Role of corporate governance and strategic leadership practices in mitigating risks in stock brokerage firms in Nairobi

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The success or failure of any organization rests on its leadership. In the 21st century, corporate governance is becoming a matter of enormous public attention and concern. The increase in investors’ interests in the way stock brokerage firms are led, changes in the institutional framework and policies and demand for ethical leadership from stakeholders have contributed significantly to renewed interest in the way these firms are run. The rate of collapse of stock brokerage firms trading in the Nairobi Securities Exchange (NSE) has been alarming. Over the past few years, Kenyan investors have watched desperately as various brokerage companies collapse resulting in huge investment losses. Analysts have attributed this problem to leadership and governance issues, yet, no conclusive studies had been done to test this presupposition. The aim of this study, therefore, was to assess the role of strategic leadership and corporate governance practices in mitigating risk and maximizing investors’ returns in the stock market. The study adopted a descriptive design. A sample size of 64 managers from finance and operations departments was selected randomly in each organization involved in this study. Primary data was collected using questionnaires and analyzed using mean, standard deviation and coefficient of variation. The major findings were that all the brokerage firms have boards of directors. However, majority of board members did not have adequate skills, knowledge or experience in strategic leadership, stock brokerage finance and risk management. The study concluded that corporate governance and strategic leadership practices were not being applied optimally to mitigate risks in the firms under study.

Key words: Strategic leadership, corporate governance, risk management.

INTRODUCTION

Strategic leadership is the ability to anticipate, envision, maintain flexibility and empower others to create the needed organizational changes (Finkelstein et al., 2008). In a company set-up, strategic leadership practice rests at the top, in particular, with the Chief Executive Officer, the board of directors and senior management officers (Kimutai, 2009).

According to Muriithi (2009), corporate governance is the system by which organizations are directed and controlled. The task of corporate governance as observed by Cummings and Worley (2005) is to bring about constructive and necessary changes which are responsive to the long-term positive outcome of all stakeholders.

The arguments by the above scholars are supported by Frenkel et al. (2005) who observe that organizational controls which incorporate risks mitigation practices are basic to a capitalistic system and an important part of strategic implementation in order to achieve the desired outcomes. Kaplan and Norton (2006) argue that some firms only use financial controls which produce short-term outcomes and risk averse managerial decisions. As a result, outcomes are shared between the business- level executives making strategic proposals and the corporate- level executives evaluating them. To avoid temptation for managers to focus on short term gains only, Kaplan and Norton advise managers to apply the Balanced Scorecard framework to ensure that they have
leadership, the ripple effects are widely felt both within and outside the organization.

The business was then confined to British settlers since local investors were denied trading in securities (CBK, 1984). In 1954, the NSE was set up as a voluntary association of stockbrokers registered under the societies Act with permission of London stock exchange. Securities that were traded in the NSE during the period mainly comprised of government stock, loan stocks, preference and common shares. The establishment of the NSE as an active financial centre was the culmination of five decades of rapid development of the market’s financial system (Ngugi, 2003).

In November 1988 the Government set up the Capital Market Development Advisory Council and charged it with the role of working out the necessary modalities including the drafting of a bill to establish the Capital Markets Authority (CMA). In 1989, the bill was passed in Parliament and subsequently received Presidential assent. CMA was eventually constituted in January 1990 and inaugurated on 7th March 1990. The CMA was mandated to regulate and facilitate the development of an orderly, fair and efficient Capital Markets in Kenya. The main markets players in the Kenyan Capital Markets include; the Nairobi Stock Exchange, the Central Depository and Settlement Corporation Ltd, Stockbrokers, Investment Advisors, Fund Managers, collective Investment and Authorized Securities Dealers (NSE, 2008).

Kilonzo (2009) observed that over the years, the Capital Market Authority has initiated a number of policies to facilitate the growth and development of the capital markets in Kenya. As a result, there has been an increase in the number of companies seeking to list at the Nairobi Stock Exchange. The authority is pursuing major reforms to strengthen its regulatory framework critical for the maintenance of investors’ confidence as well as enhancing investors’ protection.

Kibuthu (2005) noted that, the period preceding the 2002 general election saw the NSE experience decline in market performance. The uncertainty of the business environment resulted in the decline in the confidence and subsequently poor performance of the stock market as well as the withdrawal of donor funding but was restored when a new government came into power.

