CORPORATE GOVERNANCE AND PROFITABILITY OF GENGHIS CAPITAL LIMITED IN NAIROBI CITY COUNTY

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A RESEARCH PROJECT SUBMITTED TO THE SCHOOL OF BUSINESS IN PARTIAL FULFILLMENT OF THE REQUIREMENT FOR THE AWARD OF THE DEGREE OF MASTER OF BUSINESS ADMINISTRATION IN STRATEGIC MANAGEMENT, KENYATTA UNIVERSITY

NOVEMBER 2017

DECLARATION

Declaration by Candidate

This project is my original work and has not been presented for a degree in any other university.

…………………………………….. ……………………………

Signature Date

FIONA KANINI MALONZA

D53/OL/CTY/24212/14

Declaration by Supervisor

I confirm that the work in this project was done by the candidate under my supervision

…………………………………….. ……………………………

Signature Date

PROF. JAIN MOHINDER

SCHOOL OF BUSINESS

DEDICATION

I dedicate this work to my family for their endless support.

ACKNOWLEDGEMENT

I wish to acknowledgment and thank my parents for their excellent support, advice and guidance. I would also want to acknowledge my family particularly my husband Ezbon for his active contribution to this research project.

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OPERATIONAL DEFINITION OF TERMS

Board competence- this is the ability of the board members to carry their corporate tasks efficiently and with ease

Board gender diversity- this refers to the gender composition of the board members of a corporate firm

Board independence- describes a corporate board that has a majority of outside directors who are not affiliated with the top executives of the firm and have minimal or no business dealings with the company to avoid potential conflicts of interests.

Board size- The Governing body of an incorporated firm whose members (directors) are elected normally by the subscribers (stockholders) of the firm (generally at an annual general meeting or AGM) to govern the firm and look after the subscribers' interests.

Corporate governance is the system of rules, practices and processes by which a company is directed and controlled. Corporate governance essentially involves balancing the interests of a company's many stakeholders, such as shareholders, management, customers, suppliers, financiers, government and the community.

Profitability- is the ability of a business to earn a profit. A profit is what is left of the revenue a business generates after it pays all expenses directly related to the generation of the revenue, such as producing a product, and other expenses related to the conduct of the business activities.

ABBREVIATIONS AND ACRONYMS

BCCI	Bank of Credit and Commerce International
EAC	East Africa Community
ICASL	Institute of Chartered Accountants of Sri Lanka
NACOSTI	National Council for Science, Technology and Innovation
NED	Non-Executive Directors
OECD	Organization for Economic Co-operation and Development
ROA	Return on Assets
ROE	Return on Equity
SECP	Securities Exchange Commission of Pakistan
SPSS	Statistical package for Social Sciences

ABSTRACT

Corporate governance is a system of structuring, operating, and controlling a company with a view to achieve long-term strategic goals to satisfy its shareholders, creditors, employees, customers and suppliers. Corporate governance plays an important role when improving the profitability of a company. The purpose of this study was to establish the effect of corporate governance on profitability; a study of Genghis Capital Limited, Nairobi. Specifically, the study sought to determine the effect of board size on the profitability of Genghis Capital Limited, Nairobi, to investigate the effect of board independence on the profitability of Genghis Capital Limited, Nairobi, to establish the effect of board composition on the profitability of Genghis Capital Limited, Nairobi and to examine the effect of board competence on the profitability of Genghis Capital Limited, Nairobi. Genghis Capital Limited was chosen because it had retrenched some of its employees because of tough financial problems. The study was guided by Agency theory and Stakeholders' theory. The study adopted a descriptive research design. The target population was 200 employees of Genghis Capital Limited. A stratified random sampling was used to select the sample. The sample size of the study was 107 employees. The study used questionnaires, containing both open ended and closed ended questions to obtain primary data. The questionnaires were self-administered. The instrument was also pretested with a sample of the respondents. The reliability of the instrument was estimated using Cronbach's Alpha coefficient. Pilot test was done by administering the instrument to ensure congruence between field objections and the phenomena being researched. The results of the study indicated that board size, board independence, gender diversity, board competence are positively related with profitability. Board size, board independence, gender diversity, board competence were found to be satisfactory variables in explaining profitability. This is supported by coefficient of determination of 63.2%. Further, the results indicated that the overall model was statistically significant. This was supported by an F statistic of 40.418 and the reported p value (0.000) which was less than the conventional 0.05 significance level. Regression of coefficients results showed that board size, board independence, gender diversity, board competence and profitability are positively and significantly related. The study concluded that board size, board independence, gender diversity and board competence affects profitability of a firm. The study recommends that Genghis Capital limited incoporates these board characteristics by restructuring the board so that it can reflect features mentioned above. Basing on the discussion above, having a manageable board size, independent board, gender sensitive board and a competent board can lead an organization to prosperity. By adhering to the above board features, results of the study reveal that the strategies a firm can register increased revenue turnout. The study concluded that board size, board independence, gender diversity and board competence are key determinants to the performance of a firm.

CHAPTER ONE

INTRODUCTION

1.1 Introduction

This chapter introduces the background of the study, problem statement, objectives, research questions, significance of the study and the scope.

1.2 Corporate governance

Effective governance is essential for long-term corporate success. Effective corporate governance promotes improved shareholder wealth and the wealth of other corporate stakeholders. Good corporate governance (GCG) practices are necessary in attracting investors; reduce risk, by defending shareholders concern and improving efficiency of the company. Good practice of Corporate Governance leads to better performance and enhance decision-making procedure in the company. Hence, efficient governance means the slight expropriation of company funds by managers, which lead to better utilization of assets and improved financial and profitability of the firm (Igbal & Kakakhel, 2016). The board characteristics of a firm do affect its profitability.

Corporate governance is a system of structuring, operating, and controlling a company with a view to achieve long-term strategic goals to satisfy its shareholders, creditors, employees, customers and suppliers (Das, 2010). Corporate governance plays an important role for improvement of profitability. The improvement of firm's profit is essential to attain overall corporate objectives (Gill & Mathur, 2011). Strong corporate governance is necessary for all business organizations because it plays an important role in the management of organizations in both developed and developing countries for the benefits of the company and clients.

It is a system by which companies are directed and controlled. It specifies the distribution of rights and responsibilities among different participants in the corporation, such as the board, managers, shareholders and other stakeholders, and spells out the rules and procedures for making decisions on corporate affairs. It also provides the structure through which company objectives are set and monitoring performance attained. Corporate governance measures like board structure, compensation structure and ownership structure are determined by one another, and by variables such as risk, board size, diversity, firms' size and regulations etc. These variables also strongly influence a firm's performance (Hermalin & Weisbach, 2001). Other corporate governance determinants are ownership, shareholdings transparency, disclosure and audit.

Size of board of the board refers to the total number of members within the board of directors. The size of the board has a direct influence on the profitability and performance of a firm. It is expected that firms with smaller size of board will exhibit more corporate governance responsibility than firms with larger size of board member. This is bound to influence the profitability of the firm. Smaller boards have proved to be more effective to enhance the value of a firm. If there are few directors in a firm, they will exert more effort because there will be only few people to monitor the firm and the level of responsibility on each will be increased. Larger boards are less effective than smaller boards. This is because larger board has many members, some of which can tag along as free riders and thus agency problems can be generated.

According to Wu (2008), the collective competence (knowledge, experience, and commitment) of board members is positively associated with product innovation and profitability of a firm. Indeed, when board members have more industry-wide and company-specific knowledge and experience, when they invest more time and energy in their role, there is more innovation in terms of new product introduction. When a firm is offering desirable products, financial performance is enhanced.

Todorovic (2013) found that if the company rigidly follows principles of corporate governance then it results in higher net profit margin and earnings per share. Vo and Phan (2013) examined elements of corporate governance such presence of female board members, the working experience of the board members and compensation of board members and found that all the elements had positive impact on the firm performance profitability.

Boards of directors consist of two types of directors; insiders and outsiders. There is still confusion that to achieve optimal board composition, how much percentage of each type of director should be present. Outside directors are those who work in other firms also and have other responsibilities as well. Inside directors provide information and the outside directors provide their expertise to evaluate the decisions of managers (Ghaffar, 2014). The outside directors are independent and are not aligned with management. Their only tie to the firm is their directorship. Board independence is important because non-executive directors are true monitors and they improve the firm profitability and discipline the management. Non-executive directors are financially independent of management and are not involved in any conflicting situations and thus they alleviate agency problems and reduce the self-interest of managers. By doing this, the interest of shareholders is protected. They can perform monitoring and control in a better way and the firm’s resources are arranged in a way which leads to better profitability.

Structure of corporate governance determines distribution of rights and responsibilities between various actors in company, such as boards, managers, shareholders and other stakeholders, and lays rules and procedures for making corporate decisions. This way, it provides the structure through which the objectives of the company are set, and the means of attaining those objectives and monitoring performance are determined (OECD, 2004).

Good corporate governance plays a key role in enhancing integrity and efficiency of companies, as well as financial markets in which company operates. Poor corporate governance weakens a company's potential and in worst case can open the way for financial difficulties and frauds. Companies which follow the best practice of corporate governance usually raise capital easily and at a lower price and in long term are more profitable and competitive than companies that have poor corporate governance. Companies that insist on the highest standards of governance reduce many risks that arise from daily operations. Such companies are able, by better performance and returns, to attract investors whose investments could help finance further growth and development.

