, attitudes and behavioral capabilities that are necessary in the performance of a specific task or position. The role of top management team includes employee motivation, ensuring job satisfaction and budgeting for allocation of scarce resources. These responsibilities hugely affect firm performance which in turn affects all organizational activities. The study established that
as a critical step towards sustaining firm performance, selection of top managers must always consider requisite skills and expertise and a proven track record of performance.

In family businesses and in contrast to conventional private businesses, top managers in these firms are usually evaluated in terms of loyalty to the principal family shareholder rather than performance. As the study indicated performance of family businesses are entirely dependent on the principal shareholder. The top managers act for statutory compliance and therefore qualities such as the leadership style, the professional and personnel fit, proven track record and expertise are not critical factors in the selection of the managers. Likewise, their remuneration and benefits are usually set as per the dictates of the family rather than industry benchmarks.

One distinct feature of family businesses is the lack of complete separation of ownership and management. The study established that duality of CEO-director, Director-Shareholder and CEO-Shareholder is a key feature in each and every family business listed on the NSE. There was no clear separation and usually the family members who held these dual positions are charged with driving the firm’s performance. As Bryson (2018) noted, the top management team comprised family members who double up as members of the board, close relatives and friends and a few outside but loyal employees (Bryson, 2018).

Further, the study established that listing of the family businesses has improved the top management teams with quality, skills and expertise. Listing requirements mean firms must always strive to attract top notch managers and by doing so increases diversity in top management team has resulted in better firm performance. According to Singal & Gerde (2015), workforce diversity includes aspects such as educational background, gender, country of origin and professional backgrounds.

As Stewart and Hitt (2013) argued, diversity in top management team results in better firm performance. According to their study, listed family firms that embraced work force diversity usually outperformed non-family firms in financial aspects. Further, the study revealed that diversity in top management included top managers having adequate skills. Smith (2013), in support of this, argued that the role of managers is to engage employees
in planning and educating all other stakeholders of the importance of their involvement and commitment. It is only through adequate skills that managers incorporate good strategies in motivation of other employees for the enhancement of organizational performance.

Survey respondents indicated that top managements’ attitude and perceptions played an important role in the performance of the organization. The study found out that managers usually implement strategic plans from the board in good faith, with the objective of maximizing shareholders’ value. According to Nambisan and Baron (2013), managers must work for the common good of all majority and minority shareholders and reduce bias in their actions. Organizations, through strategic planning identify their goals and top managers give focus and direction on how to achieve these goals resulting in higher firm performance as the study revealed (Naser 2016).

Employee commitment is essential in achieving set goals, objectives and targets. The study pointed out that family businesses’ performance was significantly influenced by the level of senior executives’ commitment. Since implementation of organizational plans and strategies is the role of top managers, a firm can only achieve better results and performance with top management commitment. The findings are in support of Hrebiniak and Snow (1982) who found that commitment to an organisation’s plans by the senior level executives is achieved by extensive interaction and participation in the planning process. Combination of the executive directors and the non-executive directors usually achieve better firm performance (Umans, 2013).

5.4 Conclusion

The purpose of this study is to advance the current understanding on the effect of corporate governance on firm performance of family businesses listed on the NSE. Although there are a lot of empirical studies investigating the link between corporate governance and firm performance, the research has yielded inconsistent or inconclusive results. Therefore, debate still exists as to whether corporate governance is purely a financial or a non-financial issue.
Research results show that corporate governance significantly affects financial firm performance as measured by ROI. As the regression analysis indicates, 89.5% of financial firm performance is influenced by corporate governance structures at the shareholding, board and top management levels. Further, the results indicate that non-financial firm performance as measured by Tobin Q is significantly not influenced by the governance structures in place.

5.4.1 Shareholders’ Assembly and Firm Performance

The study concludes that the family businesses’ performance is highly dependent on the principal shareholder’s actions. The study further pointed out that it is important for such firms to have a family charter, plan succession properly and ensure right shareholding policies are in place for better and sustained financial firm performance. Moreover, the family charter should ensure seamless coexistence of family members and generational differences, and that needs are well catered for in key business decisions.

The study further indicated that minority shareholding in family businesses only exists for compliance and therefore the principal shareholder is the most important governance level in a family business. It is the responsibility of controlling family to ensure firm performs as per set goals and objectives. Non-financial firm performance is dependent on other factors beyond the governance structures, and cannot therefore be directly influenced by the actions of the family shareholders.