The market infrastructure was also improved by installation of a computerized central depository system (CDS) introduced on November 2004 and whose operations included, keeping the share registry, clearing and settlement arrangement hence assuring faster, safer and easier trading insecurities (Kibuthu, 2005).

Despite the measures taken, several firms such as Nyaga Stock Brokers and Thuo Stock Brokers were declared bankrupt back in the year 2007. Discount Securities Limited was also placed under receivership and several other companies continue to face solvency challenges.

Walker (2005) observed that organizations’ management are vulnerable to a significant risk in their respective operations. However, the capability of its leadership determines makes a significantly how a firm operates and manages its risk. The responsibility of leaders and managers therefore, is to ensure that their organizations put in place corporate governance best practices and strategic leadership practice that will create sustained superior performance.

Statement of the problem

The rate at which the Stock brokerages have been collapsing is alarming. Over the past few years, Kenyans have watched desperately as brokerage companies such as Nyaga Stock, Thuo Stockbrokers, Discount Securities either collapsed or went under receivership, taking with them about Ksh3 billion of investors’ money (Daily Nation, Oct 28, 2009). Walker (2005) argued that, though all organizations face significant risks in their operations, the capability of its leadership can shape the direction the firm takes and is critical to its survival. A firm whose top leadership embraces good corporate governance practices is able to achieve above average results.

The thrust of this study was to investigate whether firms trading in the NSE employed good governance practices in mitigating strategic and investment risks. Specifically, the study looked at leadership and corporate governance practices of firms trading in NSE in order to establish whether the variables under investigated were applied in the firms that had collapsed and also those that still operated without experiencing challenges to their survival.

The study, therefore, sought to determine the extent to which strategic leadership was being practiced and how that practice assisted the firms under study to mitigate risks in order to create investor confidence and avoid corporate failure.
Purpose of the research

The purpose of this study was to investigate the extent to which strategic leadership and good corporate governance practices were evident in organizations under study. The study also examined and how those practices helped the firms under study in mitigating risks.

Objectives of the study

1. To establish whether good corporate governance and strategic leadership practices were evident in the brokerage firms under study;
2. To determine the composition of the board of directors and their expertise in corporate governance and strategic leadership;
3. To establish approaches of strategic leadership in the brokerage firms to mitigate and control risk.

LITERATURE REVIEW

Overview of the role of strategic leadership in corporate governance

Finkelstein et al. (2008) argued that, the success or failure of any organization rests on its leadership. Firms collapse if the leadership suffers from the following weaknesses: The inability to respond or to identify threats, overestimating their ability to control firm’s external environment, having no boundary between their interests and that of the company, a belief that they can answer all the questions, eliminating all those who disagree with them, and understimating obstacles and relying on what worked in the past (Icarus paradox phenomenon). In addition, Sharma (2007) observed that organization collapse when the leadership fails to sell its vision to its followers, has not convinced its followers why they should be passionate and failure to make employees loyal to organizational agenda.

Sharma (2007) argued that to attain and sustain superior financial performance and win investors confident, strategic leadership must guide the firm in ways that result in the formation of a strategic intent and strategic mission. Goffee and Jones (2006) observed that when leadership commits itself to liberate rather than to stifle the talents of the people it leads, this results in leap quantum in terms of loyalty, productivity, creativity and devotion to organizational vision and goals. Leavy and Mckienman (2009) observe that, strategic leadership must facilitate the development of appropriate strategic actions and determine how to implement them.

Calder (2008) has observed that corporate governance has become critical for all medium and large organizations and is becoming a matter of enormous public attention and concern. On their contribution, Kaplan and Norton (2006) observed that in today’s competitive business environment, top leadership must be seen to practice good corporate governance practices. In particular, the authors observed that modern management tools such as, code of corporate governance, use of hedging, derivatives, embracing regulatory laws and use of Balance Scorecard will go hand in hand in ensuring high performance and mitigation of risks likely to affect organizational operations.

Essentials of strategic leadership

Goffee and Jones (2006) argued that strategic leadership lies in mastering a wide range of skills such as: being a good administrator, poses capabilities of inspiring others to achieve excellence, good communicator, promoter of change and an excellent strategist. Strategic leadership should be competent in technical and social skills. Hellen (1999) observed that strategic leadership need to continually assess their performance and looking for ways to improve and extend their skills. A strategic leader should be visionary. Sharma (2007) argued that great organizations begin with great leadership. Strategic leaders should also be persuasive, Hackman (2004). Integrity should also be embraced by strategic leaders, Hoffman, 2004. Corporate integrity often involves the sense of shared goals, open communication at all levels, meritocracy, and appropriate accountability structures (Sharma, 2007). Strategic leaders also need to be flexible. Hellen (1999) noted that this is the ability to adapt to changes and to embrace changes as positive and desirable. Finally, a good strategic leader needs to have concern for other people. Sharma (2007) argued that, strategic leaders should have the ability to demonstrate genuine care for the people they lead.

