EFFECT OF CORPORATE GOVERNANCE ON FINANCIAL PERFORMANCE OF PRINT MEDIA HOUSES IN KENYA

BY

AHMED ARWA ABUBAKAR

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December 2010
Ahmed Arwa Abubakar
Effect of corporate governance on
DECLARATION

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

Ahmed Arwa Abubakar.

Signed: ........................................... Date: .................................

I confirm that the work reported in this research project was carried out by the candidate under my supervision.

Joel Ngugi Kungu,
Lecturer,
Department of Accounting and Finance,
Kenyatta University.

Signed: ........................................... Date: 13\textsuperscript{th} Jan. 2011

Mr. F. Ndede,
Chairman,
Department of Accounting and Finance,
Kenyatta University.

Signed: ........................................... Date: .................................

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DEDICATION

To my Parents,

Abubakar and Mulki Mao,

With Gratitude, Respect and Affection.
ACKNOWLEDGEMENT

I acknowledge the Almighty God for giving me the opportunity to breathe every day and the strength to continue with my endeavours.

A number of institutions and individuals have contributed to the undertaking of this study. I am grateful to Kenyatta University Library, Nairobi Stock Exchange, individual companies in the print media industry and Capital Markets Authority Library for providing the necessary support for this research. In this regard, particular gratitude is due to Joel Kungu, my supervisor who guided me throughout the study.

I am also grateful to my fellow students in the program; Joseph Njoroge, Andrew Simiyu, James Obondi, Fred Orwa and Darius Oloo for their assistance, support, and understanding.

Last but by no means least, I would like to express my deepest gratitude to my siblings; Amina, Ahmed, Ahlam and Taher for their continued support and encouragement.
ABSTRACT

Recent global events concerning collapse of prominent businesses, changing patterns of share ownership and world-wide wave of privatisation, increased investor activism, private sector development and improved technology have put back on the policy agenda and intensified the debate on the implementation of corporate governance mechanisms as a means of increasing firm financial performance. This study therefore, attempts to address the relationship between corporate governance and firm performance with evidence from the print media houses in Kenya using a regression analysis for the period 2006-2009.

Using a structured questionnaire to the respective firms, specific corporate governance practices applied by print media houses in Kenya were identified.

The literature review identified four sets of attributes that affected corporate governance; Disclosure, Board Composition, Conflicts and Ethics, and Shareholder Rights which provided the respective corporate governance variables. On the other hand, the financial variables used were based on a study by Klapper and Love (2004) who found out that firm level governance is correlated with Firm Size, Sales Growth and Assets Composition.

To investigate the relationship between corporate governance and financial performance, a test for correlation was done between corporate governance variables and performance measures indicated by Tobin's Q. My findings reveal that there is evidence that better standards of corporate governance are positively related to better financial performance. The study also found out that the quality of corporate governance for the print media houses has been improving over the years.
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LIST OF ABBREVIATIONS

NSE  Nairobi Stock Exchange
CGI  Corporate Governance Index
CMA  Capital Markets Authority
IBCG  Internet Based Corporate Governance
DISC:  Disclosure
BOARD:  Board composition
CONFL:  Conflicts and ethics
RIGHTS:  Shareholder rights
FSIZE:  Financial Sales
R&D:  Research & Development expenditure
Q:  Tobin’s Q replaced by ROA in the model
CONCEPTUAL DEFINITION OF OPERATIONAL TERMS

ROA (Return on Assets): Financial ratio used to measure performance of a firm. It is calculated by dividing net income of a firm by the total assets.

Tobin’s Q: Financial ratio used to measure performance of a firm. It is calculated by dividing market value of a company by the replacement value of the firm’s assets.

Related Party Transactions: A business deal or arrangement between two parties who are joined by a special relationship prior to the deal.

Audit Committees: An operating committee of the board of directors typically charged with oversight of financial reporting and disclosure.

Fiscal Board: A board that specifically deals with financial matters.

Arbitration: A legal technique for the resolution of disputes outside the courts.

Tag along rights: A contractual obligation used to protect a minority shareholder by obliging the majority shareholder to include the holdings of the minority holder in their negotiations.

Free Float: The proportion of shares that are not held by large owners and that are not stock with sales restrictions.
CHAPTER ONE

INTRODUCTION

1.1 Background to the study

Corporate governance is the set of processes, customs, policies, Laws and institutions affecting the way a corporation is directed, administered or controlled. Corporate governance also includes the relationships among the many players involved (the stakeholders) and the goals for which the corporation is governed. The principal players are the shareholders, management and the board of directors. Other stakeholders include employees, suppliers, customers, banks and other lenders, regulators, the environment and the community at large (Knell 2006).