Corporate governance implies the relation between the management, board of directors, shareholders and stakeholders of the company. It includes the rules that provide the procedure to be followed and which the objectives for the company are set. By following the rules set by corporate governance mechanism, the objectives of the company are attained and profitability is monitored. So, the basic features of good corporate governance include clear corporate structures, simple procedures and the responsibility of managers and board of directors towards stakeholders (Oman, 2001).

The chief objective of corporate governance is to protect the rights of all stakeholders. To ensure this, quick decision making is required. The decisions should be communicated to those concerned in a timely manner. In this way, investors can have more confidence in the company. Greater confidence results in higher growth and profits. Stakeholders join firms which are renowned for their good governance structures. Investors pay higher to the firms which strictly obey the norms of corporate governance. The risk is reduced and ultimately cost of capital and agency costs are reduced.

1.2.1 Global Corporate governance

Corporate governance has been an issue of global concern long before now. However, it came to the fore in the 1980's as fallout of the Cadbury report in the United Kingdom, which concentrated on the financial aspects of corporate governance. Immediately following suits, the subject of corporate governance reverberated round developed and developing countries - (King Report) South Africa, (Dey Report) Canada (Bosch Report) Australia; in Armstrong (1997). In fact, James Wolfenschon in Boateng (2004) stated that proper governance of companies would become as crucial to the world economy.

German corporate governance is shaped by a legal tradition that dates back to the 1920s and regards corporations as entities which act not only in the interests of their shareholders, but also have to serve a multitude of other interests. The German corporate governance system is generally regarded as the standard example of what Franks and Mayer (2001) regarded as insider-controlled and stakeholder-oriented system.

In Asian countries, corporate governance practices in financial corporations are consistent with the international practices (Chuanrommanee & Swierczek, 2007). Corporate

Governance has become one of the important research areas in Pakistan after publication of SECP Corporate Governance Code 2002, for publicly listed companies. The code was met with a lot of criticism in the start and there was lot of difficulties in implementing and enforcing it. However, despite these criticisms, the Code has been the reason for the start of a new era of corporate governance in Pakistan. Rais and Saeed (2005) argued that the acceptance of Corporate Governance Code has improved overall structure of the corporation and environment of the businesses by ensuring transparency and accountability in reporting framework. Good corporate governance practices are important in reducing risk for investors; attracting investment capital and improving the performance of companies (Velnampy & Pratheepkanth, 2012).

In Sri Lanka, corporate governance initiatives commenced in 1997 with the introduction of a voluntary code of best practice on matters relating to the financial aspects of corporate governance. Voluntary codes of best practices on corporate governance were issued in 2003 ICASL (2003), and in 2007 corporate governance standards were made mandatory for all listed companies for the financial year commencing on or after 1st April 2008. This code covered the effectiveness of the board, separation of the position of CEO and the chairman, appointment of the chairman, non-executive directors, professional advice, director's training, directors' responsibility for the presentation of financial statements, compliance reporting, internal control and committee structures for boards, including audit committee, and remuneration committees and nomination committees (Alagathurai, 2013).

Developed countries differ from developing countries in many ways (Achchuthan & Kajananthan, 2013). For developing countries like India, good corporate governance is an essential tool for globalization of business organizations. Good corporate governance consists of transparency impact on firm performance while board composition had insignificant impact on performance.

1.2.2 Profitability

Corporate governance plays an important role for improvement of profitability. The improvement of firm's profit is essential to attain overall corporate objectives (Gill & Mathur, 2011). Strong corporate governance is necessary for the all the business organizations because it plays an important role in the management of organizations in both developed and developing countries for the benefits of the company and clients. Good practice of Corporate Governance leads to better performance and enhance decision-making procedure in the company. Hence, efficient governance means the slight expropriation of company funds by managers, which lead to better utilization of assets and improved financial and profitability of the firm (Igbal & Kakakhel, 2016). The board characteristics of a firm do affect its profitability.

1.2.3 Genghis Capital Limited

Genghis Capital Limited provides stock brokerage services. Its stock broking services include equities trading, fixed income trading, over the counter trading, investment advisory, and online account access services. The company is based in Nairobi, Kenya. Genghis Capital Limited is a trading participant of the Nairobi Stock Exchange and licensed by the Capital Markets Authority. The firm was able to post a 14% increase in profitability (Business Daily, 2016). The Board of directors was active in the year 2015 during which there was an increase in profitability.

1.3 Statement problem

The effect of corporate governance on profitability has been a subject of great empirical investigations in corporate business. The collapse of major corporations such as Enron, WorldCom and the Bank of Credit and Commerce International (BCCI) in the UK and US has stimulated the recent interest in corporate governance. In the EAC, governance has been debated in the context of state ownership of corporations where corruption, mismanagement and government subsidization of failing enterprises have been the defining features. There has been an attempt to address corporate governance through classic publication of the separation of corporate ownership from control (Becht, Bolton & Röell, 2003). In effect, the agency costs of outside ownership equal the lost value from professional managers maximizing their own utility, rather than the value of the firm. Genghis Capital, saw its brokerage commissions drop by 6.67 per cent to Sh81.6 million in 2012. Other incomes fell to Sh1.8 million from Sh11 million in 2011. Genghis Capital reduced its employee costs for the year by 20.8 per cent, most in the first half in an attempt to reduce operating costs. This saw Genghis Capital Limited revenue drop (Business Daily, 2016). Genghis Capital Limited retrenched some of its employees because of tough financial problems. Genghis Capital Limited was one of the big brokerage firms in terms of profitability. However, the firm is currently making losses. There is need to investigate what are the reasons behind this.

Many of studies are being conducted in the context of corporate governance but no study was found to analyze corporate governance effect on the profitability in context of Genghis Capital Limited, Nairobi. On the basis of review of available literature in various national and international journals, a small number of studies are found to focus on corporate governance components like board size, gender diversity, board independence and board competence. This study therefore filled this research gap by establishing the effect of like board size, gender diversity, board independence and board competence on profitability of a firm in relation to Genghis Capital Limited, Nairobi.

1.4 General Objective of the Study

The general objective of this study was to establish the effect of corporate governance on profitability of Genghis Capital Limited in Nairobi City County.

1.4.1 Specific Objectives of the Study

This study was guided by the following specific objectives:

i) To determine the effect of board size on the profitability of Genghis Capital Limited in Nairobi City County.

ii) To investigate the effect of board independence on the profitability of Genghis Capital Limited in Nairobi City County.

iii) To establish the effect of board composition on the profitability of Genghis Capital Limited in Nairobi City County.

iv) To examine the effect of board competence on the profitability of Genghis Capital Limited in Nairobi City County.

1.5 Research questions

The study was guided by the following research questions:

i. To what extent does board size affect profitability of Genghis Capital Limited in Nairobi City County?

ii. To what extent does board independence affect profitability of Genghis Capital Limited in Nairobi City County?

iii. What is the effect of board composition on the profitability of Genghis Capital Limited in Nairobi City County?

iv. What is the effect of board competence on the profitability of Genghis Capital Limited in Nairobi City County?

1.6 Scope of the Study

The study aimed at establishing the effect of corporate governance on profitability by establishing the effects of board characteristics on firm performance. The study will exclude other brokerage firms. This is because the study is a case and indents to establish the actual situation at Genghis Capital Limited, Nairobi. The units of analysis were top management personnel, middle and supervisory personnel at Genghis Capital Limited, Nairobi. The study was conducted in the year 2016-2017.

1.7 Limitation of the Study

The limitations of this study included respondent's unwillingness to be respond to the questions during normal working time. To overcome these, the researcher sought and availed himself at the most convenient time as it was preferred. The researcher also ensured anonymity to encourage the respondents to share their records for research purposes only.

1.8 Significant of the study

Financial scandals have shaken investors' faith in capital markets and the efficacy of existing corporate governance practices in promoting transparency and accountability. Corporate governance faces the challenges of unprofessional conduct, fraud and forgeries, weak internal control measures, non-implementation of penalty measures by regulatory and legal frame work among others. Some of these afore-mentioned problems have affected the relative performance of the Genghis Capital Limited; leading to inefficiency and reduced profit margin. This has also reduced the inflow of foreign direct investment.

The study shall promote and improve good corporate governance practice in governmental outfits.

The study will also benefit policy makers in government and as well as the shareholders, employees and the general public; especially at these times that most corporate firms are facing tough financial crimes. Different corporate firms will find it relevant.

Finally, it is intended to contribute to knowledge and further the frontiers of knowledge in the area of corporate governance performance; concepts, principles and processes to make informed decisions in the academic and business world. Scholars will also find this work relevant for further studies.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

The general objective of this study was to establish the effect of corporate governance on profitability of Genghis Capital Limited in Nairobi City County. This chapter built a theoretical foundation upon which the project was based. It also reviewed existing literature based on the specific objectives of the study to establish the knowledge gaps. A conceptual framework was then developed to present the relationship between corporate governance and profitability.

2.2 Theoretical Review

Theoretical review is a collection of interrelated concepts. It guides research to determine what things to measure and what statistical relationships to look for (Defee *et al.,* 2010). Good research should be grounded in theory (Mentzer *et al.,* 2008). This study was guided by Agency theory and Stakeholders theory. These theories clearly explain the research in line with the study objectives.