Risk background

The term risk as noted by Francis (1993), originates from the Italian word, “risicare” which means to dare. The concept of risk in finance theory as noted by Fischer (1991) has undergone many changes in terms of its meaning. The author argued that, it was also associated with the departure of the market value of the firm from its intrinsic value and uncertainty faced by the firm in earning adequate post-tax profits for paying reasonable dividends to shareholders.

Francis (1993) argued that business leverage and liquidity risks assume a lot of importance as a major description of risk. To describe the total risk, it became common to accept the variability in the returns distribution as surrogate for total risk.

\[ R = E(R) +\text{Systematic portion} + \text{Unsystematic portion}; \]

Where R is returns, E(R) is expected returns. Frenkel et al. (2005) observed that there are two forces that contribute to variations in returns in terms of price or
derivatives or contingent claims which mimic or alter the "off-balance sheet" in that the instrument used are firm will seek to avoid risks in areas of ignorance or non-
issues or make payments on securities originate to strike, advertising campaigns and lawsuits.
The uncertainty surrounding the ability of the business firm to issues or make payments on securities originate from two sources. .

Risk mitigations

Risk mitigation as noted by Radcliff (1990) is as old as trade and is the foundation of insurance industry. According to Frenkel et al. (2005), risk management is an activity directed towards the assessing, mitigating and monitoring of risks. The investment process involves the leadership of the firm deciding on which investment should be undertaken and how much money would be committed to each investment. Allen (2003) noted that, a firm will seek to avoid risks in areas of ignorance or non-core activities while taking additional risks in others.

Pearson and Robinson (2007) noted that most operational business decision involves considerable long term investment which in addition has huge significant exit cost element. Allen (2003) therefore, observed that firms result in financial hedging. This is also known as 'off-balance sheet' in that the instrument used are derivatives or contingent claims which mimic or alter the buyer’s or seller exposures.

Most financial risks as noted by Allen (2003) can be reduced or controlled by use of derivatives. Derivative is a security whose price is dependent upon or derived from one or more underlying assets. Its value is determined by fluctuations in the underlying asset. The most common underlying assets include stocks, bonds, commodities, currencies, interest rates and market indexes. Most derivatives are characterized by high leverage. Derivatives are contracts and can be used as an underlying asset. Derivatives are generally used as an instrument to hedge risk, but can also be used for speculative purposes (Elton, et al, 2003).

Derivatives hedging

Francis (1993) defined derivatives as financial instruments whose value is affected by the value of an underlying item. These underlying items may be commodities such as agricultural products and animals or financial assets such as stock, bonds and common papers. The objective of derivative hedging is not to completely protect against risk, but gain as much protection as possible. Derivative hedging should be subject to the marginal benefits and marginal cost of risk management (Frenkel et al., 2005).

The advent of modern day derivative contracts according to Madura (2006) is attributed to the need by farmers to protect themselves from any decline in the price of their crops due to weather variations and overproduction. The first derivatives which where commodity based dominated the first 100 years of derivatives trading. But gradually with the advent of financial instruments, financial derivatives emerged effective from 1970's (Madura, 2006).

Hedging as noted by Madura (2006) is a strategy designed to minimize exposure to such business risks as a sharp contraction in demand for one’s inventory, while still allowing the business to profit from producing and maintaining that inventory. The author observed that, banks and other financial institutions use hedging to control their asset-liability, such as the maturity matches between long, fixed – rate loans and short-term deposits. For example, banks are faced with credit risks in that money owing will not be paid by an obligatory. Most of these risks can be reduced by hedging.

Interest rate risk

Interest rate risk according to O’brian (2007) is the risk arising from changes in the rate of interest on borrowed or invested money. It has effect on cash flows of the borrower or lender. The author noted that, interest rate risk exposure can be caused by several sources which includes; price risk, reinvestment risk, prepayment risk and extension risk.