Corporate governance is a subject with diverse aspects. On one hand is the shareholder’s theory which deals with issues of accountability and fiduciary duty towards the shareholders. Yet another view entails the stakeholder’s theory, which calls for accountability to other players such as the employees or the environment. Literature documents a raging debate on the shareholder versus stakeholder theory with proponents of each theory defending their viewpoints vehemently and also convincingly. Separation of ownership and control thus led to a spate of theories being developed given the nature of conflicts in interests among the actors of the corporation.

The argument has been advanced time and time again that the governance structure of any corporate entity affects the firm’s ability to respond to external factors that have some bearing on its performance. In this regard, it has been noted that well governed firms largely perform better and that good corporate governance is of essence to firms. (Berglof and von Thadden, 1999).
It is believed that good governance generates investor goodwill and confidence. Again, poorly governed firms are expected to be less profitable. Claessens et al. (2003) also posits that better corporate framework benefits firms through greater access to financing, lower cost of capital, better performance and more favourable treatment of all stakeholders. They argue that weak corporate governance does not only lead to poor firm performance and risky financing patterns, but are also conducive for macroeconomic crises like the 1997 East Asia crisis. Other researchers contend that good corporate governance is important for increasing investor confidence and market liquidity (Donaldson, 2003). Several studies have been done to establish relationship between governance structure and firm’s performance (Sanda et al, 2005; Nam et al, 2002; Brown et al, 2003).

Becht et al. (2002) identifies a number of reasons for the growing relevance of corporate governance, which includes the world-wide wave of privatization of the past two decades, the pension fund reform and the growth of private savings, the takeover wave of the 1980s, the deregulation and integration of capital markets, the 1997 East Asia Crisis, and the series of recent corporate scandals involving firms such as Enron and WorldCom in the USA and elsewhere. The subject matter of corporate governance has therefore dominated the policy agenda in developed market economies for sometime especially among very large firms. Subsequently, the concept is gradually warming itself to the top of policy agenda in the Africa continent (Berglof and von Thadden, 1999). Henceforth Corporations in developing countries are now increasingly embracing the concept. In Kenya, the Media Industry is no exception. A number of media houses listed in the NSE find themselves adopting the CMA policies which defines corporate governance as the process and structure used to direct and manage business affairs of the company towards enhancing prosperity and corporate accounting with the ultimate objective of realising shareholders long term value while
taking into account the interest of other stakeholders. This study then entails to highlight the governance practises adopted by Media Houses in Kenya and their impact on the financial performance of the enterprises.

1.2 Statement of the Problem

In Kenya, the demand for news is very high. In fact it is said that a true Kenyan is known by his love of news. Judging solely from the demand perspective, one would expect the media houses to be earning very high profits or portray the best financial status compared to other firms. Unfortunately this is not the case. In a study by Theodore A Papadogonas (2007) on the determinants of financial performance of large and small firms with evidence from Greece, the econometric results indicate that in addition to sales growth (indicated by high demand), the managerial efficiency plays an important role in a firm’s profitability. Hence the governance structure of a firm has some bearing on its financial performance. Another study by Kakani R.K. et al (2001), on the Determinants of Financial Performance of Indian Corporate Sector, highlighted that a firm’s ownership composition and strategic choices of a firm’s managers were important factors affecting the financial performance of the firm. These are both tenets of corporate governance since corporate governance deals with the relationships among various stakeholders, the major players being the owners and the management. A key issue to be addressed in this study therefore entails highlighting the corporate governance mechanisms adopted by media houses in Kenya.

In a world of cut-throat rivalry competition and sophisticated technology, survival and self-sustaining of organizations will mean the introduction of investors as major stakeholders in an industry which will increase the need for control and accountability (Wainaina 2002). To attract capital flows, there is need for all organizations, to address the mechanism and ways of promoting corporate governance practices. If a company
does not have a reputation for strong corporate governance practices, capital will flow elsewhere, if investors are not confident with the level of disclosure, capital will flow elsewhere, and if a company opts for lax accounting and reporting standards capital will flow elsewhere (Knell 2006). It is therefore, clear that markets exists by grace of investors. And it is today’s more empowered investors who will determine which companies and which markets will stand the test of time and endure the weight of greater competition (Levitts 2001). The importance of corporate governance practices cannot therefore, be understated as they are strong determinants in the survival or collapse of corporate bodies (Manyuru 2005).