5.4.2 Board of Directors and Firm Performance

The study concludes that the board of directors is responsible for the sustenance and maintenance of firm performance through monitoring and evaluation of the corporate actions. The board of directors ensures that the firm sustains performance with an aim of maximizing the shareholders’ wealth. The findings further indicate that it is the responsibility of the board of directors to ensure that proper governance structures are in place. On the other hand, whereas the board of directors is viewed just as a compliance tool in family businesses, it is responsible for the sustenance of firm performance.
Current global environment requires the family businesses to evolve their strategies. Flexibility and adaptability to the global environment and the technological changes requires the adaptation of the family business to the current environment through effective strategies. The family businesses must therefore appoint a board of directors that is well diverse and knowledgeable. A board that comprises non-family members will result in a balance that is dynamic and proactive.

5.4.3 **Top Management Team and Firm Performance**

The current trend in the family businesses includes employing outside directors and top managers with expertise and adequate skills to steer the firm to be able to compete with global brands. In addition, the businesses must strive to employ professionals and evaluate their top managers in terms of performance rather than loyalty. The study indicated that the top management team is responsible for firm performance. Through implementation of the board’s strategy, the senior level management steers the firm to achieve set goals and objectives.

The firm’s performance is dependent on the top management’s team ability to steer their firms through turbulent environmental conditions and technological changes. Their responsibility is to steer the company’s strategy through strategic business units and ensuring conducive environments for other employees to perform. The study further indicated that non-financial performance is significantly and negatively influenced by top management team.

5.5 **Recommendations**

5.5.1 **Recommendations for the Study**

From the findings, it is clear that corporate governance significantly affects firm performance. It is therefore important that the shareholders’ assembly, board of directors and top team management ensure the family business performs and survives. According to PWC, a paltry 3% of family businesses survive beyond the third generation. However, to improve performance and increase these chances of survival, the study recommends the following:
5.5.1.1 Shareholders’ Assembly and Firm Performance

The study recommends that family-owned firms should look beyond the family when planning for succession. The current environmental conditions require professional skills and experienced individuals to provide guidance during succession planning to ensure family businesses implement superior strategies that guarantee growth and firm survival during transitions through better performance.

The study further recommends that family businesses should define clear hunting licenses for successors. Succession in family businesses usually creates family disputes and feuds. Prolonged disputes within the family unit are usually a destabilising factor to the earning potential of the company. It is recommended therefore, that firms clearly define the key attributes, qualifications, skills, experience and expertise as well as instituting mentorship programs to prepare future successors.

5.5.1.2 Board of Directors and Firm Performance

The study recommends that family boards should ensure adequate training for the directors. To effectively monitor the actions of the top management and ensure better strategies are implemented, the board must be effectively trained and adequately equipped to ensure the right strategies as laid down are implemented. The current global conditions place additional requirements on directors to occasionally train themselves on recent corporate governance principles.

The study further recommends that family businesses should also institute a clear board charter. The board charter should include outside directors who are non-family members with clearly set performance benchmarks. Transition in the board must be anchored on a clearly defined board charter. The board charter must also clearly define the role of the board as well as the key performance indicators through which rating the board will be evaluated.
5.5.1.3 Top Management Team and Firm Performance

The study recommends that family businesses’ top management team should have clearly stipulated key performance indicators. The findings of the study indicated that top management teams’ evaluation and selection was influenced mainly by loyalty to the family rather than ability to steer the firm towards better firm performance. The key performance indicators should be reviewed annually to align them towards the corporate strategies. The rapidly changing global environment requires flexible and superior strategies that ensure the firm adapts to change and therefore clearly stipulated performance benchmarks for senior level managers will ensure sustained firm performance.

5.5.2 Recommendations for Further Research

The study recommends that future studies can be carried out on the effect of corporate governance on publicly owned businesses. Other studies can look at the non-listed firms as well as state owned firms.
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Mathenge, D. G. (2013). Corporate governance and organisational management: An
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APPENDICES

APPENDIX I: QUESTIONNAIRE

EFFECT OF CORPORATE GOVERNANCE ON FIRM PERFORMANCE OF FAMILY OWNED FIRMS LISTED ON THE NSE

Below are several questions on corporate governance and firm performance in listed family owned businesses. Kindly provide accurate information to the best of your knowledge. The information you provide will be treated with strict confidentiality and used only for academic purposes. Kindly answer all questions.