Interest rate risk involves a risk that has a relative value of an interest bearing asset, such as a loan or a bond and worsen due to an interest rate increase. Interest rate risk can be hedged using fixed income instruments or interest rate swaps can be referred to as an interest rate management tool that can be used in conjunction with any variable rate lending facility, including a facility with another lender. It allows exchange or modification of interest obligations so that the business is not exposed to changes in interest rates.

Liquidity risk

Liquidity risk as noted by O’brian (2007) is the risk that may make a company or a business unable to meet its payment obligations when they fall due or to replace funds when they are withdrawn. The firm can have several core liquidity management strategies. Such includes projecting future cash flows and making plans to address normal operation requirements, as well as
variable scenarios and contingencies (NSE, 2008).

Operational risk

Securities firms as noted by Leila (2009), engage in various financial activities, particularly serving as brokers between two parties in transfer financial securities, and as dealers and underwriters of these securities.

Operational risk as noted by Ross et al. (1993) is the risk of monetary loss resulting from inadequate or failed internal processes, people and systems or external events. For the stock brokers, operations risk is essentially counter-party risks such as nonpayment, non-delivery of scrip, denial of matched order by clients, trading errors, and sudden closure of banks in which their funds are deposited.

Market risk refers to the possibility of incurring large losses from adverse changes in financial asset prices such as stock prices or interest rates. Market risk is usually affected by economic developments, political destabilization, rising fiscal gap, and national debt, terrorism, energy (Ross et al., 1993).

Kimutai (2009) observed that, brokerage firms also face regulatory risks when the rules governing the securities industry are changed, giving rise to potential loss. A new rule that requires brokerages to maintain a higher net capital may be hard to meet.

Theoretical framework

There are a number of theories used to explain and analyze corporate governance. Some of these theories as noted by Pandey (2006) are the agency theory which arises from the field of finance and economics, the transaction cost theory arising from economics and organizational and the stake holder's theory. Other approaches include the organizational theory and the stewardship theory. While there are marked differences among these theories, this study critically examines the commonly used theory in details; the agency theory since it is mainly used in accounting and finance related disciplines.

Agency theory

Pearce and Robinson (2007) noted that, whenever there is separation of the owners (principals) and the managers (agents) of a firm, the potential exists for the wishes of the owners to be ignored. Leavy and Mckieman (2009) pointed out that managers are employed and delegated with the responsibility of decision making by owners, hence creating an agency relationship between the two parties. However, when the interests of managers diverge from those of owners, then, manager’s decisions are more likely to reflect their preferences rather than the owner’s preferences.

Ireland and Hockisson (2008) further argued that, though many top executives earn princely salaries, occupy luxurious offices, and wield enormous power within their organization, they are mortal and capable of making mistakes or a poor decision. Agency theory therefore, provides investigators with an opportunity to replace skepticism with informed insight as they endeavor to analyze subjective management risk (Leavy and Mckieman, 2009).

Pearce (2007) argued that from a strategic management perspective, there are different kinds of problems that can arise because of agency relationship. First, the executives may pursue growth in company size rather than in earnings, as they are more heavily compensated for increases in size than for earnings growth. Hence, managers gain prominence by directing the growth of an organization and they benefit in terms of career advancement and job mobility that are associated with increase in company size. On the other hand, shareholders generally want to maximize earnings, because earnings growth yields stock appreciation.

Secondly, the executives may avoid risk since they are often fired for failure, but rarely for mediocre corporate performance. Thus, executives may avoid desirable level of risk if they anticipate little reward and opt for conservative strategies that minimize the risk of company failure.

Thirdly, managers in most cases act to optimize their personal payoffs. Similarly, executives may pursue a range of expensive perquisites that have a negative effect on shareholder returns which are rarely good investments for stockholders (Pearce and Robinson, 2007).

In theory, most managers would agree with the goal of shareholder’s wealth maximization. In practice however, managers are also concerned with personal benefits all provided at the company expenses (Allen, 2003). Such concerns, the author argued make managers reluctant or unwilling to take more than moderate risk.

Frenkel et al. (2005), however, argues that investors can reduce these agency problems. Among these approaches are stock option plans, which enable executives to benefit directly from the appreciation of the company’s share just as other stockholders. Senior management is allowed to buy significant shares in their corporations.

A second solution to agency problems is for executives to receive back loaded compensation. This implies that executives should be paid a handsome premium for superior future performance. This lag time between action and bonus more realistically rewards executives for the consequences of their decision making, ties the executives to the company for the long term, and properly focuses strategic management activities on the future (Francis, 1993).
Finally, Allen (2003) argued that, creating teams of executives across different units of a corporation can help to focus performance measure on organizational rather than personal goals. Through the use of executive teams, owner interests often receive the priority that they deserve.