2.2.1 Agency Theory

According to Jensen and Meckling (1976), the agency relation is defined as a contract under which one party (the principal) engages another party (the agent) to perform some service on the principal's behalf. The principal will delegate some decision-making authority to the agent. According to the agency theory relationship, directors (as agents), are delegated the authority by the shareholders (as principals) to monitor the management of the company. Therefore, the directors are indirectly responsible for the smooth running of the company, which is in line with the interests of the shareholders. However, due to the separation of ownership and control, agency problems, i.e. moral hazard (hidden action) and adverse selection (hidden information), could occur and the directors might maximize their own interests at the expense of the shareholders.

Hence, there should be some mechanism that could align the interests of principals with the interests of agents (Judge, Naoumova & Koutzevol 2003). The suggested mechanism is good corporate governance by which this conflict of interest can be resolved to a certain extent (Gursoy & Aydogan 2002) since it promotes goal congruence. Good corporate governance structure such as separation of the roles of the CEO and the chairman, inclusion of independent non-executive directors in board composition, and smaller board size have been proposed by various researchers using the agency theoretical framework (e.g. Peng 2004; Choe and Lee 2003). Cheung and Chan (2004) also describe that the ultimate goal of corporate governance is to monitor the management decision-making in order to ensure that it is in line with shareholders' interests, and to motivate managerial behavior towards enhancing the firms' profit.

2.2.2 Stakeholders Theory

According to Akinsulire (2011), there are diverse sets of individuals with vested interests in any organization. These include the ordinary and preference shareholders, providers of funds, workforce, those who supply materials used by the organization, consumers and general public. Every member of these sets of individuals have to be rewarded a smallest amount as the removal of their involvement could result in the shutting down of the business (Akinyomi, 2013). Since institutions do not exist to serve their own purposes alone Agle, Donaldon, Freeman, Jensen, Mitchell & Wood (2007), the company's continuous existence depends on meeting together its financial and non-financial goals by satisfying the different demands of the organization's diverse interested parties (Pirsch, Gupter & Grau, 2007). Stakeholder theory could be expressed in two main enquiries. These two main enquiries include inquiry on the objective of the organization and also what is the responsibility of management to the stakeholders.

This theory is relevant to the study. Stakeholders and partners are able to choose their board wisely by ensuring that key characteristics vital to good corporate governance are upheld. The characteristics could be competence and gender diversity. The features aforementioned are necessary when handling organizational corporate affairs.

2.2.3 Knowledge Based Theory

This theory was first coined by Grant in 1996. This theory supposes that knowledge management practices such as knowledge acquisition, knowledge storage, knowledge creation, knowledge sharing and knowledge implementation play a critical role in achieving high level productivity, financial and human resource performance and finally improving sustainable competitive advantage (Soderberg & Holden, 2002). This theory helps significantly towards realizing the important role of knowledge management skills. This theory is applicable to the study by ensuring that only competent boards are hired to aid in the management of an organization.

2.2.4 Stewardship Theory

Stewardship theory has its roots from psychology and sociology and is defined by Davis, Schoorman & Donaldson (1997) as "a steward protects and maximizes shareholders wealth through firm performance, because by so doing, the steward's utility functions are maximized". In this perspective, stewards are company executives and managers working for the shareholders, protects and make profits for the shareholders. Unlike agency theory, stewardship theory stresses not on the perspective of individualism (Donaldson & Davis, 1991), but rather on the role of top management being as stewards, integrating their goals as part of the organization. The stewardship perspective suggests that stewards are satisfied and motivated when organizational success is attained.

2.3 Empirical Review

2.3.1 Board size and profitability

There are several studies conducted in the past which focused on organizational governance (Wessels & Wansbeek, 2014). Therefore, this review is eclectic in that it considers the investigation of corporate governance and corporate profitability.

A study was conducted in Pakistan on the association between organizational governance system and organizational performance indicators for a period between year 2004 and 2010 (Dar, Naseem, Rehman & Niazi, 2011). The study highlighted some failures in Pakistan which were caused by lack of corporate governance. The regression analysis showed that profit margin is positively correlated with the firm's board size. The study reported that larger board size enhances profitability of the organizations.

Bennedsen, Kongsted and Nielsen (2008) used data comprised of the entire public companies in Denmark during the period ended 1999. Chief executive officer's family characteristics were the major approach in determining the influence of size of board membership on organizational profitability. They used six thousand eight hundred and fifty companies, extracting data on chief executive officer's family features. They re-examined the existence of any association between size of board membership and organizational profitability. The report of the ordinary least square analysis showed the presence of a high favorable association between board size and family size. It further indicated that such an association was facilitated in companies where the chief executive officer's family members were board members.

Kutubi (2011) gave a closer look at the board, with emphasis on its size and the independence of its directors. The study investigated the association between bank board size, independent directors and profitability of Bangladeshi commercial bank after the prudential regulation issued in the country; using a sample of selected banks for the period 2005-2009. Bank performance was measured with ROA and ROE, alongside the Tobin's Q. Understanding the behaviour of directors on the performance of the banking firm was the justifiable reason for the use of the effect of size, leverage and performance of loan as control variable. The outcome of the analysis indicated a statistically significant positive association between Bangladeshi banks' board size and their profitability in terms of Tobin's Q, but no significant relation in terms of ROE and ROA.

2.3.2. Board independence and profitability

Bhagat and Bolton (2009) related corporate governance to performance in the light of the Sarbanes-Oxley Act. They separated the companies on the basis of time-frame of prior to year 2002, and the second group beginning from year 2002 upwards. This was done to reveal how the different regulations could have affected the companies' profitability within the time periods. Relevant information was extracted from Risk-Metrics Directors and Governance databases. Put together, it was reported that there was variation in the association between board independence and companies' profitability in the pre- and post-2002 era. The study documented a negative association between board independence and profitability in the pre-2002 era. Meanwhile in the post 2002 era, they found a positive association between board independence and operating performance.

In China, Sami, Wang and Zhou (2009) made their study stand out by using compound indicators of organizational governance in investigating the effect of organizational governance on firm profitability and appraisal in China. With a theoretical foundation in the agency theory, return on assets, return on equity and Tobin's Q were used as the dependent variables in their model. The outcome of the investigation supported the hypothesis that concentration of shareholders and board independence has favourable effects on organizational profitability and appraisal.

In Sri Lanka, Danoshana and Ravivathani (2013) carried out an investigation on the association between organizational governance and profitability. Data for the study were subjected to regression analysis; and the result revealed that organizational governance mechanisms of board size, how often they meet and the size of audit team have considerable effect on organizational profitability. While board size and size of audit team are favourably associated with organizational profitability; how often they meet has a negative relationship with firm performance.

Stephen and Olatunji (2011) studied the role of non-executive directors in the profitability and the study revealed that the non-executive directors and return on equity are negatively associated with each other. The findings show that more numbers of outside directors in board adversely impact the financial performance.

Another investigation on organizational governance was carried out in Pakistan with specific data drawn from the cement industry. The investigation considered the association between organizational governance and companies' profitability (Cheema & Din, 2013). Panel data covering 15 organizations operating between 2007 and 2011 in the cement sector in Pakistan was used. Relevant information was extracted from financial statements of the selected companies. The results showed that board size has no considerable association with profitability; meanwhile chief executive officers' duality has effect of organizational profitability.

The study of Uwuigbe (2011) set out to examine the correlations of relationships between financial performance of banks and each of the following: board size, existence of foreign directors, ratio of non-executive directors, directors' equity interest, and organizational governance disclosure. The investigation further inquired whether there was considerable distinction between the earnings of strong banks and those of weak commercial institutions.

For ascertaining the degree of organizational governance disclosure in the banks, the investigation employed content analysis in obtaining relevant information from the financial statements of the financial institutions, while the panel data methodology was used. The regression analysis revealed the existence of noteworthy but unfavourable association between board size and profitability. The regression result for outside directors showed unfavourable association with profitability. The regression result for directors' equity holding showed positive relationship with performance. For government disclosures, the finding showed favourable and considerable association with performance.

2.3.3 Board gender diversity and profitability

Todorovic (2013) found that if the company rigidly follows principles of corporate governance then it results in higher net profit margin and earnings per share. Vo and Phan (2013) examined elements of corporate governance such as CEO duality, presence of female board members, the working experience of the board members and compensation of board members and found that all the elements had positive impact on the firm performance but board size had negative impact on the firm performance.

Sheikh *et al* (2013) studied the impact of internal attributes of corporate governance on firm performance. The study found that board size, CEO duality, and ownership concentration were positively related to the firm performance but outside directors and managerial ownership are negatively related to the return on assets and earnings per share. Nyamonogo and Temesgen (2013) analyzed the effect of corporate governance on firm performance and found that board size negatively impacts firm performance while independent board directors tend to enhance the firm performance. Danoshana and Ravivathani (2013) found that board size and audit committee size exert positive influence on the firm performance while board meeting frequency has negative impact on the firm performance.

Mathur and Gill (2011) investigated impact of board size, CEO duality and corporate liquidity on the profitability. The study found CEO duality and corporate liquidity to be positively related to the profitability but the board size had negative impact on the profitability. Coleman and Biekpe (2006) studied the interrelationship between corporate governance and financial performance in Ghana and found that board size and CEO duality had no significant relation with performance while board composition had positive impact on the performance.

Emmanuel and Hodo (2012) examined corporate governance impact on the bank performance by taking the sample of the Nigerian bank and found that the size of the board of directors and the number of the shareholders had positive impact on the return on equity and return on the assets. The study also showed that the quality of the assets, equity providers and managers also exert an influence on bank performance.