Given that the financial performance of a firm is measured by profitability ratios, the study then seeks to establish the relationship between corporate governance practices and the financial performance of print media houses and thereafter draw a conclusion on the effect of governance structure on the profitability of media houses.

Locally, there are a few studies in corporate governance though none has focused on media houses. For instance, Jebet (2001) did corporate governance and focused on the listed companies, Macuvi (2002) did a study on corporate governance but focused on the motor vehicle industry, Mwangi (2003) did corporate governance and focused on insurance companies, while Wangombe (2003) did a study of corporate governance practice and focused on cooperative societies. This constitutes a gap in literature that the current study seeks to bridge by establishing the relationship between corporate governance practice and performance of media houses.
1.3 Objectives of the Study

1.3.1 General Objective:
To establish the relationship between corporate governance and financial performance of media houses in Kenya

1.3.2 Specific Objectives
The study sought to establish the following objectives:

1. To identify corporate governance practices applied by media houses in Kenya.
2. To find out the determinants of corporate governance for media houses in Kenya.
3. To find out the effect of governance practices on the financial performance of media houses in Kenya.

1.4 Research Questions
The following research questions guided the study:

1. What are the corporate governance practises adopted by media houses in Kenya?
2. What are the determinants of corporate governance in Kenya?
3. To what extent is the financial performance of media houses in Kenya affected by governance practices?
1.5 Scope of Study

The study covers the print media houses in Kenya. Further, the issue discussed solely relates to corporate governance practices for the media houses chosen and the subsequent impact on their financial performance. Thus, the results of this study will be limited in its application since the findings of the research cannot be generalised into other media houses.

Another delimitation arises from the use of a sample of the population comprising of CEO's and top managers only although corporate governance processes involves relationships among many players such as employees and customers.

1.6 Significance of the Study

This study will be important to the following parties:

The policy makers will find the study useful as a basis of formulating policies, which can be effectively implemented for better and easier regulation of media houses. The government could use the study so as to come up with clear criteria of promoting media houses in Kenya.

The researchers and academic community could use this study as a stepping stone for further studies on corporate governance.

The management of the various media houses will find the study invaluable in making decisions regarding corporate governance.

The Employees of both organisations will be more motivated since the assurance of prudent corporate governance practices within their firms, as this study seeks to uncover, guarantees a more prosperous, fairer and longer lasting relationship between
them and their organisations. In addition, any necessary checks and balances of policies are going to be enhanced if weaknesses are revealed.

The Society at large will benefit from economic growth since the very existence of corporate governance tenets within the media industry, as this study seeks to highlight, will provide a better protection to investors' funds, hence boosting the Capital Market which is essential for economic growth.

Other Stakeholders like the Capital Markets Authority and the Nairobi Stock Exchange can use the findings of this study to assess the extent to which adherence of corporate governance guidelines are applied to these particular firms.
CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

The chapter presents a literature review on corporate governance and the subsequent effect on financial performance. Corporate governance has attracted various definitions. Metrick and Ishii (2002) define corporate governance from the perspective of the investor as "both the promise to repay a fair return on capital invested and the commitment to operate a firm efficiency given investment". Metrick and Ishii argue that firm level governance may be more important in developing markets with weaker institutions as it helps to distinguish among firms.

Cadbury Committee (1992) defines corporate governance as "the system by which companies are directed and controlled". On the other hand, Rajan and Zingales (1998) define a governance system as "the complex set of constraints that shape the ex post bargaining over the quasi rent registered by the firm".

In Mayer (1997), corporate governance is seen as concerned with ways of bringing the interests of (investors and managers) into line and ensuring that firms are run for the benefit of investors. Again, corporate governance is concerned with the relationship between the internal governance mechanisms of corporations and society's conception of the scope of corporate accountability (Deakin and Hughes, 1997). It has also been defined by Keasy et al. (1997) to include "the structure, processes, cultures and systems that engender the successful operation of organizations".

The CMA defines corporate governance as the process and structure used to direct and manage business affairs of the company towards enhancing prosperity and corporate
accounting with the ultimate objective of realising shareholders long term value while taking into account the interest of other stakeholders.

From these definitions, it may be stated more generally that different systems of corporate governance will embody what are considered to be legitimate lines of accountability by defining the nature of the relationship between the company and key corporate stakeholders. Thus, corporate governance describes how companies ought to be run, directed and controlled (Cadbury Committee, 1992). It is about supervising and holding to account those who direct and control management. Shleifer and Vishny (1997), describe corporate governance as “the way in which suppliers of finance to corporations assure themselves of getting a return to their investment”.