In addition, Frenkel et al. (2005) argued that in recent years, institutions such as mutual funds, insurance and pension have become active in risk management. Institutional shareholders have actively used votes to outcast underperforming managers and replace them with more competent managers.

Frenkel et al. (2005) emphasized that shareholders may also prefer to bear some agency costs to encourage managers to maximize the firm stock price rather than in their own self interest. He highlighted the following agency costs; first monitoring expenditure to prevent selfish behaviour of the management team. The second agency cost involves expenditures to structure the organization in a way that will limit undesirable managerial behaviour such as appointing outside investors to the board of directors. Lastly, opportunity cost resulting from the difficulties that large organizations typically have in responding to new opportunities. The firm’s necessary organizational structure, decision hierarchy and control mechanisms may cause profitable opportunities to be forgone because of management inability to seize upon them quickly.

Managerial incentives are the most powerful, popular and expensive agency cost incurred by firms. They result from structuring managerial compensations to correspond with share price maximization. Compensation plans can be divided into two groups- incentive plans and performance plans (Frenkel et al., 2005).

Allen (2003), noted that incentive plans tie management compensation to share price. These options allow managers to purchase stock at some time in the future at a given price. The options would be valuable if the market price for stock rises above the option purchase price.

**The current view**

Although experts agree that the effective way to motivate management is to tie compensation to performance, Pandey (2006) argues that the execution of many compensation plans has been closely scrutinized in recent years.

Stockholders both individual and institutions have publicly questioned the appropriateness of the heavy compensation packages that many corporate executives receive. Although the sizeable compensation packages may be justified by significant increases in shareholder wealth, recent studies have failed to find a string relationship between the CEO compensation and the share price.

**MATERIALS AND METHODS**

To investigate the extent to which strategic leadership and good governance practices were used to mitigate risk by brokerage firms, descriptive research design was the most appropriate. The study integrated both qualitative and quantitative methods. Quantitative research produced discrete numerical or quantifiable data. On the other hand qualitative research method dealt with non-numerical data and emphasized words rather than quantification. The method used also incorporated a census since the number of brokerage firms was small. The population of the brokerage firms and Investment banks was only 16 by the time of study (NSE, 2009).

**FINDINGS**

**Good corporate governance practices**

The research wanted to find out whether the organizations had boards of directors. All the respondents (56) indicated that the organizations had boards of directors. King III Report (2009) observed that, good governance is essentially about effective leadership.

As noted by Kings Report (2002), the board size and composition determines the board’s effectiveness. The report noted that, the right size of the board should be the one that balances the need to avoid being too large and the need to have a board that is large enough so that it contains individuals with a balance of skills and experience that is appropriate for a company of it size and business. A large board tends to be slow in response to issues that call for urgent action (Coyle, 2008). In addition, King III (2009) noted that a board should reserve a minority seat to bring in other critical stakeholders or mandated expertise to the table where needed.

The respondents were required to indicate the level of agreeing or disagreeing in regard to some strategic aspects relating to their board of directors. The research used a five point likert scale. The findings were as given in Table 1.

It can be observed from the findings in Table 1 that leadership determines organizational success or failure.

**Mitigating and controlling risk**

In relation to risk mitigation and controls, the researcher wanted to establish whether the brokerage firms had risk department. The findings were as illustrated in Figure 1.

On the presence of risk management department in the organization, 67% (38) respondents indicated that a risk management department did not exist and 33% (18) said...
<table>
<thead>
<tr>
<th>Variable</th>
<th>Strongly disagree</th>
<th>Disagree</th>
<th>Neutral</th>
<th>Agree</th>
<th>Strongly agree</th>
<th>Mean</th>
<th>Std. Dev.</th>
<th>CV</th>
</tr>
</thead>
<tbody>
<tr>
<td>The success or failure of your organization rests on its leadership.</td>
<td>1</td>
<td>3</td>
<td>11</td>
<td>29</td>
<td>12</td>
<td>3.9</td>
<td>0.9</td>
<td>23</td>
</tr>
<tr>
<td>Your firm respond quickly to changing global competitive environment to remain strategically competitive.</td>
<td>2</td>
<td>5</td>
<td>7</td>
<td>31</td>
<td>11</td>
<td>3.8</td>
<td>1.0</td>
<td>26.3</td>
</tr>
<tr>
<td>The board members in your organization have skills, knowledge or experience in strategic management, stock brokerage, finance, strategic leadership and risk management</td>
<td>4</td>
<td>6</td>
<td>13</td>
<td>26</td>
<td>7</td>
<td>3.4</td>
<td>1.2</td>
<td>38.4</td>
</tr>
<tr>
<td>The board of directors in your organization meet regularly</td>
<td>3</td>
<td>3</td>
<td>12</td>
<td>29</td>
<td>9</td>
<td>3.7</td>
<td>1.0</td>
<td>29.7</td>
</tr>
<tr>
<td>Independent directors are actively involved in strategic formulations</td>
<td>11</td>
<td>10</td>
<td>29</td>
<td>5</td>
<td>1</td>
<td>2.5</td>
<td>1.4</td>
<td>56.0</td>
</tr>
</tbody>
</table>

