

# Board Activities and Performance of Firms Listed at the Nairobi Securities Exchange

*Moses Odhiambo Aluoch*

*Prof. Erasmus S. Kaijage*

*Dr. Cyrus Iraya*

*Prof. Martin Ogutu*

University of Nairobi, Kenya

Doi:10.19044/esj.2018.v14n28p250 [URL:http://dx.doi.org/10.19044/esj.2018.v14n28p250](http://dx.doi.org/10.19044/esj.2018.v14n28p250)

---

## Abstract

This study sought to examine the relationships among board activities and performance of firms listed at the Nairobi Securities Exchange. This study used a census approach and a target population of the study comprised of all companies listed at the Nairobi Securities Exchange between 2002 and 2016. A total of sixty five (65) companies were listed at the Nairobi Securities Exchange as at 31<sup>st</sup> December 2016. The data on board activities and performance of firms were extracted from annual reports of the individuals firms. This study employed longitudinal descriptive research design to determine relationships amongst board activities and performance of firms. A panel data regression analysis was conducted using random effects model which allowed the companies to have a common mean value of the intercept to determine whether corporate governance influence firm performance. An increasing trend was observed in other board activities variables such board ownership, board meetings, board tools, board committees and number of committees meetings. The study findings on the other hand revealed reducing trend in board tenure and board remuneration of listed firms Kenya. This was inferred to indicate that listed firms in Kenya have been strengthening their corporate governance over the study period. Regression analysis indicated that board activities are insignificant predators of Return on Assets, However board tenure, committees meetings and board remuneration were found to have a positive but insignificant effect on Tobin's Q among listed firms in Kenya. Board ownership board tools, board meetings and number board committees were found to have negatively affected the performance measured by Tobin's Q in listed firms in Kenya. However, only board tools significantly affected the performance measured by Tobin's Q. The study concluded that listed firms in Kenya adopted corporate governance practices as part of the requirements of the regulating authority which had not impact on the specific company's

performance. Based on the findings of this study, stakeholders of listed firms and regulating authority such as Capital Markets Authority may relook at the board activities policies of listed firms with the view revising the existing policies or formulating new and more progressive policies to ensure shareholder interests are protected. These policies may go a long way to ensure listed firms not only strengthened their board activities during poor performing seasons but rather clear systems and activities that provide a clear roadmap to guide board operations.

---

**Keywords:** Corporate Governance, Board Tenure, Board Ownership, Board Meetings, Tools, Board Committees, Board Remunerations, Board Tools, Performance of Firms.

## INTRODUCTION

According to Tricker (2015) corporate governance can be defined as the way power is exercised over corporate entities. It consists of the board activities of the enterprise and its relationships with the shareholders, with the managers as well as with other legitimate stakeholders. Corporate governance is a mixture of policies and best practices used by firms to achieve their goals in relation to their shareholders (Millin, 2007). The board activities are responsibilities performed by the board and committees set up by board for specific duties. The board activities include: board tenure, board ownership, board tools, board meetings, board committees and board compensation. Board tenure is the duration the executives take in an organization. Board tenure is the duration the executives take in an organization. Board tenure has material effect in decision making process and increases director independence. Most empirical studies have suggested that the time required for a new director to acquire a sufficient understanding of the firm will range between three and five years. This is because every new task or responsibility has a learning curve (Kesner, 1988). Board tenure has shown material effect on decision making process (Kosnik, 1987). Shorter tenure leads to a brief reprieve in poor performance (Mathew, Paul Kamel & Cherif, 2010). Longer tenure increases directors' independence and firm performance ((Westphal & Khanna, 2003).

Board ownership is the holdings in a firm's stock by board members. Stock ownership by board members gives them an incentive to ensure that the firm is running efficiently and to monitor managers carefully (Brickley et al., 1988). When board members have considerable holdings in a company's stock their decisions impact their own wealth. Board members however would not take actions that would reduce shareholder's wealth and thus the independence of the board and other monitoring mechanisms become important. Empirical studies show a mixed result between board ownership and firm performance.

Some studies gave strong a significant relationship between Board ownership and firm performance (Morck, Shleifer & Vishny, 1988; McConnell & Serves, 1990), while others indicated no significant relationship between board ownership and firm performance (Demsetz & Lehn, 1985; Nath, Islam & Saha, 2015).

Board tools are necessary tools and aid to enable the board to be effective in discharging their roles and responsibilities. They include code of ethics and conduct, board charter, annual board work plan and board evaluation toolkit. Their relationship with performance of firms listed at Nairobi Securities Exchange (NSE) is established by this study (CMA, 2015). Board meetings are sessions of boards which are statutory and non-statutory (Lipton & Lorch, 1992). Board committees are constituted to deliberate board activities. Firms can establish nomination committee, audit and risk committee, remuneration committee, finance committee, governance committee among others. There is a positive relationship between percentage of inside directors on finance and investment committees and firm performance (Klein, 1998). Board and audit committee members with corporate or financial backgrounds are associated with firms with higher performance. Board committees meeting frequently are also associated higher performance of firms (Xie, Davidson III & DaDalt, 2003). There is positive relationship between the number of women serving in the board and firm performance (Green & Homroy, 2018). Boards meeting infrequently are unlikely to sustain any meaningful influence over corporate performance (Mace, 1986; Useem, 2006). Boards that meet frequently generally result in little or no meaningful action when they are fundamentally cosmetic (Baldwin, Bagley & Quinn, 2003). A board activity, measured by board meeting frequency, is an important dimension of board operations (Vafeas, 1999).