2.3.4 Board competence and profitability

According to Wu (2008), the collective competence (knowledge, experience, and commitment) of board members is positively associated with product innovation. Indeed, when board members have more industry-wide and company- specific knowledge and experience, when they invest more time and energy in their role, there is more innovation in terms of new product introduction (Wu, 2008). Overall, if Board of directors and executive management are comprised of individuals who have different and complementary functional and industry backgrounds, it can be expected that they can lead an organization to innovate.

2.4 Summary and gaps

Corporate governance is the important factor in economic development. For business globalization economics, implementation of good corporate governance principle is necessary. Many of studies are being conducted in the context of corporate governance but no study was found to analyze corporate governance impact on the profitability in context of Genghis Capital Limited, Nairobi. This is the contextual gap that the study addressed. On the basis of review of available literature in various national and international journals, a small number of studies are found that focused over corporate governance components like board size, gender diversity, board independence and board competence.

Table 2.1 Summary of empirical studies

Author	Study	Methodology	Findings	Research gap
Dar, Naseem, Rehman & Niazi, 2011)	Association between organizational governance system and organizational performance	The t-test and Multiple Regression. Panel methodology and OLS	The regression analysis showed that profit margin is positively correlated with the firm's board size	Geographical gap, methodology gap
Wang and Zhou (2009)	Effect of organizational governance on firm profitability and appraisal in China	Multiple regression	The outcome of the investigation supported the hypothesis that board independence has favorable effects on organizational profitability	Geographical gap
Danoshana and Ravivathani (2013)	Association between organizational governance and profitability in Sri Lanka	Regression analysis	Result revealed that organizational governance mechanisms of board size, how often they meet and the size of audit team have considerable effect on organizational profitability	Geographical gap
Vo and Phan (2013)	Elements of corporate governance such as CEO duality, presence of female board members	Descriptive statistics and regression	The elements had positive impact on the firm performance but board size had negative impact on the firm performance	Geographical gap Conceptual gap
Wu (2008)	Board competence	Ordinary least squares	Collective competence (knowledge, experience, and commitment) of board members is positively associated with product innovation	Geographical gap

2.5 Conceptual Framework

A conceptual framework is a set of broad ideas and principles taken from relevant fields of enquiry and used to structure a subsequent presentation. It shows how the study variables link together. Figure 2.1 is a figurative representation of the variables to be explored by this study.

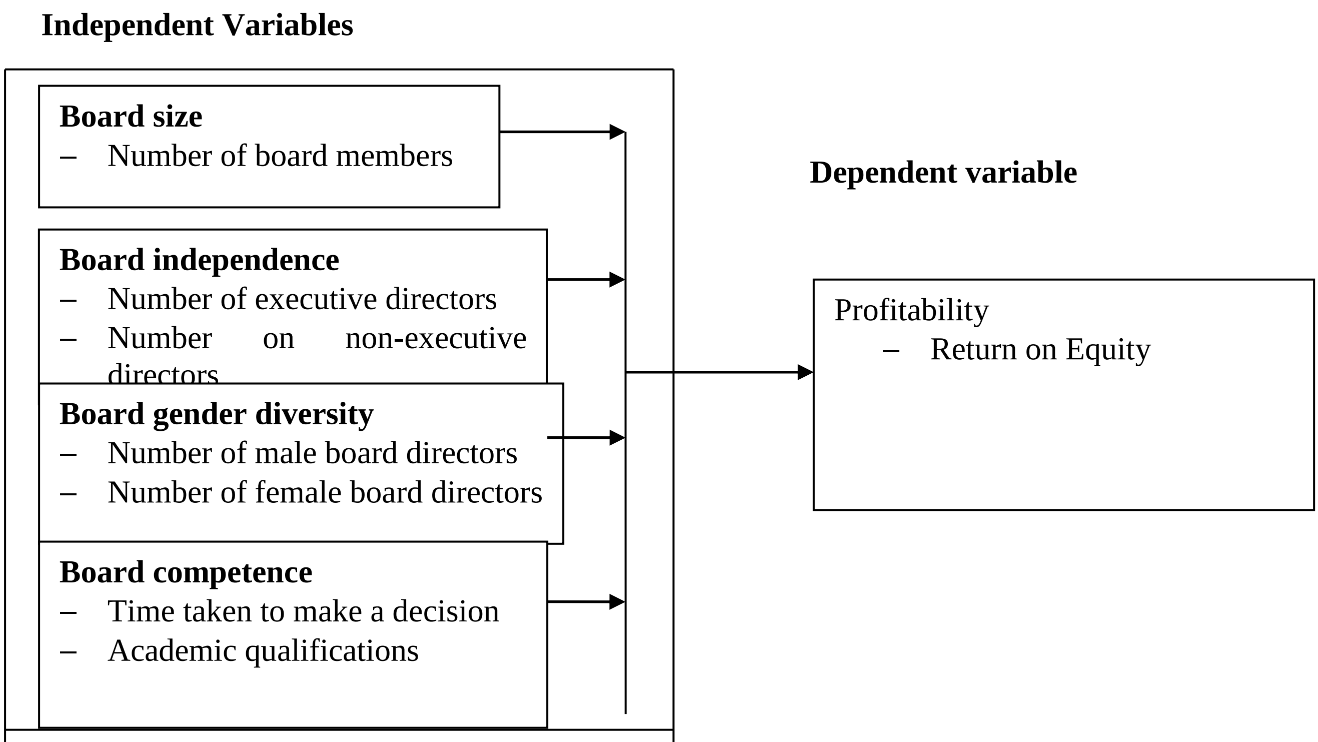

Figure 2.1: Conceptual framework

(Source; Researcher, 2016)

The conceptual frame work in figure 2.1 presents the variables and how they interacted with each other. The independent variables (inputs) are the corporate governance practices. The dependent variable (output) is profitability. From figure 2.1, an optimal interaction of the independent variables (size of board, board independence, board gender diversity and board competence) results to improvement in organizational performance.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter discusses the methodology that was employed during the study. The methodology included the following sub-sections research design, data collections and data collection instruments as well as the data analysis techniques that were used to analyze the data.

3.2 Study design

This study adopted a descriptive research design. A descriptive survey research was adopted because of its ability to consolidate both qualitative and quantitative data. A descriptive survey is appropriate for this study because structured and semi structured responses can easily be collected (Blumberg *et al.*, 2014).

3.3 Target population

The target population for this study was 200 employees of Genghis Capital Limited, Nairobi that consist of top management, middle management and supervisory level. This group of personnel was chosen because they are conversant with corporate governance practices and its effect on profitability. A suitable sample size for the study was drawn from this population. This population was considered to possess the qualities desired and capacity to facilitate the realization of the specific objectives of the study. Table 3.1 shows population distribution employed in the study.

Table 3.1 Target population

Category	Population (P)
Top management	20
Middle management	50
Supervisory level	130
Total	**200**

3.4 Sampling technique and sample size

The study adopted a stratified sampling technique. The strata consisted of top management, middle management and other employees of Genghis Capital Limited, Nairobi. Stratified random sampling technique was used to select the sample size for the study. The sample size was 107 employees.

Table 3.2 Sample size

Category	Population (P)	Sample (54%)
Top management	20	11
Middle management	50	26
Supervisory level	130	70
Total	**200**	**107**

3.5 Data collection instruments

The study used both primary and secondary data. Primary data involved use of structured questionnaires to collect the required data from the respondents. The questionnaire comprised of six sections, namely: Section I: Background information; Section II: Profitability of Genghis Capital Limited, Nairobi; Section III: Board size; Section IV: Board independence, Section V: Board gender diversity IV: Board competence. A five-point Likert scale that ranged from strongly disagrees to strongly agree was used. Secondary data regarding board characteristics of Genghis Capital limited was extracted to support primary data.

3.6 Reliability tests

Instrument reliability is the ability of the instrument to produce the same or highly similar or consistent results on repeated administrations (Bordens & Abbott, 2008). Cronbach's alpha was used to test the reliability of the measures in the questionnaire. In this study, data collection instrument which is a questionnaire were tested on 10% of the sample of the questionnaires to ensure that it is relevant and effective. Reliability was tested using questionnaire duly completed by eleven (10) randomly selected employees of the Genghis Capital Limited. These respondents were not included in the final study sample in order to control for response biasness. The questionnaire responses were input into statistical package for social sciences (SPSS) version 20 and Cronbach's alpha coefficient generated to assess reliability. The closer Cronbach's alpha coefficient is to 1, the higher the internal consistency reliability (Sekaran, 2006). A coefficient of 0.7 is recommended for a newly developed questionnaire.

3.7 Validity tests

Validity refers to whether a questionnaire is measuring what it purports to measure (Bryman& Cramer, 1997). This study used both construct validity and content validity. To ensure content validity, the questionnaire was subjected to thorough examination by two randomly selected top bank officials. They were asked to evaluate the statements in the questionnaire for relevance; and whether they were meaningful and clear. On the basis of the evaluation, the instrument was adjusted appropriately before subjecting it to the final data collection exercise. Their review comments were used to ensure that content validity is enhanced.

3.8 Data collection procedures

Mugenda and Mugenda (2012) explain that research procedures refer to a detailed description of the steps taken by the researcher to conduct the study. For this study, questionnaire was developed first. A pilot test was conducted on 10 questionnaires to collect preliminary data to enable the testing of validity and reliability. During the pilot study, 10 questionnaires were distributed randomly to 10 respondents. The results of the pilot study were used to enhance the effectiveness of the data collection instrument and define the procedure to be applied in the actual study.