2.2 Main Review

Corporate governance is a multi-faceted subject. An important theme of corporate governance deals with issues of accountability and fiduciary duty, essentially advocating the implementation of guidelines and mechanisms to ensure good behaviour and protect shareholders. Another key focus is the economic efficiency view, through which the corporate governance system should aim to optimize economic results, with a strong emphasis on shareholders welfare. There are yet other sides to the corporate governance subject, such as the stakeholder’s view, which calls for more attention and accountability to players other than the shareholders (e.g: the employees or the environment) (Singh 2005). Recently there has been considerable interest in the corporate governance practices of modern corporations, particularly since the high-profile collapses of large U.S. firms such as Enron Corporation and Worldcom (Knell 2006).

Corporate governance has in one form or the other existed in business since the birth of the limited liability form of the corporation. However, it was the pioneering work of
Berle and Means (1932) that led to the development of an entire body of literature which focused on managerial expropriation of shareholder value. Different authors have studied corporate governance in different ways, yet the primary contribution has been to the body of knowledge that has its genesis in the Berle and Means (1932) theory of separation of ownership and control. As early as 1930s, they had viewed that the corporations had acquired the attributes of powerful social institutions. They recognized that the modern corporations have become forces to reckon with and were unlike their predecessors which had their roots in a production-based system. The market led economy has shaped the modern corporation into colossal giants. The wealth pool of corporations started growing with the advent of stock exchanges. Ordinary shareholders who had a passing interest in the corporations invested in them to make some quick gains. This led to the emergence of a new class of professionals (managers, whom the agency theory refers to as the agents of the principals, the shareholders or the fractionated owners) who took up the reins of the corporations into their hands. In the words of Berle and Means (1932, pp.34), “… the corporation, within it there exists a centripetal attraction which draws wealth into aggregations of constantly increasing size, at the same time throwing control into the hands of fewer and fewer men”.

Berle and Means’ (1932) firms emerged to keep up with the demands of the technological and financial developments associated with large firms. Also, such firms arise when the legal system of a country provides adequate protection to the minority shareholders (La Porta et al., 1999). Since US firms were subject to lesser economic-based social conflicts than it was elsewhere, shareholders or the principals could afford to distance themselves from the operational activities of the firm without fearing that the managers would be captured by the social democratic pressures (Roe, 2000). Roe goes a step further to explain that the Berle and Means (1932) firms arose because
political forces of the country (in this case the USA) have prevented the formation of large financial intermediaries capable of exercising significant control over industrial corporations. He further contends that "political forces" which had worked in conjunction with the economic developments for the evolution of the Berle and Means (1932) firms have not received the credit due to them.

The Berle and Means (1932) firms have to control agency costs if they are to prosper and survive. Though the benefits associated with such firms in the form of agglomeration of capital and the spread of risk cannot be discounted, the underpinnings of such firms in welfare societies is huge considering the fact that the managers are in a better position to create information asymmetries, which in turn helps them to expropriate shareholder value. In a diffusely held firm no one shareholder is amply motivated to take the deviant managers head-on since the gains accrued from the deadlock would be marginal given the costs incurred to monitor any aberrant behavior by the managers.

Separation of ownership from control thus led to the evolution of a market-based control mechanism. Also, this led to the development of nexus-of-contracts theory and the agent theoretic model of governance. While the nexus of contracts theorists argued that due to the incomplete nature of contracts problems of expropriation arise, the agent theoretic model focused on the behavioral motivations of conflicts of interests.

Shareholders who are dissatisfied with the performance of their agents can turn to the market to wash off their hands from the control they previously had on the corporation. The market thus led the governance process where control could be exchanged in lieu of the opting out of the corporation's ownership by the existing shareholders. This kind of an agent-led or owner-separated corporation setting is a highly efficient mechanism to the decision-making problems faced by large corporations (Bainbridge, 1995). Although the widely diffused firms emerged as efficient allocators of resources and
hence as utility maximizers, the attendant risks of separation of ownership from control has brought to the fore the behavioral dimension of the agents' motivation in running the corporations. The excessive focus of the shareholders on pecuniary results coupled with market-led forces like the existence of managerial labor markets, hostile takeovers, contests for corporate control etc., to contain managerial excesses, have compelled the managers to short-term result-oriented performance. In the process of maximizing short-term benefits, the stakeholders to the corporations are being conveniently forgotten.