Board remuneration is fee paid to board members. The empirical literature has evolved into two conflicting views. The first camp argues that the reason is entrenchment, or poor corporate governance, which allows managers to skim profits away from the firm in the form of high pay (Jensen & Murphy, 1990; Bertrand & Mullainathan, 2001; Bebchuk & Fried, 2004). The second camp suggests an efficient explanation; competition for managerial talent forces large firms to pay managers a lot (Rosen, 1981; Gabaix & Landier, 2008). The relationship between board remuneration and firm performance also varies. Firms with more nonexecutive board members pay higher wages to their executives and firms with zero non-executive board members actually have fewer agency problems and achieve a better alignment of shareholders' and managers' interests (Fernades, 2008). There is excess board compensation of firms with a non-family CEO compared to boards with family ties. However there is no relationship between the presence of family boards and firm performance (Wu, 2013). Jensen and Murphy (2010) argue that there is

significant relationship between board remuneration and firm performance. However these are contrast argument in the relationship between board compensation and firm performance (Frydman & Jenter, 2010; Jackson, Lopez & Reitenga, 2008).

### **Problem Statement**

Contentious proposals by many researchers on the relationship between board activities and performance of firms has remained unsettled for a long time. Great corporate failures around the world in recent years have complicated the problem. Most studies have been carried to examine the relationship between board activities and performance of firms and the outcomes have remained conflicting. Some studies established positive significant relationship between board activities and performance of firms (Van-Ness, Miesing & Kang, 2010; Mulili & Wong, 2011, Rambo, 2013; Okiaga, 2013; Gachoki & Rotich, 2013; Aduda *et al.*, 2013; Lakaram, 2014; Wang, 2014; Badriyah *et al.*, 2015). Other studies did not establish any significant relationship between board activities and firm performance (Nandi & Ghose, 2012; Waweru & Riro, 2013; Jacob, 2015). Ghabayen (2012) studied board characteristics and firm performance in Saudi Arabia and established positive significant relationship between board characteristics and firm performance. Ness and Seifert (2010) investigated the relationship between number of external directors and corporate performance in USA and the result found no significant relationship between big number of external directors and company performance.

In determination the relationship between board activities and firm performance most studies have used different methodologies. Most studies used descriptive research design with cross-sectional data and simple regression analyses to determine the casual relationship between board activities and performance of firms which gave variant results (Rambo, 2013; Okioga, 2013). Some studies used descriptive research design with panel data and multiple and stepwise regression analyses to determine intermediating and moderating relationships between corporate governance and firm performance which gave different outcomes (Lekaram, 2014; Debby *et al.*, 2014; Waweru & Riro, 2013). In Kenya there have been studies that determine the relationship between corporate governance and firm performance on the NSE and other markets with different outcomes. To solve these conceptual, contextual and methodological gaps, this study used longitudinal descriptive research design and multiple regression models to determine the relationships among corporate governance, financial characteristics, macroeconomic factors and performance of firms. To achieve objectives of this study, the study was directed by the following research question: What is the relationship between board activities and performance of firms listed at the NSE?

## **PREVIOUS WORK**

### **Theoretical Foundation**

Stewardship Theory was developed by Donaldson and Davis (1991). The theory was an innovative view in understanding relationship between ownership and management of a firm from the Agency Theory. Directors are stewards making decisions for long term survival of firms as well as maximize shareholders' wealth. Directors normally perceive firms as an extension of them, rather than use their resources for own interest; the executives main interest is ensuring the sustained life and success of the firm. The theory is based on the duties of executives acting as stewards, integrating their goals as part of the firm and recognizes the importance of structures that empower the steward and offers maximum autonomy built on trust (Donaldson & Davis, 1991). This theory is very relevant to the study since it stresses on the position of executives to act more separately so that the shareholders' returns are maximized. It leads to minimizing costs aimed at monitoring and controlling behaviors of executives (Davis, Schoorman & Donaldson, 1997). The theory argues that the presence of executives at the firms guarantees continuous performance in the firm.

Stakeholder Theory was developed by Freeman (1984). The theory takes into account diverse intrinsic interest of all stakeholders of the firm. Stakeholders are individuals or groups who can affect or are affected by the achievement of the firm's objectives. The theory suggests that directors of a firm have interests of different stakeholders to serve. It is important for directors not to have preference in a group of network they serve in administering the activities of the firm and the moral perspective of the theory is that all stakeholders have a right to be treated fairly as this leads to a better firm performance (Freeman, 1999). This theory is relevant to the study since corporate governance practices adopted by firms heavily depend on interest of stakeholders and their experiences. Stakeholders that have previous bad experience from management errors and improper decision making will advocate for corporate governance practices such strict board policies among others. Experienced stakeholders will strive to deflate agency conflicts and related consequences that may affect the firm long term and profitability.

### **Empirical Review**

Okioga (2013) find the association between corporate governance and investors' confidence and developed a forecasting model and tested the accuracy in obtaining predictions and found that the model was moderately significant. Gachoki and Rotich (2013) studied influence of corporate governance on performance of public organizations in Kenya using a descriptive design and multiple regression models and found that board composition has significant positive relationship with firm performance. A