With the University letter of research approval, research permit was requested from the National Council for Science, Technology and Innovation (NACOSTI) and authorization from Genghis Capital Limited, Nairobi. Actual data collection commenced after pilot study. In the course of the study, questionnaires were administered to respondents within each stratum. Data was collected within a period not exceeding two weeks.

3.9 Data analysis

Before analysis, data collected from questionnaires obtained from respondents was reviewed carefully and checked for completeness and consistencies. Descriptive statistics were analyzed using frequency tables, percentages and mean. The results were presented using tables and figures. Inferential statistical analysis for the study included correlations linear regression, and multiple regressions. Regression was used to determine the level of significance in relationship between profitability and corporate governance variables. Pearson Correlation was used to establish the existence, nature and strength of the relationships between research variables and profitability. Statistical Package for Social Sciences (SPSS) version 20.0 was used to conduct data analysis.

3.9.1 Analytical Model

The study sought to establish the impact of corporate governance on profitability; the case of Genghis Capital Limited, Nairobi. The independent variables were board size, board independence, board gender diversity and board competence.

The regression model used in this study was;

$$\mathbf{Y = \beta_0 + \beta_1X_1 + \beta_2X_2 + \beta_3X_3 + \beta_4X_4 + \epsilon}$$

Where,

Y– Profitability

β_0 – Constant

X_1 – Board size

X_2 – Board independence

X_3 – Board gender diversity

X_4 – Board competence

ϵ= Error term

3.9.2 Tests of Significance

The study conducted an F- test to establish the significance of the independent variables against the dependent variable. The significance of variables was interpreted at 95% confidence level. Interpretation was as follows; a variable with p-value of 0.05 and below is significant while that variable with p-value above 0.05 is insignificant.

3.10 Ethical considerations

Basit (2013) highlights ethical concerns that must be adhered to before embarking on research. The same guidelines were adhered to during the study. I requested consent from all respondents before handing over the questionnaire. The identity of people from whom information was obtained in the course of the study was kept strictly confidential. The nature and purpose of the research was explained to the respondents and were assured that the data collected were not used for other purpose other than academic research. The participants were assured of anonymity; and their ability to withdraw from the study at will was also assured.

CHAPTER FOUR

RESERCH FINDINGS AND DISCUSSIONS

4.1 Introduction

This chapter shows a presentation of study findings and discussions. The findings are presented in line with the study objectives. Analysis of descriptive statistics and inferential statistics was conducted and the results presented in form of tables and figures.

4.2 Response rate

The number of questionnaires that were administered was 107. A total of 97 questionnaires were properly filled and returned. The results for the response rate are as presented in Table 4.1.

Table 4.1: Response Rate

Response	Frequency	Percent
Returned	97	91
Unreturned	10	9
Total	**107**	**100%**

(Source: Survey Data, 2017)

The results in Table 4.1 indicated an overall successful response rate of 91%. According to Kothari (2004) a response rate of above 50% is adequate for a descriptive study. Babbie (2004) also asserted that return rates of above 50% are acceptable to analyze and publish, 60% is good, 70% is very good while above 80% is excellent. Based on these assertions from renowned scholars, 91% response rate is sufficient for the study.

4.3 Demographic Characteristics

This section consists of information that describes basic characteristics of the respondents such as gender of the respondent, age, level of education and work experience.

4.3.1 Gender of the respondents

The respondents were asked to indicate their gender. The results are presented in Figure 4.1.

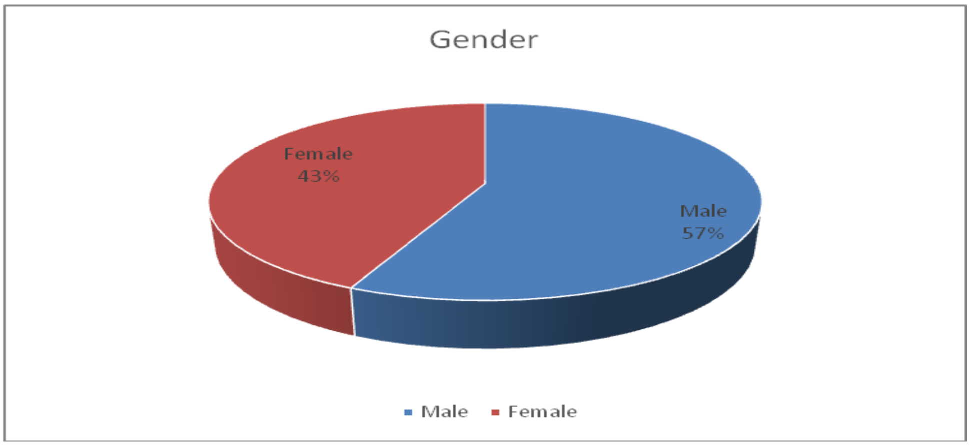

Figure 4.1 Gender

Results in Figure 4.1 indicate that majority of the respondents, 57%, were males while 43% were females. This implies that there is still gender disparity among employees of Genghis Capital Limited. Gender balance should be encouraged by implementing the gender labor laws.

4.3.2 Level of Education

Respondents were asked to indicate their level of education. The results are presented in Figure 4.2.

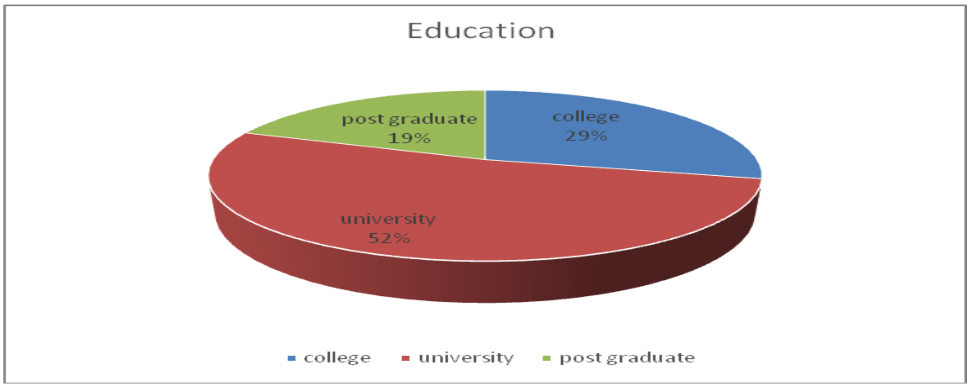

Figure 4.2 Level of Education

Study findings indicated that majority; fifty two percent (52%), of the respondents had university level of education, and 29% of the respondents had college level of education. Post graduate students were 19% of the respondents. This implies that majority of workers in Genghis Capital Limited have undergraduate degrees. Level of education determines employees' competence.

4.3.3 Period of work service

The respondents were asked to indicate the duration they have been working in Genghis capital Limited. The results are presented in Figure 4.3.

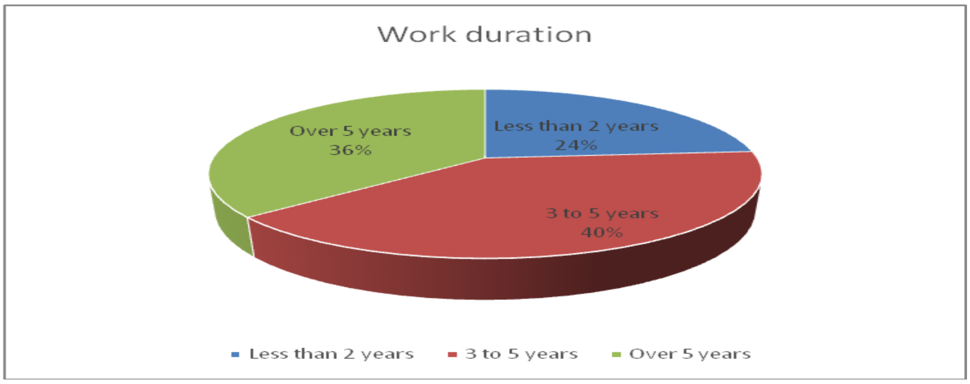

Figure 4.3 Work duration

Majority forty percent (40%) of the respondents indicated that they have been working for a period of 3-5years, 36% for a period of over 5 years with another 24% having worked for less than 2 years.

4.3.4 Position

The respondents were asked to indicate the positions they held in the firm. The result findings were presented in figure 4.4.

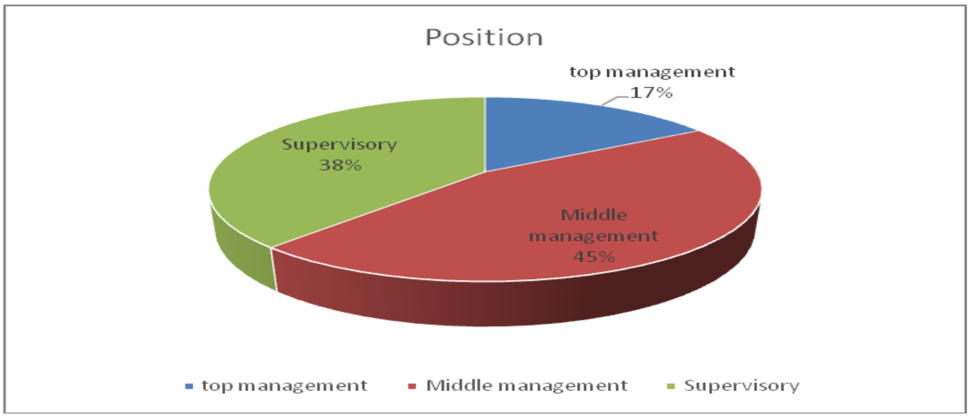

Figure 4.4 Position

The result findings in figure 4.4 showed that a majority forty-five (45%) of employees were in middle management employees, 38% were at supervisory level and only 17% percent in top management level.