SECTION A: GENERAL INFORMATION

1. Please indicate the position you hold in this organization ...........................................

2. How long have you worked in this organization? ...................................................

3. What is your highest level of education? .................................................................

4. Briefly describe the corporate governance structures in your organization.

5. Do you see Corporate Governance as being primarily a financial issue, or an organisational (cultural/ethical/people) issue?

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SECTION B: EFFECT OF CORPORATE GOVERNANCE ON FIRM PERFORMANCE

1. In your own view, how does the shareholders’ assembly affect firm performance?

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2. In your own view, how does the board of directors affect firm performance?

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3. In your own view, how does the top management team affect firm performance?

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## APPENDIX II: LISTED COMPANIES AS AT 31ST DECEMBER, 2013

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<td>Kakuzi Ltd</td>
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<td>Kapchorua Tea Co. Ltd</td>
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<td>The Limuru Tea Co. Ltd</td>
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<td>Sasini Ltd</td>
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<td>Rea Vipingo Plantations Ltd</td>
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<td>Williamson Tea Kenya Ltd</td>
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<td>AUTOMOBILES &amp; ACCESSORIES</td>
<td>Car &amp; General (K) Ltd</td>
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<td></td>
<td>CMC Holdings Limited</td>
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<td>Marshalls E. A Limited</td>
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<td>Sameer Africa Ltd</td>
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<td>BANKING</td>
<td>Barclays Bank of Kenya Ltd</td>
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<td></td>
<td>Stanbic Holdings Ltd</td>
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<td></td>
<td>Diamond Trust Bank Kenya Ltd</td>
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<td></td>
<td>Equity Group Holdings Ltd</td>
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<td></td>
<td>Housing Finance Group Ltd</td>
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<td>I&amp;M Holdings Ltd</td>
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<td></td>
<td>KCB Group Ltd Ord</td>
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<td>National Bank of Kenya Ltd</td>
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<td>NIC Group PLC</td>
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<td>Standard Chartered Bank Ltd</td>
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<td></td>
<td>The Co-operative Bank of Kenya Ltd</td>
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<td>COMMERCIAL AND SERVICES</td>
<td>Express Ltd</td>
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<td></td>
<td>Hutchings Biemer Ltd</td>
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<td>Kenya Airways Ltd</td>
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<td>Longhorn Publishers Ltd</td>
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<td>Nation Media Group Ltd</td>
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<td>Scangroup Ltd</td>
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<td>Standard Group Ltd</td>
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<td>TPS Eastern Africa (Serena) Ltd</td>
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<td></td>
<td>Uchumi Supermarket Ltd</td>
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<td></td>
<td>Athi River Mining Ltd</td>
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<tr>
<td>CONSTRUCTION &amp; ALLIED</td>
<td>Bamburi Cement Ltd</td>
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<td></td>
<td>Crown Paints Kenya Ltd</td>
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<td>E.A.Cables Ltd</td>
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<td>ENERGY &amp; PETROLEUM</td>
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<td>KenolKobil Ltd</td>
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<td></td>
<td>Kenya Power &amp; Lighting Co Ltd</td>
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<td>Category</td>
<td>Companies</td>
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</tbody>
</table>
| INSURANCE            | Total Kenya Ltd  
                       | Umeme Ltd  
                       | Britam Holdings Ltd  
                       | CIC Insurance Group Ltd  
                       | Jubilee Holdings Ltd  
                       | Kenya Re Insurance Corporation Ltd  
                       | Liberty Kenya Holdings Ltd  
                       | Pan Africa/Sanlam Kenya PLC |
| INVESTMENT           | Centum Investment Co Ltd  
                       | Olympia Capital Holdings Ltd  
                       | Trans-Century Ltd |
| MANUFACTURING & ALLIED | B.O.C Kenya Ltd  
                       | British American Tobacco Kenya Ltd  
                       | Carbacid Investments Ltd  
                       | East African Breweries Ltd  
                       | Eveready East Africa Ltd  
                       | A. Baumann & Co. Ltd  
                       | Kenya Orchards Ltd  
                       | Unga Group Ltd  
                       | Mumias Sugar Co. Ltd |
| TELECOMMUNICATION & TECHNOLOGY | Safaricom Ltd  
                       | Access Kenya Group Ltd |
| GROWTH ENTERPRISES MARKET SEGMENT(GEMS) | Home Africa Ltd |
| BONDS MARKET         | UAP Holding Ltd  
                       | Mabati Rolling Mills |
## APPENDIX III: LISTED FAMILY BUSINESSES