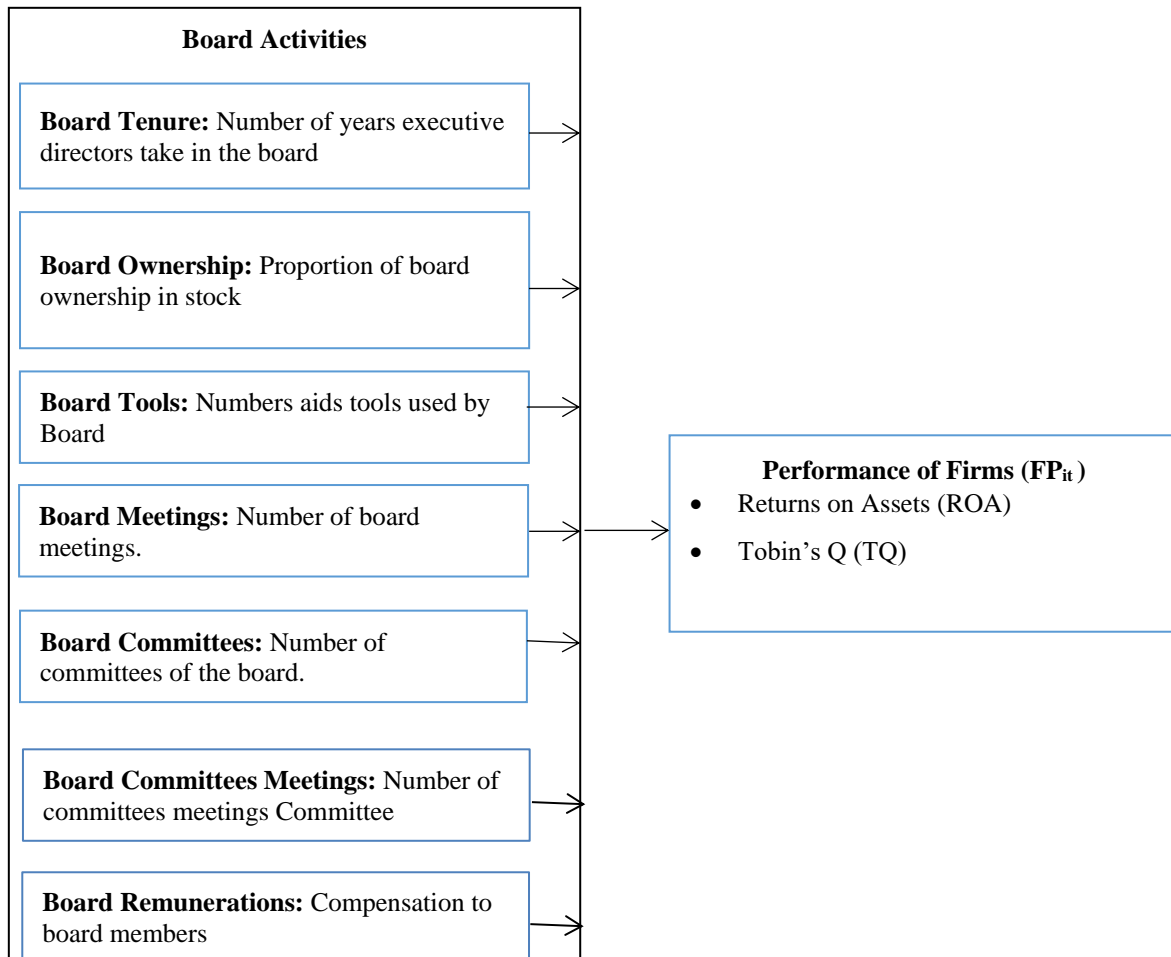
similar, study by Wu, Lin, Lin and Lai (2009) indicated that firm performance is in negative and significant relation to board size, CEO duality, stock pledge ratio and deviation between voting right and cash flow right. On the other hand, firm performance is in positive and significant relation to board independence and insider ownership.

Lekaram (2014) examined relationship of corporate governance and performance of firms listed at the NSE. The study established that the board size is positive and significantly related to performance of manufacturing firms listed in Kenya and a large proportion of external directors lead to a higher shareholders' value. A study conducted by Duc and Thuy (2013) indicated that elements of corporate governance such as the presence of female board members, the duality of the CEO, the working experience of board members, and the compensation of board members have positive effects on the performance of firms, as measured by the return on asset (ROA).

Ahmed and Hamdan (2015) results indicated that performance measures such as Return on Assets and Return on Equity are significantly related to corporate governance in Bahrain. Vo and Nguyen (2014) using the Feasible Generalized Least Squares (FGLS) on the dataset of 177 listed companies in Vietnam for the period of 5 years, from 2008 to 2012, the findings of this study indicate multiple effects of corporate governance on firm performance. First, duality role of the CEO is positively correlated with firm performance. Second, there is a structural change in relation between managerial ownership and firm performance.

## **PROPOSED CONCEPTUAL FRAMEWORK**

The conceptual framework for this study provides a brief overview of inter linkages between research variables then presents a diagrammatic presentation of the study variables and how they influence each other. The study sought to test the relationship between board activities and performance of listed firms. The study expects the existence of a positive relationship between corporate governance and performance of listed firms.



**Figure 1:** Proposed Conceptual Framework

## RESEARCH METHODOLOGY

This study was based on positivism philosophy since the study involved construction of hypotheses based on empirical and theoretical literature which were tested using statistical analysis of quantitative data. Positivism relies more on quantitative measurement that involves testing the hypothesis. This study employed longitudinal descriptive research design to determine relationships amongst independent and dependent variables. A longitudinal research design involves repeated observations of the same variables over long periods of time without external influence being applied. The design allowed researcher to distinguish between short and long-term phenomena, such as performance of firms. This study used a census approach and a target population of the study comprised of all companies listed at the NSE between 2002 and 2016. The sixty five (65) companies were screened

against various factors which included availability of data for the period under review and the integrity of data. The data extracted from annual reports included: board tenure, board ownership, board tools, board meetings, board committees, committees’ meetings and board remuneration. The data extracted from published financial statements NSE annual hand books and determined included ROA and Tobin’s Q.

In this study, it was necessary to ensure no violation of the assumptions of the Classical Linear Regression Model (CLRM) before using the multiple linear regression models and the following diagnostic tests were necessary: autocorrelation, stationarity, multicollinearity, and heteroscedasticity. This study used descriptive analyses and panel data regression in analyzing the relationship between corporate governance and firm performance of listed companies at the NSE Simple regression model were used to test hypothesis: Relationship between board activities and Performance of firms (FP).

*H<sub>01</sub> - Board activities does not significantly affect performance of firms listed at the Nairobi Securities Exchange*

The following research hypotheses were tested using the following empirical conceptual model

$$FP_{it} = \beta_0 + \beta_1 BT_{it} + \beta_2 BO_{it} + \beta_3 BA_{it} + \beta_4 BM_{it} + \beta_5 BC_{it} + \beta_6 BCM_{it} + \beta_7 BR_{it} + \epsilon_{it} \text{ .Equation 1.}$$

Where;

FP= Firm Performance

BT<sub>it</sub> = Board Tenure

BO<sub>it</sub> = Board Ownership

BA<sub>it</sub> = Board Tools

BM<sub>it</sub> = Board Meetings

BC<sub>it</sub> = Board Committees

BCM<sub>it</sub> = Board Committees Meetings

BR<sub>it</sub> = Board Remunerations

β<sub>0</sub>= Constant

β<sub>1t</sub>= Regression Coefficients

ε<sub>it</sub>= Error Term

## RESULTS AND DISCUSSIONS

Both descriptive and inferential statistics were used to test the relationship between study variables. The study adopted random effect regression analysis to test hypotheses.