4.4 Reliability Test Results

The reliability of an instrument refers to its ability to produce consistent and stable measurements. Reliability of this instrument was determined using Cronbach Alpha which measures the internal consistency. Cronbach Alpha value is widely used to verify the reliability of the construct. The results are presented in Table 4.2.

Table 4.2: Reliability Test Results

Variable	Respondents	α=Alpha	Comment
Board size	10	0.712	Reliable
Board independence	10	0.730	Reliable
Gender diversity	10	0.710	Reliable
Board competence	10	0.706	Reliable
Profitability	10	0.924	Reliable

(Source: Survey Data, 2017)

The findings on Table 4.2 indicated that board size, board independence, gender diversity, board competence and profitability had Cronbach alpha of 0.712, 0.730, 0.710, 0.706 and 0.924 respectively.

All variables depicted that the value of Cronbach's Alpha are above value of 0.7 thus the study was reliable (Kothari, 2004). This represented high level of reliability and on this basis, it was supposed that scales used in this study was reliable to capture the variables.
Bagozzi (1994) explains that reliability can be seen from two sides: reliability (the extent of accuracy) and unreliability (the extent of inaccuracy). The most common reliability coefficient is Cronbach’s alpha which estimates internal consistency by determining how all items on a test relate to all other items and to the total test- internal coherence of data. The reliability is expressed as a coefficient between 0 and 1.00. The higher the coefficient, the more reliable is the test.

Results in table 4.3 shows improved reliability tests of the questionnaire.

Table 4.3: Improved Reliability Test Results

Variable	**Pilot test α=Alpha**	**Final survey α=Alpha**	**Comment**
Board size	0.712	0.814	Reliable
Board independence	0.730	0.841	Reliable
Gender diversity	0.710	0.807	Reliable
Board competence	0.706	0.814	Reliable
Profitability	0.924	0.937	Reliable

(Source: Survey Data, 2017)

This therefore implies that the instrument used during data collection was reliable as indicated in table 4.3. Cronbach's Alpha for the variables were greater than 0.7. The study instrument was therefore reliable.

4.5 Descriptive Statistics

4.5.1 Board size and profitability of Genghis Capital Limited

The first objective was to determine the effect of board size on the profitability of Genghis Capital Limited, Nairobi. Descriptive results of the study are presented in table 4.4.

Table 4.4: Board size and profitability of Genghis Capital Limited

Statement	SD	Disagree	Neutral	Agree	SA	Mean	Std Dev
We have a small effective board size	33.30%	33.30%	12.80%	11.10%	9.50%	2	1
Effective manageable board size eliminates agency problem	28.80%	39.50%	10.70%	10.30%	10.70%	2	1
We have rational decisions because of small boards that agree easily	25.10%	42.80%	8.60%	14.00%	9.50%	2	1
Larger boards are more effective than smaller boards	22.60%	47.30%	9.50%	9.10%	11.50%	2	1
Average						**2**	**1**

The respondents were asked to respond on statements regarding the board size of their firm. The responses were rated on a five Likert scale. Results in table 4.4 revealed that majority of the respondents who were 66.6 percent did not agree that they had a small and effective board size. The results also showed that majority of the respondents who were 68.3 percent of the respondents disagreed that they have an effective manageable board size to eliminate agency problem. The results also showed that majority of the respondents who were 67.9 percent of the respondents disagreed that the firm made rational decisions because of small boards that agree easily. The results also revealed that majority of the respondents who were 69.9 percent of the respondents disagreed that large boards were more effective than small boards. On a five-point scale, the average mean of the responses was 2.0 which means that majority of the respondents were disagreeing to the statements in the questionnaire. The standard deviation was 1.0 meaning that the responses were clustered around the mean response. The results agree with that of Dar, Naseem, Rehman & Niazi (2011) that profit margin is positively correlated with the firm's board size. The study reported that larger board size enhances profitability of the organizations. The results also agree with Bennedsen, Kongsted and Nielsen (2007) study that showed a high favorable association between board size organizational performance.

4.5.2 Board independence and profitability of Genghis Capital Limited

The second objective was to investigate the effect of board independence on the profitability of Genghis Capital Limited, Nairobi. The responses were rated on a five Likert scale. Results findings were presented in table 4.5.

Table 4.5: Board independence and profitability of Genghis Capital Limited

Statements	SD	Disagree	Neutral	Agree	SA	Mean	Std Dev
Our Board monitors the management and take care of their rights on behalf of shareholders	28.80%	45.30%	11.90%	7.40%	6.60%	2	1
Non-executive directors (NEDs) contribute to	32.90%	45.30%	6.60%	10.70%	4.50%	2	1

effective governance by carrying out control over the manager’s decisions							
Non-executive directors increase the variety of skills and knowledge of the directors	28.40%	53.90%	7.80%	4.10%	5.80%	2	1
Non-executive directors are financially independent of management and are not involved in any conflicting situations and thus they alleviate agency problems	35.00%	50.60%	4.90%	3.70%	5.80%	2	1
Average						**2**	**1**

Table 4.5 result findings indicated that majority of the respondents who were 74.1 percent disagreed that their board was efficient in monitoring the management and taking care of their rights on behalf of shareholders. The results also showed that majority of the respondents who were 78.2 percent of the respondents disagreed that their Non-executive directors (NEDs) contribute to effective governance by carrying out control over the manager’s decisions. The results also showed that majority of the respondents who were 82.3 percent of the respondents disagreed with the statement that Non-executive directors increase the variety of skills and knowledge of the directors. The results also revealed that majority of the respondents who were 85.6 percent of the respondents disagreed that Non-executive directors are financially independent of management and are not involved in any conflicting situations and thus they alleviate agency problems. On a five-point scale, the average mean of the responses was 2.0 which means that majority of the respondents were

disagreeing to the statements in the questionnaire. The standard deviation was 1.0 meaning that the responses were clustered around the mean response. The results agree with Wang and Zhou (2009) that board independence has favorable effects on organizational profitability.

4.5.3 Board gender diversity and profitability of Genghis Capital Limited

The third objective was to examine the effect of board gender diversity on the profitability of Genghis Capital Limited. Results findings were presented in table 4.6.

Table 4.6: Board gender diversity and profitability of Genghis Capital Limited

Statement	SD	Disagree	Neutral	Agree	SA	Mean	Std Dev
Our Board observes diversity in terms of nationality, ethnic background, gender and age	29.20%	44.40%	7.80%	12.80%	5.80%	2	1
Our board appreciates presence of female directors on the board for diversity	30.90%	49.80%	8.60%	5.30%	5.30%	2	1
Gender inclusion ensures that ideas and skills are shared	30.00%	35.00%	18.90%	7.40%	8.60%	2	1
Our firm has a system of ensuring that female directors are included in our board	30.90%	42.40%	8.60%	11.10%	7.00%	2	1
Average						**2**	**1**

In table 4.6 majorities of the respondents who were 73.6 percent disagreed that their Board observes diversity in terms of nationality, ethnic background, gender and age. The results also showed that majority of the respondents who were 80.7 percent of the respondents disagreed that their board appreciates presence of female directors on the board for diversity. The results also showed that majority of the respondents who were 65 percent of the respondents disagreed with the statement that their firm practised gender inclusion to ensure that ideas and skills are shared. The results also revealed that majority of the respondents who were 73.3 percent of the respondents disagreed that their firm has a system of ensuring that female directors are included in our board. On a five-point scale, the average mean of the responses was 2.0 which means that majority of the respondents were disagreeing to the statements in the questionnaire. The standard deviation was 1.0 meaning that the responses were clustered around the mean response. The results agree with Stephen and Olatunji (2011) who studied the role of non-executive directors in the profitability and the study revealed that the non-executive directors and return on equity are negatively associated with each other. The findings show that more numbers of outside directors in board adversely impact the financial performance.

4.5.4 Board competence and profitability of Genghis Capital Limited

The fourth objective was to establish the effect of board competence on the profitability of Genghis Capital Limited. Results findings were presented in table 4.7.