Though shareholders are yet to get their due in this era of managerial capitalism, another new generation of thought process has arisen which demands that the benefits of the corporation be maximized and extended to all those who are either directly or indirectly connected with it. What was proposed as corporate social responsibility by Howard Bowen in the early 1950s gained impetus with academics proposing a rehashed version of it with broader connotations and termed it the stakeholder theory.

2.3 Empirical Literature

The elements of corporate governance vary from one country to the other and from company to company. Klappar and Love (2002) found that corporate governance provisions at the firm level matter more in countries with strong legal environment.

The emphasis placed on various aspects of corporate governance depends on how corporate governance is defined to bring out the key salient features. According to Hendrikse et al (2004) corporate governance is the system that maintains the balance of rights, relationships, roles and responsibilities of shareholders, directors and management in the direction, conduct, performance and control of sustainable performance of the company's business with honesty and integrity in the best long-term interests of the company, shareholders and business community stakeholders.
The Capital Market Authority (CMA) provides a comprehensive list of recommended governance practices (CMA 1998). The recommended governance practices have three objectives which include; economical and financial well being of shareholders, directors and management, and employees; social well being of employees, community and society and environmental well being for every one (Manyuru 2005). The four board attributes namely; composition, characteristics, structure, and process, form the basis for categorizing the corporate governance practices in this study.

The board of directors, argues Jensen (1993, p. 862), is “... at the apex of internal control system, has the final responsibility for the functioning of the firm.” However, when the board chairman is also the CEO, the board intensity to monitor and oversee management is reduced as a result of lack of independence and a conflict of interest (Lorsch and MacIver, 1989; Fizel and Louie, 1990; Dobrzyynski, 1991; Millstein, 1992, Daynton, 1984). The issue that arises when companies practice CEO duality is “Who monitors management?” This is best expressed as, “custodias ipso custodiet” or “who will watch the watchers.” Unlike in a two-tier system, the unitary system has the board at the highest internal control system, as argued by Jensen (1993).

It has been argued that the firm’s managers’ influence in setting board agenda and controlling information flows could impede the board’s ability to perform its duties effectively (Solomon, 1993; Aram and Cowan, 1983). The firm’s managers’ ability to determine the board agenda and the flow of information is predicted to be much stronger when the board chairman is also CEO than when the firm adopts a non-dual structure. Daynton (1984) asserts that the board is the primary force pushing the company towards realizing the opportunities and meeting the obligations to the shareholders and other stakeholders. He argues that it is the CEO who enables the board to play the primary force.
In a similar vein, dual leadership structure “signals the absence of separation of the decision management and the decision controls” (Fama and Jensen, 1983, p. 314). Rechner (1989) argued that the ideal corporate governance structure is one in which the board is composed of a majority of outside directors and a chairman who is an outside director. She stated that the weakest corporate governance is one where the board is dominated by insider directors and the CEO holds the chairmanship of the board. When one person dominates a firm, the role of independent outside directors becomes “hypothetical” (Rechner, 1989; Daynton, 1984). Rechner (1989, p. 14) claimed, “... this structure is likely to function as a rubber stamp board given the total control of the CEO.”

Although there is a growing focus on governance issues, such as specific board composition configuration or board leadership structure, the results are unclear with respect to firm performance (Dalton et al., 1998). Many studies that demonstrate positive relationships between variables of interest from the four sets of board attributes and firm’s performance, when meta-analytically reviewed, show negative relationships and no statistically significant relationship at all (Dalton et al., 1998). For example, Hunter and Schmidth (1990, p. 29) have suggested that “conflicting rustles in the literature may be entirely artificial”. There is no actual population of relationships at all. For example, a meta-analysis of 54 empirical studies of board composition and 31 empirical studies of board leadership structure and their relationship to financial performance, by Dalton et al. (1998, p. 269), concluded that these and other analyses “relying on firm size, the nature of financial preference indicators and various operationalizations of board composition, provide little evidence of a systemic governance structure and financial performance relationships”.

Similarly, the analysis of 40 years of data from 159 studies, carried out by Dalton and Daily (1999), concluded that there is no clear evidence of a substantive relationship
between board composition and financial performance, irrespective of the type of
performance indicators, the size of the firm or the manner in which board composition is
measured. For example, a board could be completely independent and, at the same
time, fail in its expertise, counsel and resource-dependency roles (Dalton and Daily;
1999). On the other hand, a board dominated by inside and affiliated directors could fall
short in its ability to monitor and control (Daily and Dalton, 1994; 1999). Hence, reliance
on the independence of board members or any one dimension of board roles and
attributes will not ensure high levels of corporate financial performance, especially if it
is at the expense of other director roles (Johnson et al., 1993; Dalton and Daily, 1999).