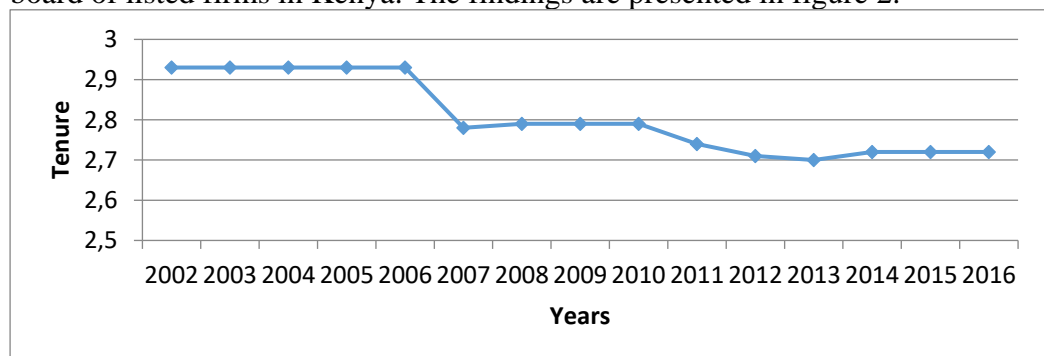
*Table 1: Descriptive Statistics of Study Variables*

Variable	Indicators	Min	Max	Mean	SD	Skewness	Kurtosis
Board Activities	Board Tenure	1	10	2.8	1.07	1.65	12.933
	Board Ownership	0	0.78	0.0846	0.17669	2.332	4.543
	Board Tools	0	5	3.16	0.768	-1.402	4.098
	Board Meetings	0	39	5.52	3.709	3.776	20.893
	No Board Committees	0	9	3.18	1.645	0.605	0.379
	Number of Committees Meetings	0	86	12.27	10.575	2.391	9.26
	Board Remuneration (Kshs 000)	18	9936000	119037.3	673428.1	12.736	168.083
Performance of firms	ROA	-1.382	1.798	0.14883	0.235928	-0.03	8.49
	Tobin's Q	1.7528	6.7098	1.390516	0.938131	2.148	5.377

The findings presented in Table 1 indicated that listed firms had varying board activities. The mean of board tenure was 2.8, average board ownership was 8.4%, board tools had a mean of 3.16 while average board meetings were 5.5. The results indicated that average board committees were 3 and average board committees meetings for listed firm in Kenya were 12. Similarly, the finding in Table 1 indicated that listed firms performed different during the study period with some firms recording high performance while other recording very poor performance.

### Trends Analysis of the Board Tenure

Among the board activities that the study was interested in is the board tenure. The study sought to establish how long the individuals served on the board of listed firms in Kenya. The findings are presented in figure 2.

*Figure 2: Trend Analysis of Board Tenure*

The findings showed that there has been a general reducing trend in the board tenure among the listed firms in Kenya. The board tenure reduced from an average of 3 years to about two and half years. This trend however, began to take effect in 2006 as shown in figure 2 earlier years had almost a constant trend in the board tenure. Reduction in the board tenure indicates the need to eliminate complacency that is frequently witnessed among individuals that stays in the same places for longer.

**Trends Analysis of the Board Ownership**

The board ownership was computed as percentage of stock held by the individuals that sit on the boards of the listed firms in Kenya.

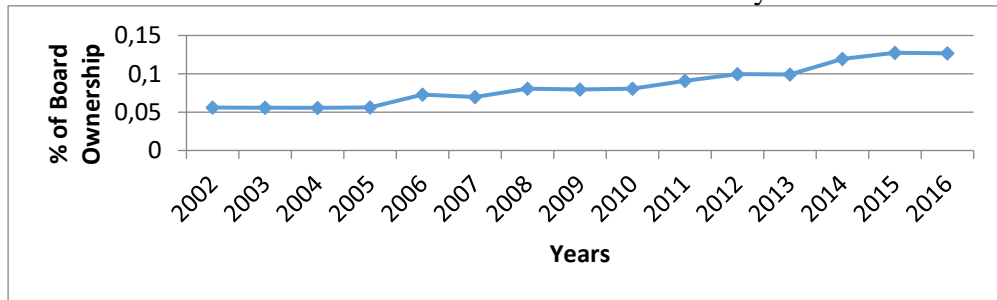


Figure 3: Trend Analysis of Board Ownership

The results presented in figure 3 revealed that there was increase in the percentage of the board ownership among the listed firms in Kenya. These findings implied that members of the board continued to increase their ownership in the companies they serve. However, these trends appear to have taken effect in 2005 and increased steadily henceforth. The year 2016 has seen the highest percentage board ownership among the listed firms in Kenya.

**Trends Analysis of the Board Tools**

Board tools deals with the numbers of assistants allocated to each board members of the listed firms in Kenya. The trend analysis for board tools for the period between 2002 and 2016 is as shown in figure 4

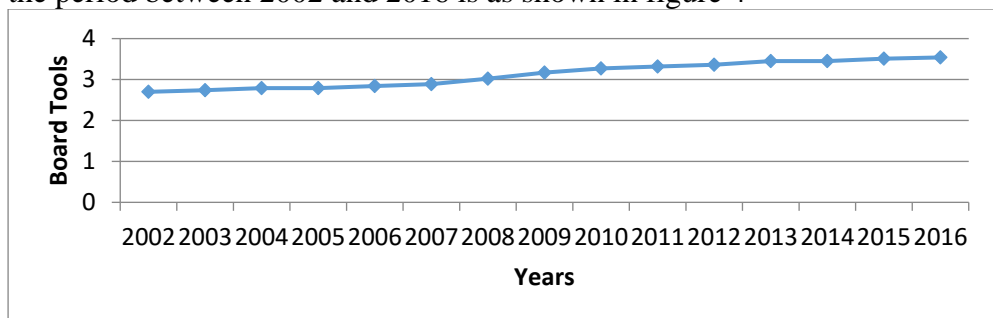


Figure 4: Trend Analysis of Board Tools

The finding showed that there has been a slight increase in the number of aids allocated to board members of listed firms in Kenya an average of about 0.5 as the relevance of corporate governance continues to gain attention the role of members of the board continues to increase hence the justification for extra aids to assists in additional tasks which justify why there was increase in board tools as shown in the figure 4.