Table 4.7: Board competence and profitability of Genghis Capital Limited

Statement	SD	Disagree	Neutral	Agree	SA	Mean	Std Dev

Our Board has competent members that observes creativity	32.90%	45.30%	6.60%	10.70%	4.50%	2	1
We have experienced knowledgeable and committed board	28.40%	54.30%	7.40%	4.10%	5.80%	2	1
Our board conducts external training to improve their competency skills	30.50%	46.10%	5.80%	9.90%	7.80%	2	1
Board competency is highly valued and rewarded to encourage performance	21.40%	42.40%	13.60%	11.50%	11.10%	2	1
Average						**2**	**1**

Results of table 4.7 showed that majority of the respondents who were 78.2 percent disagreed that their Board has competent members that observes creativity. The results also showed that majority of the respondents who were 82.7 percent of the respondents disagreed that their firm had experienced knowledgeable and committed board. The results also showed that majority of the respondents who were 76.6 percent of the respondents disagreed with the statement that their board conducts external training to improve their competency skills. The results also revealed that majority of the respondents who were 63.8 percent of the respondents disagreed that their board competency is highly valued and rewarded to encourage performance. On a five-point scale, the average mean of the responses was 2.0 which means that majority of the respondents were disagreeing to the statements in the questionnaire. The standard deviation was 1.0 meaning that the responses were clustered around the mean response. According to Wu (2008), the collective competence (knowledge, experience, and commitment) of board members is positively associated with product innovation and profitability of a firm. Indeed, when board members have more industry-wide and company- specific knowledge and experience, when they invest more time and energy in their role, there is more innovation in terms of new product introduction. When a firm is offering desirable products, financial performance is enhanced.

4.6 Extent of Firms performance (Profitability)

Respondents were asked to indicate the extent in which their firm was performing. Results were shown in table 4.8.

Table 4.8 Profitability

Extent	Percent
Great extent	18.6
Moderate extent	21.6
Low Extent	59.8
Total	100

Results showed that majority of the respondents 59.8% indicated that the firm was not performing well (low extent). Twenty-one point six (21.6%) moderate extent and 18.6% indicated great extent.

4.7 Diagnostic tests

Prior to running a regression model pre-estimation and post estimation tests were conducted. The pre-estimation tests conducted in this case was the multicollinearity test while the post estimation tests were normality test, test for heteroskedasticity and test for autocorrelation. This is usually performed to avoid spurious regression results from being obtained.

4.7.1 Test for Normality

To test for normality the study employed the graphical method approach. The results from the graphical method are presented in the figure below, indicating that the residuals are normally distributed. Results are shown in figure 4.5.

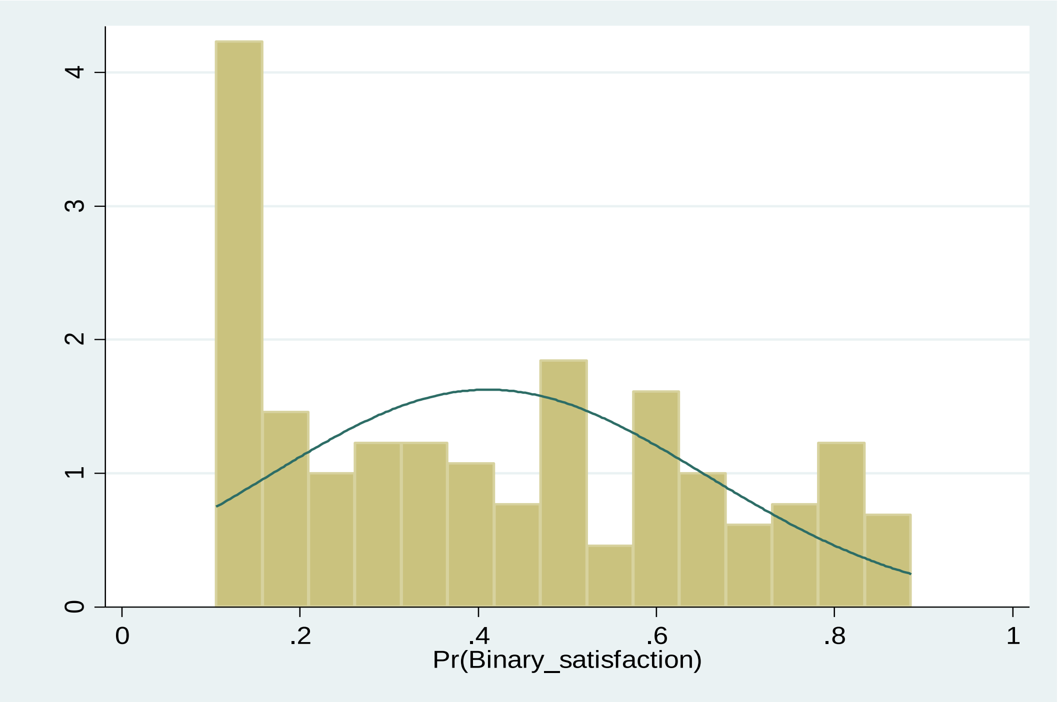

Figure 4.5: Test for normality

4.7.2 Test for Multicollinearity

According to William *et al.* (2013), multicollinearity refers to the presence of correlations between the predictor variables. Multicollinearity was determined in this study using the variance inflation factors (VIF). According to Field (2009) VIF values in excess of 10 is an indication of the presence of Multicollinearity. The results in Table below present variance inflation factors results and were established to be 1.08 which is less than 10 and thus according to Field (2009) indicates that there is no Multicollinearity.

Table 4.9 Multicollinearity results using VIF

Variable	VIF	1/VIF
Board size	1.1	0.908196
Board independence	1.1	0.908525
Gender diversity	1.09	0.917836
Board competence	1.07	0.900074
Mean VIF	**1.09**	

4.8 Inferential analysis

Inferential statistics was used to make inferences and predictions regarding the population of this study. Pearson correlation and regression model was used.

4.8.1 Correlation analysis

The study sought to establish the association among the study variables. The results are as presented in Table 4.12.

Table 4.12: Correlation matrix of variables

		Board size	Board independence	Gender diversity	Board competence	Profitability
Board size	Pearson Correlation	1	.368**	.507**	.238*	.572**
	Sig. (2-tailed)		0.000	0.000	0.016	0.000
Board independence	Pearson Correlation	.368**	1	.339**	.226*	.571**
	Sig. (2-tailed)	0.000		0.000	0.022	0.000
Gender diversity	Pearson Correlation	.507**	.339**	1	.358**	.595**
	Sig. (2-tailed)	0.000	0.000		0.000	0.000
Board competence	Pearson Correlation	.238*	.226*	.358**	1	.504**
	Sig. (2-tailed)	0.016	0.022	0.000		0.000
Profitability	Pearson Correlation	.572**	.571**	.595**	.504**	1
	Sig. (2-tailed)	**0.000**	**0.000**	**0.000**	**0.000**	

** Correlation is significant at the 0.01 level (2-tailed).
* Correlation is significant at the 0.05 level (2-tailed).
(Source: Survey Data, 2017)

The results in Table 4.12 indicated that that board size, board independence, gender diversity, board competence are positively related with profitability. Results showed that board size (r= .572, p=0.000), board independence (r= .571, p=0.000), gender diversity (r=.595, p=0.000) and board competence (r= .504, p=0.000) are significantly and positively related to profitability. Favorable blending of the above variables can lead to improved profitability of a firm.

4.8.2 Regression analysis

The results presented in table 4.13 present the fitness of model used of the regression model in explaining the study phenomena. Board size, board independence, gender diversity, board competence were found to be satisfactory variables in explaining profitability. This is supported by coefficient of determination (R square) of 63.2%.

Table 4.13: Model summary

Indicator	Coefficient
R	0.791
R Square	0.632

(Source: Survey Data, 2017)

This means that board size, board independence, gender diversity, board competence explains 63.2% of the variations in the dependent variable which is profitability. This results further means that the model applied to link the relationship of the variables was satisfactory.

4.8.3 Analysis of Variance

Table 4.14 provides the results on the analysis of the variance (ANOVA).

Table 4.14: Analysis of Variance

Indicator	Sum of Squares	df	Mean Square	F	Sig.
Regression	12.552	5	3.138	40.418	.000
Residual	7.531	99	0.078		
Total	**20.081**	**104**			

(Source: Survey Data, 2017)

The results indicate that the overall model was statistically significant. Further, the results imply that the independent variables are good predictors of profitability. This was supported by an F statistic of 40.418 and the reported p value (0.000) which was less than the conventional 0.05 significance level.

4.8.4 Regression Coefficients

Regression of coefficients results in table 4.15 shows that board size and profitability are positively and significantly related (r=0.215, p=0. 001). This agrees with Kutubi (2011) study which showed a statistically significant positive association between Bangladeshi banks' board size and their profitability. It also agrees with Cheema and Din (2013) that board size has no considerable association with profitability; meanwhile chief executive officers' duality has effect of organizational profitability.

The table further indicates that board independence and profitability are positively and significantly related (r=0.306, p=0.000). It was further established that gender diversity and profitability were positively and significantly related (r=0.241, p=0.001). the results agree with Vo and Phan (2013) who found a positive impact on the firm performance but board size had negative impact on the firm.

Board competence and profitability were also positively and significantly related (r=0.263, p=0.000). The results agree with Wu (2008) that collective competence (knowledge, experience, and commitment) of board members is positively associated with product innovation.

Table 4.15: Regressions of coefficients

Variable	B	Std. Error	Beta	t	Sig.
(Constant)	-0.073	0.249		-0.294	0.769
Board size	0.215	0.062	0.256	3.448	0.001
Board independence	0.306	0.064	0.328	4.793	0.000
Gender diversity	0.241	0.072	0.254	3.332	0.001
Board competence	0.263	0.064	0.278	4.137	0.000

(Source: Survey Data, 2017)

Thus, the optimal model for the study is;

Profitability = -0.073+ 0.215Board size+ 0.306Board independence+ 0.241Gender diversity+ 0.263Board competence

This overall model shows that manageable and favorable board size will increase profitability by 0.215 units; independent company board will increase profitability by 0.306 units while optimal gender mix will increase profitability by 0.241 units. A competent board will also increase profitability by 0.263 units. Finally, the negative constant (-0.073) represents other factors which can drag down firm’s profits which are not included in the model.