However, the key thing to note is that corporate governance compliance shows real
confidence in the future and in the high growth prospects of your business. Corporate
governance compliance makes organization more attractive because it is visibly
managed and directed (Knell 2006). The recent developments provide ample evidence
that inadequate corporate governance standards in certain organizations could
contribute to their failure. The inadequate governance standards in the corporate sector,
raises the risk profile of companies and exposes the organization and especially lending
institutions to greater potential default. The adherence to formal (or mandated)
corporate governance practices are particularly crucial for banks and financial
institutions as weak or inadequate corporate governance standards invariably result in
ineffective risk management and ultimately to financial instability (Singh 2005). In the
case of banks and financial institutions, the developments in one of them may trigger
systematic consequences. The essence of formal corporate governance in financial
institutions, are therefore, the responsibilities of the board and its independent
committees for providing adequate checks and balances, transparency and disclosures,
robust risk management systems, risk containment procedures, early warning systems
and prompt corrective actions to avoid default (Singh 2005).
According to agency theory, good corporate governance should lead to higher stock prices or better long-term performance, because managers are better supervised and agency costs are decreased. Poor corporate governance on the other hand is fertile soil for corruption and corruptive symbiosis between business and political circles (Manyuru 2005). A comprehensive and integrative review of the corporate governance contribution to company performance research suggests a tendency, amongst scholars, to search for universal associations between board attributes, board roles and company performance (Zahra and Pearce, 1989; Maassen, 1999). Zahra and Pearce (1989), reviewing 22 empirical studies in their construction of an integrative model of a literature review identifying variables of board attributes and board roles in relation to firm’s performance, identify a number of shortcomings in previous research and urge cautious interpretation of results on board roles and attributes. Using the same constructs of board roles and attributes for measuring impact on firm’s performance, Maassen’s (1999) empirical study of the USA, UK and the Netherlands listed companies came to similar conclusions. Moreover, both studies concluded that there is an over-focus on the financial dimensions of company performance, with some attention being given to systemic performance and very little attention being paid to social dimensions of company performance (Zahra and Pearce, 1989; Maassen 1999).

Growing literature focused on some aspects of the four sets of board attributes from a variety of theoretical perspectives have produced a plethora of varying results regarding boards’ attributes and corporate performance (Zahra and Pearce, 1989; Dalton et al., 1998; Maassen, 1999). The concern of corporate governance has been with both the accountability of the directors and with the board effectiveness Cadbury, (1997). To ensure the board effectiveness the Cardbury Committee (1992) recommends the inclusion of sufficient number of non-executive directors who would bring independence in the board’s judgment. These non-executive directors should be, in the
majority. Mace (1986) and Herman (1981) argue that outside directors were valued for their ability to advise, to solidify business and personal relationships, and to send a signal that the company is doing well rather than for their ability to monitor. Mace (1986) further argues that in selecting outside directors, the title and the prestige of the candidates are the primary consideration.

The agency theory, at the other end of the spectrum, argues that the presence of boards of directors is to monitor the management and to protect the interest of the shareholders (Mallette and Fowler, 1992; Fama and Jensen, 1983). It is further argued outside directors are stricter in discharging their responsibilities, as they are not directly affiliated with the management (Weisbach, 1988). Having outside directors, who are argued to be impartial, is vital as they can act as "... providers of relevant complementary knowledge" to the management (Fama and Jensen, 1983, p. 315). Hence, outside directors could bring into the board the wealth of expertise that is useful to the management in deciding the direction of the firm or to clarify its strategies. This could further enhance the boards' roles as being the ratification and the monitoring of management decisions, as argued by Fama and Jensen (1983). As a result, the performance of the management is expected to improve, and more importantly, increase the wealth of the shareholders. Evidence of board independence effectiveness was also offered by O'Sullivan (2000) who found that audit fees (a proxy for extensiveness of the audit works) were negatively associated with board independence. The author argued that board independence should lead to a better quality of financial reporting and, thus, the scope of the audit and, therefore, the audit fees would be reduced. The evidence found by Peasnell et al. (2000) on the effects of outside directors on the financial reporting aspects further confirms the high monitoring tendency of outside directors.
In addition, evidence has also showed that outside directors are more likely to join, and inside directors leave, the boards of poorly performing firms (Hermalin and Weisbach, 1988). Thus, it may be argued that poorly performing firms are expected to benefit from the entry of more outside directors. In a study on the extent of fraudulent reporting, Beasley (1996) further documented evidence supporting the significant roles of outside directors. Evidence of outside directors’ effectiveness was also documented in New Zealand by Bradbury and Mak (2000).