### Trends Analysis of the Board Meetings

The study sought to establish he trend in board meetings among the listed firms in Kenya. The results are presented in figure 5.

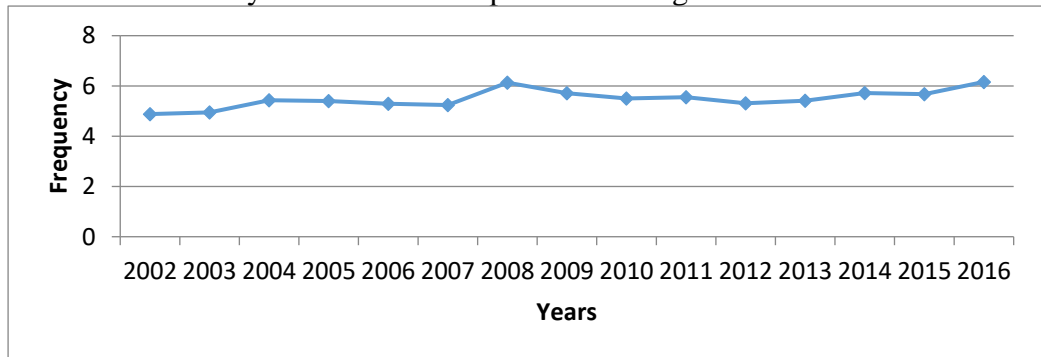


Figure 5: Trend Analysis of Board Meetings

The results showed that in 2002 average number of board meetings was about 5 which increased to about 6 in 2016. These findings are an indication that there has been no significant increase on average in the numbers of board meetings among the listed firms in Kenya. However, as shown in previous section, some companies held a maximum of 9 meetings annually while other had a low as three board meetings annually. This was an indication that the board in listed firms allowed the management adequate space to operate without interference.

### Trends Analysis of the Number of Board Committees

The number of board committees is another aspect of board activities that the study sought to investigate. It is imperatively difficulty for Boards to operative without boar committee assigned various functions. This section sought to analyse the trend in number of board committees between 2002 and 2016 among the listed firms in Kenya.

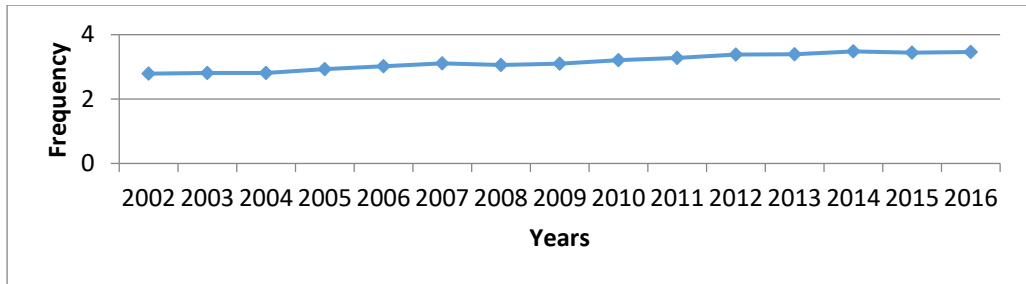


Figure 6: *Trend Analysis of Number of Board Committees*

Similarly, the study finding showed that there was a slight increase in the number of board committees among the listed firms in Kenya. On average there were about 2 committees in 2002 which increased to about 3 in 2016 which implied that listed firms in Kenya have not adopted the concept of increasing the number of board committees choosing to remain with the traditional numbers of board committees.

### **Trends Analysis of the Board Committees Meetings**

The study analysed the number of committees meeting held by the members of various board committees of listed firms in Kenya. The trend analysis results are presented in figure 7.

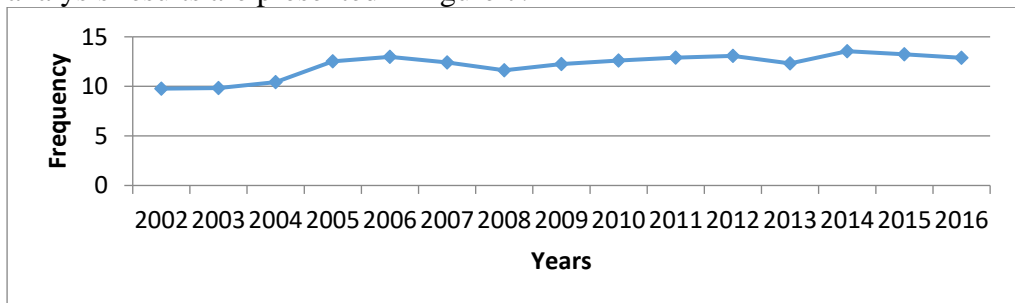


Figure 7: *Trend Analysis of Committees Meetings*

The results revealed that on average there was increase in the number of committee meetings across the study period for listed firms in Kenya. However, the findings showed that there was slight decrease in the number of committee meetings in 2008 and 2013. The number of meetings average between 10 and 14 annually as shown in figure 7.

### **Trends Analysis of the Board Remuneration**

The study also analysed the board remuneration of listed firms in Kenya. The board remuneration was computed as fraction of profit before tax of the listed firms. The findings are presented in 8.