CHAPTER FIVE

SUMMARY OF FINDINGS, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

This chapter addressed the summary of the findings, the conclusions and the recommendations. This was done in line with the objectives of the study.

5.2 Summary of findings

The general objective of this study was to establish the effect of corporate governance on profitability of Genghis Capital Limited in Nairobi City County. The study objectives were; to determine the effect of board size on the profitability of Genghis Capital Limited in Nairobi City County, to investigate the effect of board independence on the profitability of Genghis Capital Limited in Nairobi City County, to establish the effect of board composition on the profitability of Genghis Capital Limited in Nairobi City County and to examine the effect of board competence on the profitability of Genghis Capital Limited in Nairobi City County.

The first objective was to determine the effect of board size on the profitability of Genghis Capital Limited in Nairobi City County. Result findings revealed that that board size was positively related with profitability ($r= .572$, $p=0.000$). Regression of coefficients results showed that board size and profitability were positively and significantly related.

The second objective was to investigate the effect of board independence on the profitability of Genghis Capital Limited in Nairobi City County. Result findings revealed that that board independence was positively related with profitability ($r= .571$, $p=0.000$). Regression of coefficients results also showed that board independence and profitability were positively and significantly related.

The third objective was to establish the effect of board composition on the profitability of Genghis Capital Limited in Nairobi City County. Result findings revealed that gender diversity was positively related with profitability (r= .595, p=0.000). Regression of coefficients results also showed that gender diversity and profitability were positively and significantly related.

The fourth objective was to examine the effect of board competence on the profitability of Genghis Capital Limited in Nairobi City County. Result findings revealed that board competence was positively related with profitability (r= .504, p=0.000). Regression of coefficients results also showed that board competence and profitability were positively and significantly related.

5.3 Conclusions

The conclusions of this study were informed by the findings based on each study objective and also findings of other similar studies. Each objective was reviewed and a conclusion provided which covers both theory and practice.

The first objective was to determine the effect of board size on the profitability of Genghis Capital Limited in Nairobi City County. Based on the findings the study concluded that the size of the board affects profitability of firms. The study concludes that employing a manageable board size can improve the profitability of a firm.

The second objective was to investigate the effect of board independence on the profitability of Genghis Capital Limited in Nairobi City County. Based on the findings the study concluded that board independence affects profitability of a firm. This is because concentration of shareholders and board independence has favourable effects on organizational profitability and appraisal.

The third objective was to establish the effect of board composition on the profitability of Genghis Capital Limited in Nairobi City County. Based on the findings the study concluded that gender diversity influences profitability of a firm. This is because having a desirable gender composition can help the board to fetch skills from all persons involved.

The fourth objective was to examine the effect of board competence on the profitability of Genghis Capital Limited in Nairobi City County. Based on the findings the study concluded that board competence affects profitability of a firm. This is because having a board of directors and executive management that are comprised of individuals who have different and complementary functional and industry backgrounds, can lead an organization to innovate.

5.4 Recommendations

The following recommendations were made;

The study recommends that Genghis Capital limited incoporate these board characteristics by restructuring the board so that it can reflect features mention above. Basing on the discussion above, having a manageable board size, independent board, gender sensitive board and a competent board can lead an organization to prosperity. By adhering to the above board features, results of the study reveals that the strategies a firm can register increased revenue turnout.

It is recommended that a firm selects a sizable board to manage the company. The size of the board has a direct influence on the profitability and performance of a firm. It is expected that firms with smaller size of board will exhibit more corporate governance responsibility than firms with larger size of board member. This is bound to influence the profitability of the firm. Smaller boards have proved to be more effective to enhance the value of a firm.
Further, it is recommended that the board should be independent of any ungainly influence. Board independence is important because non-executive directors are true monitors and they improve the firm profitability and discipline the management.

It is also recommended that a gender sensitive board is healthy to the growth of an organization. The firm should consider selecting women to the board.

Finally, it is also recommended that a firm should only employ competent board members. Indeed, when board members have more industry-wide and company- specific knowledge and experience, when they invest more time and energy in their role, there is more innovation in terms of new product introduction. When a firm is offering desirable products, financial performance is enhanced.

5.5 Suggestions for further study

Since the study was carried out in one firm only, more studies should be replicated in other firms in Nairobi to establish whether the same results still hold.

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APPENDICES

Appendix 1: Letter of Introduction

Kenyatta University

School of Business

P. O. Box …..

Nairobi

Dear Sir/ Madam,

RE: REQUEST FOR PARTICIPATION IN RESEARCH

I am post graduate student at Kenyatta University pursuing a Masters Degree in the School of Business. I am carrying out a study on impact of corporate governance on profitability; the case of Genghis Capital Limited, Nairobi.

I kindly request you to assist me gather information in your institution. The information provided will only be used for the purpose of this study and the identities of the respondents will be held in strict confidence.

Yours faithfully,

Fiona Kanini

Appendix II: Questionnaire

Kindly answer the following questions as honestly and accurately as possible. The information given will be treated with a lot of confidentiality. Please do not write your name anywhere on this questionnaire. You are encouraged to give your honest opinion.

PART 1: DEMOGRAPHIC INFORMATION

SECTION A: GENERAL /DEMOGRAPHIC DATA

1. Kindly indicate your gender

    a) Male [ ]

    b) Female [ ]

2. Please indicate the highest level of education you have ever attained

    a) College level [ ]

    b) University level [ ]

    c) Post graduate level [ ]

3. How many years have you worked in the enterprise?

    a) Less than 2 years [ ]

    b) 3 to 5 years [ ]

    c) Over 5 years [ ]

4. What is your position?

    a) Top management level [ ]

    b) Middle management level [ ]

    c) Supervisory level [ ]

SECTION B: PROFITABILITY OF GENGHIS CAPITAL LIMITED

This Section is concerned with assessing the performance Genghis Capital Limited. Please indicate the range of the performance indicators shown.

5. Do what extent has your firm been performing?

Great extent [ ] Moderate extent [ ] Low extent [ ]

RETURNS ON EQUITY (ROE)

Year	Less than 2.5%	Between 2.6%-5%	Between 5.1%-7.5%	Between 7.6%-10%	More than 10%
2015					
2014					
2013					

RETURNS ON ASSETS (ROA)

Year	Less than 3%	Between 3.1%-6%	Between 6.1%-9%	Between 9.1%-12%	More than 12%
2015					
2014					
2013					

TOTAL SALES (KSH)

Year	Less than 250m	Between 251m-500m	Between 501m-750m	Between 750m-1bn	More than 1bn
2015					
2014					
2013					

SECTION C: IMPACT OF BOARD SIZE ON PROFITABILITY

6. Board size

This section seeks to examine the impact of Board size on the profitability of Genghis Capital Limited, Nairobi. Please tick (√) the answer that reflects your opinion in the following statements.

	Statement	Strongly disagree	Disagree	Neutral	Agree	Strongly agree
		1	2	3	4	5
1	We have a small effective board size					
2	Effective manageable board size eliminates agency problem					
3	We have rational decisions because of small boards that agree easily					
4	Larger boards are more effective than smaller boards					

SECTION D: IMPACT OF BOARD INDEPENDENCE ON PROFITABILITY

7. Board independence

This section seeks to examine the impact of Board independence on the profitability of Genghis Capital Limited, Nairobi. Please tick (√) the answer that reflects your opinion in the following statements.

	Statement	Strongly disagree	Disagree	Neutral	Agree	Strongly agree
		1	2	3	4	5
1	Our Board monitors the management and take care of their rights on behalf of shareholders					
2	Non-executive directors (NEDs) contribute to effective governance by carrying out control over the manager's decisions					
3	Non-executive directors increase the variety of skills and knowledge of the directors					
4	Non-executive directors are financially independent of management and are not					

	Statement	Strongly disagree	Disagree	Neutral	Agree	Strongly agree
		1	2	3	4	5
	involved in any conflicting situations and thus they alleviate agency problems					

SECTION E: IMPACT OF BOARD GENDER DIVERSITY ON PROFITABILITY

8. Board gender diversity

This section seeks to examine the impact of Board gender diversity on the profitability of Genghis Capital Limited, Nairobi. Please tick (√) the answer that reflects your opinion in the following statements.

	Statement	Strongly disagree	Disagree	Neutral	Agree	Strongly agree
		1	2	3	4	5
1	Our Board observes diversity in terms of nationality, ethnic background, gender and age					
2	Our board appreciates presence of female directors on the board for diversity					
3	Gender inclusion ensures that ideas and skills are shared					
4	Our firm has a system of ensuring that female directors are included in our board					

SECTION F: IMPACT OF BOARD COMPETENCE ON PROFITABILITY

9. Board competence

This section seeks to examine the impact of Board competence on the profitability of Genghis Capital Limited, Nairobi. Please tick (√) the answer that reflects your opinion in the following statements.

	Statement	Strongly disagree	Disagree	Neutral	Agree	Strongly agree
		1	2	3	4	5

	Statement	Strongly disagree	Disagree	Neutral	Agree	Strongly agree
		1	2	3	4	5
1	Our Board has competent members that observes creativity					
2	We have experienced knowledgeable and committed board					
3	Our board conducts external training to improve their competency skills					
4	Board competency is highly valued and rewarded to encourage performance					