The concern has been on the issue of non-executive directors, who may not be truly independent (Bhagat and Black, 1997; Vicknair et al., 1993). Perry (1995) argues that the inclusion of independent non-executive directors may negatively influence the board cohesiveness since they are involved in the decision-making process of the firm and, at the same time, act as monitors of management. This, Perry (1995) argues, could lead to a conflict of interest. This argument could perhaps lead to the performance of the firm not being improved even though the board is dominated by outside directors. The lack of non-executive directors’ incentives to remove members of the top management following the firm’s poor performance as a result of their insignificant shares in the firm, and their compensation and the views of the CEOs could determine their re-appointment as non-executive directors (Conyon and Peck, 1998). Further, it was earlier found that the performance review by the board in most companies was minimal, and it was purported to satisfy the minimal requirement of law (Boulton, 1978) and, except during the period of crisis, most boards were content with a superficial review of the performance (Clendenin, 1972).

In an empirical study, Fosberg (1989) found that there was no significant difference in various financial ratios (indicative of the firm’s performance) between firms whose boards were dominated by outside directors and firms whose boards were not dominated by inside directors. The argument, that having outside directors on the
board could adversely affect the board performance, could largely be due to the fact that outside directors do not have access and adequate knowledge about the firm. This is due to the nature of non-executive directors' appointments who are not full-time employees in the company, and the limited time commitment that could result in boards that are composed, in the majority, of weak outside directors (Koontz, 1967). Moreover, these directors either hold no shares or hold insignificant shares in the firm, as argued by Conyon and Peck (1998). Thus, their incentives to monitor management, and thus contribute significantly in the pursuit of the shareholders' interests, may be low. In fact, Baysinger and Hoskisson (1990) argue that non-executive directors have negative influences on corporate entrepreneurship. Research evidence showing a negative association between the proportion of independent non-executive directors and firm performance was documented (Klein, 1998; Agrawal and Knoeber, 1996; Yermack, 1996).

In a survey done in Singapore, Goodwin and Seow (2000) found that the majority of company directors felt that independent directors should make up between 25 and 50 percent of the board. The study also found that none of the directors in the survey felt that independent directors should be less than 25 percent of the board. These findings, therefore, are not different from the recommendation contained in the Report on Corporate Governance (1999) and the Malaysian Code on Corporate Governance (2001), which recommends that at least one-third of the board members be independent directors. Similar recommendation was also found in the Hampel Report (1998). However, according to Goodwin and Seow (2000), the respondents in their survey, which include directors, auditors and institutional investors, felt that there was a need for a clear definition of "independent directors." An absence of this definition would make it difficult to determine compliance with the recommendation. On the importance of non-executive directors' representation on the board, Goodwin and Seow (2000)
found that non-executive directors were more convinced that strong corporate governance enhances the board effectiveness more than executive directors were. Though the findings are mixed, evidence generally supports the effects of outside directors on the firm’s performance. This is because outside directors are expected to be independent of management and were generally "... appointed for their business acumen, wide commercial experience or contacts in the government or industry" (Reay, 1994, p. 74).

The essential implication of the study for establishing a desirable board climate is the necessity of having a keen focus on information. Boards should foster a climate receptive to information. Sticking to fiduciary responsibility and application of performance evaluations are also indispensable attributes of high performance companies. These attitudes all combined seem to culminate in effective board process to company performance (Zahra and Pearce 1989).

One argument is that a strong corporate governance structure, could lead to a high performance (Sanda et al, 2005). It will help to promote a firm’s performance and protect stake holder’s interests. Nam et al (2002) found that corporate governance should lead to better performance since managers are better supervised and agency costs are decreased. Poor corporate governance on the other hand is a fertile ground for corruption and poor financial performance. Brown et al (2003) found that firms with weaker corporate governance perform poorly compared to those with stronger corporate governance in terms of stock returns, profitability, riskness and dividend payments.