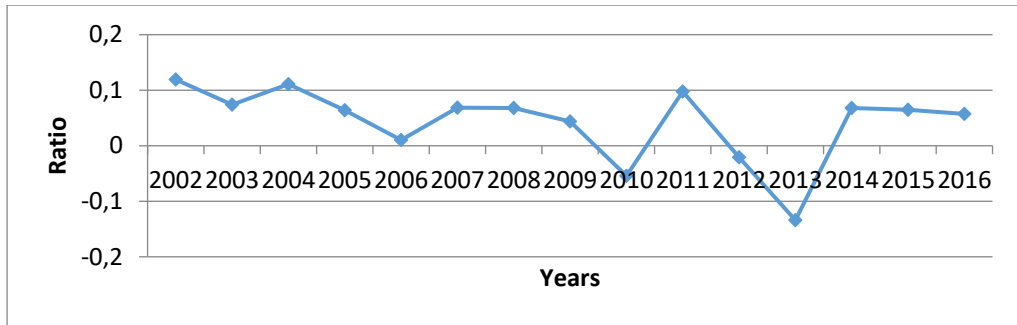


Figure 8: Trend Analysis of Board Remuneration

The findings showed that board remuneration was highly volatile across the study period. The results also showed that board remuneration decreased between 2002 and 2016 which indicated that firms’ profits before tax increased during the study period or the amount paid to board through allowances and salaries decreased. The volatility in board remuneration could be justified on the basis of various board activities increase in other board activities positively correlates to fluctuation in board remuneration.

### Bivariate Relationship Analysis

This section contains the correlation results between the board activities variables and performance of firms.

Table 2: Board Activities Variables and Performance Variables

	Board Tenure (1)	Board Ownership (2)	Board Tools (3)	Board Meetings (4)	No. Board Committees (5)	Committees Meetings (6)	Board Remuneration (7)	ROA (8)	Tobin's Q (9)
1 Pearson Correlation	1								
2 Pearson Correlation	-0.049	1							
3 Pearson Correlation	-.238**	.127**	1						
4 Pearson Correlation	0.002	.528**	.249**	1					
5 Pearson Correlation	-.079*	.242**	.329**	.457**	1				
6 Pearson Correlation	0.023	.340**	.226**	.663**	.808**	1			
7 Pearson Correlation	-0.016	-0.014	0.062	-0.008	-0.024	-0.046	1		
8 Pearson Correlation	-.092*	-.121**	0.062	-.134**	-0.035	-.086*	0.059	1	
9 Pearson Correlation	-0.021	-.131**	-.232**	-.184**	-.101**	-.112**	0.022	.402**	1

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

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

N=750

The results for correlation analysis for board activities and performance of firm presented in Table 2 revealed that board tenure ( $r=-0.092$ ,  $p=0.012$ ), board ownership ( $r=-0.121$ ,  $p=0.001$ ) and committee meetings ( $r=-0.086$ ,  $p=0.019$ ) had weak, negative and significant association with ROA. The findings implied that increasing these variables would results to reduction in ROA. Number of board committees and board remuneration were insignificantly associated to ROA. Similarly, the correlation results showed that board ownership ( $r=-0.131$ ,  $p=0.000$ ), number of board committees ( $r=-0.101$ ,  $p=0.006$ ) and committee meetings ( $r=-0.112$ ,  $p=0.002$ ) had weak, negative and significant association with Tobin's Q. The findings also implied that increasing these variables would results to reduction in Tobin's Q. Board tenure and board remuneration were insignificantly associated to Tobin's Q.

### Regression Analysis Results

The study performed tests on statistical assumptions, that is, test of regression assumptions and statistics used. This included test of serial autocorrelation test, panel unit root test, multicollinearity, heteroscedasticity test and Hausman test for model specification to make sure the data used was adequate to conduct inferential analysis. The tests were conducted to make sure that the statistical analysis conducted adhered to regression assumption hence avoid spurious and bias findings. The tests that were used to test various diagnostics test are discussed below.

*Table 3: Test of Regression Assumptions*

Test of Assumption	Tests Used	Criterion	Results	Conclusion
Normality Test	Shapiro Wilk Test	$p>0.05$	p-values for all the variables were greater than 0.05	Data was normally distributed data adhered to
Linearity Test	Scatter plots	upward sloping relationship	upward sloping was achieved	linearity assumption
Panel Unit Root Test	Levin, Lin & Chu $t^*$ Statistics	$P<0.05$	null hypothesis that there is a unit root was rejected for all the variables	variables were stationary and adequate for model fitting
Multicollinearity Test	VIF	VIF of less than 10	no problem for multicollinearity	adequate for model fitting
Serial Autocorrelation Test	Wooldridge test	no first order autocorrelation was rejected at 5%	Wooldridge f-statistic had p-value of 0.0000	no first order autocorrelation null hypothesis
Heteroscedasticity Test	log likelihood	null hypothesis states that the data homoscedastic	p-value =0.107 was greater than 0.000	that panel is Homoskedastic was not rejected
Hausman Test for Model Specification	Hausman test	null hypothesis for Hausman test states random effect model is the best	prob>chi2 value of 0.4877 which is greater than critical P value at 5% level of significance	The study fitted a random effect regression model

## Overall Model Fitting

The results of diagnostics revealed that the data was adequate to fit a regression model. The results of Hausman specification test further revealed that most appropriate model was a RE regression model hence the study fitted a random effect model to establish the relationship between corporate governance variables and performance of firms. Table 4 contains the findings of board structures variables and performance of firms.

*Table 4: Random Effect Model Board Activities and Performance of firms*

	<b>Model 1</b>	<b>Model 2</b>
	<b>ROA</b>	<b>Tobin's Q</b>
Board Tenure	0.002 (p=0.838)	0.035 (p=0.434)
Board Ownership	-0.10835 (p=0.268)	-0.226 (p=0.574)
Board Tools	-0.00791 (p=0.591)	-0.168 ( <b>p=0.002</b> )
Board Meetings	-0.00725 ( <b>p=0.039</b> )	-0.02 (p=0.113)
Number of Board Committees	-0.00774 (p=0.442)	-0.026 (p=0.476)
Committees Meetings	0.0027 (p=0.092)	0.004 (p=0.473)
Board Remuneration	0.01479 (p=0.218)	0.049 (p=0.25)
_cons	0.20427 (p=0.002)	1.982 (p=0.000)
	Wald= chi2(7) = 8.87	Wald chi2(7) = 180.83
	Prob> chi2=0.2619	Prob >chi2 = 0.0088
	R-sq: within = 0.0107	R-sq: within = 0.022

Table 4 presents the RE regression model used to ascertain the relationship between board activities and ROA. The results of Prob>chi2= 0.2619 revealed that the overall model was statistically insignificant which implied that board activities were insignificant predictors of ROA. Only board meetings had a significant effect on ROA, all other board activities variables had an insignificant effect on ROA. The findings implied that a change in board activities would not significantly affect ROA.