Figure 1. Whether the organizations had a risk management department.

that it existed. The majority of the respondents indicated that the risk management department did not exist. This situation pointed a very gloomy picture despite the fact that controls as noted by Frenkel et al. (2005) are essential for helping firms to achieve their desired outcomes.

The research further wanted to establish the types of risks the firms being studied focused on mostly in their mitigation strategies. The findings were as illustrated in Figure 2.

The risks the firms focused on were interest rate risks as indicated by 40% (7) of the respondents, 33% (6) of the respondents indicated operational risks while 27% (5) of the respondents indicated that the focus was on market risk. The findings indicated that majority of the firms focused on the interest rate risks perhaps because this type of risk has more than one cause in terms of price risk, reinvestment risk, prepayment risk and extension risk (Allen, 2003).

The research also wanted to establish the various approaches the firms were using to mitigate risks (Table 2).

The responses above revealed that the most common approaches to managing risks were Board involvement,
Table 2. Mitigating and controlling risk.

<table>
<thead>
<tr>
<th>Variable</th>
<th>Strongly disagree</th>
<th>Disagree</th>
<th>Neutral</th>
<th>Agree</th>
<th>Strongly agree</th>
<th>Mean</th>
<th>Std. Dev.</th>
<th>CV</th>
</tr>
</thead>
<tbody>
<tr>
<td>Board members are involved in managing investors’ risks.</td>
<td>2</td>
<td>6</td>
<td>11</td>
<td>21</td>
<td>16</td>
<td>3.8</td>
<td>1.1</td>
<td>28.9</td>
</tr>
<tr>
<td>Operational and financial hedging are used to control investors risks</td>
<td>7</td>
<td>16</td>
<td>17</td>
<td>10</td>
<td>6</td>
<td>2.9</td>
<td>1.2</td>
<td>41.4</td>
</tr>
<tr>
<td>Insurance is used to mitigate investors’ risk in the organization</td>
<td>1</td>
<td>7</td>
<td>10</td>
<td>27</td>
<td>11</td>
<td>3.7</td>
<td>1.0</td>
<td>27</td>
</tr>
<tr>
<td>There is a risk committee chaired by the CEO.</td>
<td>5</td>
<td>6</td>
<td>8</td>
<td>25</td>
<td>12</td>
<td>3.6</td>
<td>1.2</td>
<td>33.3</td>
</tr>
</tbody>
</table>

DISCUSSIONS OF KEY FINDINGS

The study found that majority of the firms was of the opinion that strategic leadership was crucial to the success of an organization. This had a coefficient of variation of 23%. This agrees that the views of Finkelstein et al. (2008) and Sharma (2007) who argue that, the success or failure of any organization rests on its leadership. Organization collapse when the leadership fails to sell its vision to its followers. It should also convince its followers why they should be passionate about the vision and make them loyal to organizational agenda. Though the firms studied had boards of directors, majority of board members, did not have adequate skills, knowledge or experience in strategic leadership, stock brokerage finance and risk management.

The study also found out that independent non-executive directors were not actively involved in providing strategic direction in the firms studied but were key in providing technical expertise. This phenomenon could explain the cause of corporate failure of some brokerage firms. This is a major departure from the common practice where boards should have members with various types of expertise and are empowered enough to influence decisions that affect running of the organization (Coyle, 2008; King III, 2009).

The findings revealed that 67% of the firms studied did not have a risk management department. This could explain why some brokerage firms collapsed. According to Frenkel et al. (2005) establishing a department with specific expertise in risk management is essential to helping firms to avoid failure and achieve superior performance.

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