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<thead>
<tr>
<th>SECTOR</th>
<th>SECURITY</th>
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<td>Rea Vipingo Plantations Ltd</td>
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<td>Kapchorua Tea Co. Ltd</td>
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<td>Williamson Tea Kenya Ltd</td>
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<td>TELECOMMUNICATION &amp; TECHNOLOGY</td>
<td>Access Kenya Group Ltd</td>
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<td>BANKING</td>
<td>I&amp;M Holdings Ltd</td>
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<td>NIC Group PLC</td>
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<td>HF Group Ltd</td>
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<tr>
<td>COMMERCIAL AND SERVICES</td>
<td>Longhorn Publishers Ltd</td>
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<td></td>
<td>Standard Group Ltd</td>
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<td></td>
<td>Sameer Africa Ltd</td>
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<tr>
<td>ENERGY &amp; PETROLEUM</td>
<td>Kenol Kobil</td>
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<td>CONSTRUCTION &amp; ALLIED</td>
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<td>INVESTMENT</td>
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<td>Olympia Capital Holdings</td>
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<td></td>
<td>Home Africa</td>
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<tr>
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<td>Centum Investment Co. Ltd</td>
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<tr>
<td>MANUFACTURING &amp; ALLIED</td>
<td>Eveready East African Ltd</td>
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<tr>
<td></td>
<td>Carbacid Investments Ltd</td>
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<td>Unga Group Ltd</td>
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APPENDIX IV: RESEARCH INTRODUCTION LETTER

TO WHOM IT MAY CONCERN.

23rd January, 2019

Dear Sir/Madam,

REF: PERMISSION TO CONDUCT RESEARCH — DAMARIS MUTIONI MBURU
STUDENT ID. NO. 654175

The bearer of this letter is a student of United States International University (USIU) -Africa pursuing a Master of Business Administration.

As part of the program, the student is required to undertake a dissertation on “Effect of corporate governance on firm performance: A case of family owned businesses listed on the Nairobi Securities Exchange” which requires her to collect data.

Please note that information provided will be treated with utmost confidentiality and will only be used for academic purposes.

Kindly assist the student get the appropriate data and should you have any queries contact the undersigned.

Yours Sincerely,

[Signature]

Prof. Amos Njogu,
Dean — School of Graduate Studies, Research and Extension
Tel: 730 116 442
Email: amnjogu@usiu.ac.ke
APPENDIX V: RESEARCH PERMIT

THIS IS TO CERTIFY THAT:
MISS. DAMARIS MUTHONI MBURU
of UNITED STATES INTERNATIONAL UNIVERSITY-AFRICA, 0-100 Nairobi, has
been permitted to conduct research in
All Counties
on the topic: EFFECT OF CORPORATE
GOVERNANCE ON FIRM PERFORMANCE:
A CASE OF FAMILY OWNED BUSINESSES
LISTED ON THE NAIROBI SECURITIES
EXCHANGE
for the period ending:

Applicant’s
Signature

National Commission for Science,
Technology & Innovation

THE SCIENCE, TECHNOLOGY AND
INNOVATION ACT, 2013

conditions
1. The License is valid for the proposed research, location and
specified period.
2. The License and any rights thereunder are non-transferable.
3. The Licensee shall inform the County Governor before
 commencement of the research.
4. Excavation, filming and collection of specimens are subject to
further necessary clearance from relevant Government Agencies.
5. The License does not give authority to transfer research materials.
6. NACOSTI may monitor and evaluate the licensed research project.
7. The Licensee shall submit one hard copy and upload a soft copy
of their final report within one year of completion of the research.
8. - NACOSTI reserves the right to modify the conditions of the
License including cancellation without prior notice.

National Commission for Science, Technology and Innovation
P.O. Box 36623 - 00100, Nairobi, Kenya.
Tel: 020 4064010, 0713588787, 0735484245
Email: digi@nacost.go.ke, registry@nacost.go.ke
Website: www.nacost.go.ke

Serial No.A 25652

RESEARCH LICENSE

CONDITIONS: see back page.