Table 4 also presents the model fitted to establish the relationship between board activities and performance measured by Tobin's Q among listed firms in Kenya. The results of Prob>chi2= 0.0088 revealed that the overall model was statistically significant which implied that board activities were significant predictors of Tobin's Q.

Board tenure, ( $\beta=0.035$ ,  $p=0.434$ ), Committees Meetings ( $\beta=0.004$ ,  $p=0.473$ ), and Board Remuneration ( $\beta=0.049$ ,  $p=0.250$ ) were found to have a positive but insignificant effect on Tobin's Q among listed firms in Kenya. On the other hand, board ownership ( $\beta=-0.226$ ,  $p=0.574$ ), board tools ( $\beta=-0.168$ ,  $p=0.002$ ), board meetings ( $\beta=-0.020$ ,  $p=0.113$ ), and number of board committees ( $\beta=-0.026$ ,  $p=0.476$ ) were found to have negatively affected the performance measured by Tobin's Q in listed firms in Kenya. However, only

board tools significant affected the performance measured by Tobin's Q. The findings implied that the board activities such as board tenure, board ownership, board tools, board meetings, board committees and number of board committees adopted by listed firms in Kenya failed to significant impacts on performance of firm or they negatively affected the performance of listed firms in Kenya

### **Model 1**

$$FP_{it} \text{ (ROA)} = 0.20427 + 0.002BT_{it} + -0.10835BO_{it} + -0.00791BT_{it} + -0.00725BM_{it} + -0.00774 BC_{it} + 0.0027BCM_{it} + 0.01479 BR_{it} + c_i + \epsilon_{it}$$

### **Model 2**

$$FP_{it} \text{ (Tobin's Q)} = 0.035 + -0.226BT_{it} + -0.168BO_{it} + -0.02BT_{it} + -0.026BM_{it} + 0.004 BC_{it} + 0.049BCM_{it} + 1.982 BR_{it} + c_i + \epsilon_{it}$$

### **SUMMARY AND CONCLUSION**

An increasing trend was observed in other board activities variables such board ownership, board meetings, board tools, board committees and number of committees meetings. The study findings on the other hand revealed reducing trend in board tenure and board remuneration of listed firms Kenya. This was inferred to indicate that listed firms in Kenya have been strengthening their corporate governance over the study period. Regression analysis indicated that board activities are insignificant predators of Return on Assets. However board tenure, committees meetings and board remuneration were found to have a positive but insignificant effect on Tobin's Q among listed firms in Kenya. Board ownership board tools, board meetings and number board committees were found to have negatively affected the performance measured by Tobin's Q in listed firms in Kenya. However, only board tools significant affected the performance measured by Tobin's Q. The study concluded that listed firms in Kenya adopted corporate governance practices as part of the requirements of the regulating authority which had not impact on the specific company's performance. The study established that most of the corporate governance practices adopted by listed firms in Kenya had an insignificant effect of the Performance of firms. The study concluded listed firms in Kenya strengthened their corporate governance due to poor performance, further the study concluded that corporate governance practices used by listed firms failed to impact on performance or had negative impact on performance. The study also concluded that listed firms in Kenya continued to record poor performance despite corporate governance investments.

### **RECOMMENDATIONS**

Based on the findings, the study recommended that listed firms should revisit their corporate governance practices to ensure that they leverage on board structures that improve performance while insignificant board structures



practices should be abolished. The shareholders of listed firms may adopt the findings of this study to restructures their board structures by doing away with board structures and activities that have no effect of Performance of firms or realigning them to make them more effective. The stakeholders may also use the findings of this study to open inquiry on effectiveness of board activities in their respective firms for future improvement. Based on the findings of this study, stakeholders of listed firms and regulating authority such as Capital Market Authority may relook at the board activities policies of listed firms with the view revising the existing policies or formulating new and more progressive policies to ensure shareholder interests are protected. These policies may go a long way to ensure listed firms not only strengthened their board activities during poor performing seasons but rather clear systems and activities that provide a clear roadmap to guide board operations.

### References:

1. Aduda, J., Chogii, R. & Magutu, P. O. (2013). An empirical test of competing corporate governance theories on Performance of firms listed at the Nairobi securities exchange. *European Scientific Journal*, IX (13), 107-137
2. Ahmed, E., & Hamdan, A. (2015). The Impact of Corporate Governance on Performance of firms: Evidence from Bahrain Stock Exchange. *European Journal of Business and Innovation Research*, 3(5), 25-48.
3. Badriyah, N., Sari, N. S. & Basri, Y. M. (2015). The effect of corporate governance and firm characteristics on Performance of firms and risk management as an intervening variable. *Procedia Economics and Finance* 31(20125), 868-875
4. Baldwin, C, Bagley, C., & Quinn, J. (2003). *M&A legal context: Basic framework for corporate governance*. Harvard Business School Press, 9-803-200 Rev. October 30.
5. Bebchuk, L. & Jesse F. (2004). *Pay without Performance: The Unfilled Promise of Executive Compensation*, Harvard University Press.
6. Bertrand, M. & Mullainathan, S. (2001). Are CEOs rewarded for luck? The ones without principals are. *Quarterly Journal of Economics*, 116 (3), 901-932.
7. Brickley, J.A., Lease, D. & Smith, R.C.W. (1988). Ownership structure and voting on anti-takeover amendments. *Journal of Financial Economics*, 20, 267–291.
8. Capital Markets Authority,2002. *Guidelines on corporate governance practices by public listed companies in Kenya*. Gazette Notice No. 3362. Nairobi: Government Printer.

9. Davis, J.H., Schoorman, F.D. & Donaldson, L. (1997). Toward a stewardship theory of management. *Academy of Management Review*, 22, 20-47.
10. Debby, J. D., Mukhataruddin, Yuniarti, E. Saputra, D. & Abukosim (2014). Good corporate governance, company's characteristics and firm's value: empirical study of listed banking on Indonesian stock exchange. *Journal on Business Review (GBR)*, 3(4).
11. Demsetz, H. & Lehn, K. (1985). The structure of corporate ownership: causes and consequences. *Journal of Political Economy*, 95(6), 155-175.
12. Donaldson, T & Preston, L.E. (1995). The stakeholder theory of the corporation: concepts, evidence and implications". *Academy of Management Review*, 20(1) 65-91
13. Duc, V. H., & Thuy, P. B. G. (2013). Corporate governance and firm's performance: empirical evidence from Vietnam. *Journal of Economic Development*, (JED, No. 218), 62-77.
14. Fernades, N. ( 2008). Board compensation and Performance of firms: The role of "independent" board members. *Journal of Multinational Financial Management*, 18(1), 30-44.
15. Freeman, R. E. (1984). *Strategic Management: A Stakeholder Approach*. Pitman, London
16. Frydman, C. & Jenter, D. (2010). CEO compensation. *Annual Review of Financial Economics*, 2(1), 75-102.
17. Gabaix, X. & Augustin, L. (2008). Why Has CEO Pay Increased So Much? *Quarterly Journal of Economics* 123, 49-100.
18. Gachoki S. & Rotich, G. (2013). Influence of corporate governance on the performance of public organizations in Kenya (a case of Kenya ports authority). *Research Journal of Finance and Accounting*. 4 (6), 2013.
19. Ghabayen, M. A. (2012). Board characteristics and Performance of firms: case of Saudi Arabia. *International Journal of Accounting and Financial Reporting*, 2 (2).
20. Jackson, S.B., Lopez, T. J. & Reitenga, A. L. (2008). Accounting fundamentals and CEO bonus compensation. *Journal of Accounting and Public Policy*. 27(5), 374-393.
21. Jacob, S. (2015). Effects of macroeconomic forces on corporate governance performance of Indian companies: an exploratory study. *International Journal of Marketing, Financial Services & Management Research*. 4 (3), 149-176.
22. Jensen, M. (1986). Agency Costs of Free Cash Flow, Corporate Finance, and Takeovers. *American Economic Review*, 76(2) 323-329.

23. Klein, A. (1998). Performance of firms and Board Committee Structure. *The Journal of law and economics*, 41(1), 275-304.
24. Kroszner, R. & Strahan, P.(2001). Bankers on boards: Monitoring, conflicts of interest, and lender liability. *Journal of Financial Economics*, 62, 415-452.
25. Lekaram , V. (2014). Relationship of corporate governance and financial performance of manufacturing firms listed in the Nairobi securities exchange. *International Journal of Business and Commerce*, 3, (12), 30-57.
26. Lipton, J. & Lorsch, J. (1992). A modest proposal for improved corporate governance, *Business Lawyer*, 48(1), 59-77.
27. Mace, M.L. (1986). *Directors: Myth and Reality*, 2nd ed., Harvard Business School Press, Boston, MA.
28. Mathew H., Paul H., Kamel M. & Cherif, G. (2010). Short-term versus long-term impact of managers: evidence from the football industry. *British Journal of Management*, 21, 571–589.
29. McConnell, J. J. & Serves, H. (1990). Additional evidence on equity ownership and corporate value. *Journal of Financial Economics*, 27(1), 595-612.
30. Mulili, B. M. & Wong, P. (2011). Corporate governance practices in developing countries: The case for Kenya. *International Journal of Business Administration*, 2 (1), 14-27.
31. Morck, R., Shleifer, A. & Vishny, (1989). Alternative mechanisms for corporate control”, *American Economic Review*, 79, 842–852.
32. Murby, L. and Gould, S. (2005). Effective Performance Management with the Balanced Scorecard. The Chartered Institute of Management Accounting (CIMA) Research Report. Accessed from: [www.cimaglobal.com/technicalreports](http://www.cimaglobal.com/technicalreports) on 23rd March, 2018.
33. Nandi, S. & Ghosh, S. K. (2012). Corporate governance attributes, firm characteristics and the level of corporate disclosure: evidence from the Indian listed firms. *Decision Science Letters*, 2, 45–58.
34. Okioga, C. K. (2013). The contribution of good corporate governance practices on the flow of investor into Nairobi securities exchange. *International Journal of Current Research*, 5(8), 2391-2398.
35. Rambo, C. M. (2013). Influence of the capital markets authority’s corporate governance guidelines on financial performance of commercial banks in Kenya. *The International Journal of Business and Finance Research*, 7 (3), 7-91.
36. Rosen, S. (1981). The Economics of Superstars. *American Economic Review*, 71, 845-858.
37. Tricker, R. B., & Tricker, R. I. (2015). *Corporate governance: Principles, policies, and practices*. Oxford University Press, USA.

38. Useem, M. (2006). How well-run boards make decisions. *Harvard Business Review*, 84(11), 130.
39. Vafeas, N. (1999). Board meeting frequency and Performance of firms. *Journal of financial economics*. 53(1), 113-142.
40. Van Ness, R. K., Miesing, P., & Kang, J. (2010). Board of director composition and financial performance in a sarbanes-oxley world. *Academy of Business and Economics Journal*, 10(5), 56-74.
41. Wang, C. J. (2014). The impact of macroeconomic and corporate governance factors on firm value of Taiwanese green technology industry: a consideration of differential slope. *International Journal of Economics and Finance*, 6 (7),1916- 9728.
42. Waweru, N. M. & Riro, G. K. (2013). Corporate governance, firm characteristics and earnings management in an emerging economy. *JAMAR*. 11(1).
43. Wu, M. C., Lin, H. C., Lin, I. C., & Lai, C. F. (2009). The effects of corporate governance on Performance of firms. *Changua: National Changua University of Eductaion*.