It is therefore, clear that markets exists by grace of investors. And it is today’s more empowered investors who will determine which companies and which markets will stand the test of time and endure the weight of greater competition (Levitts 2001). The
The importance of corporate governance practices cannot therefore, be understated as they are strong determinants in the survival or collapse of corporate bodies (Manyuru 2005). Improvement in corporate governance as found out by researchers such as Nam et al (2002) and Sanda et al (2002) results in improved performance.

2.4 Conceptual Framework

Based on the corporate governance literature, four sets of board attributes affecting corporate governance were identified namely, Disclosure, Board Composition, Conflicts and Ethics, and Shareholders Rights which formed my conceptual framework as shown below:

Figure 1: Conceptual Framework

<table>
<thead>
<tr>
<th>Independent variables</th>
<th>Dependant Variable</th>
</tr>
</thead>
<tbody>
<tr>
<td>Disclosure</td>
<td>Financial Performance</td>
</tr>
<tr>
<td>Board Composition</td>
<td></td>
</tr>
<tr>
<td>Conflicts and Ethics</td>
<td></td>
</tr>
<tr>
<td>Shareholder Rights</td>
<td></td>
</tr>
</tbody>
</table>
Disclosure refers to transparency in terms of the accounting standards, independent audits, timely and balanced financial and operational information disclosure of all material matters concerning the company.

Board composition refers to the size of the board and the mix of different director's demographics (insiders/outsiders, male/female, foreign/local) and the degree of affiliation directors have with the corporations (Zahra and Pearce, 1989; Maassen, 1999).

Conflicts and Ethics refer to promotion of ethical and responsible decision making.

Shareholders Rights refers to accountability of the board to the shareholders who have the right to receive information on the financial stewardship of their investments and excise power to reward or remove the directors entrusted to run the company.
CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

The chapter presents the research methodology. This comprises of the research design, the population, the sample size and sampling procedure, the instruments of data collection and data analysis.

3.2 Research Design

Descriptive research study was used since it describes, in a scientific manner, the observations made from the samples drawn. The study focused on print media houses. The period under review was a four year period beginning 2006 through to 2009.

3.3 Population

The study focused on the top managers in all the 11 companies in the print media (appendix III). The use of all the media houses provided a thorough insight into the practice in the industry.

3.4 Sample size and Sampling Procedure

The sample was selected using purposive sampling technique. The sampling was purposive given the fact that the top managers who were deemed to have sufficient information on corporate governance issues and performance were sampled in the study. Three managers were selected from each of the companies. These were the CEO, general managers in the print media division and chief financial officers in the company. This gave a sample size of 33 respondents.
3.5 **Instruments of Data Collection**

Primary data was collected through the use of a structured questionnaire. The target respondents were the CEOs of the selected organizations and Managers with thorough understanding of the organization. Secondary data, comprising of financial statements, was collected from the company financial statements (Year 2006-2009).

3.6 **Processing and Analysis**

Primary data from the questionnaires on corporate governance practices was analysed and interpreted using descriptive statistics (i.e mean scores and percentages) with the help of the statistical package for social sciences. The results were then presented in tables and charts.

An index on each of the variables in the conceptual framework was built from the responses of the respondent in the questionnaire. Each index was computed from the positive answers in the questionnaire thereafter the total score calculated as a percentage of the whole. The final index ranged from 0 to 1 (Worst to best case of corporate governance quality respectively). The cut-off points for the Index were as follows: from 0.00 – 0.30 means weak corporate governance; 0.31 - 0.70 means average; while 0.71 – 1.00 means strong corporate governance.

To determine the determinants of corporate governance, a multiple regression analysis was performed. The indexes obtained for the respective variables (the four variables in the conceptual framework) and the financial variables in the models below were regressed. This is based on a study by Klapper and Love (2004) who found that firm level governance is correlated with Firm Size, Sales Growth and Assets Composition.

\[
\begin{align*}
\text{DISC} &= A(F\text{SIZE} + K/S + Y/S + DRUM + R&D/K) \\
\text{BOARD} &= B(F\text{SIZE} + K/S + Y/S + DRUM + R&D/K) \\
\text{CONFL} &= C(F\text{SIZE} + K/S + Y/S + DRUM + R&D/K) \\
\end{align*}
\]
RIGHTS = D(FSIZE + K/S + Y/S + DRUM + R&D/K)

To investigate the relationship between corporate governance and corporate value, the study performed a test for a correlation between Corporate Governance Variables and performance measures indicated by Return on Assets (ROA). The ROA, which were used in the place for Tobin’s Q in the equation below, were determined by dividing net income of a firm by the total assets. The model used is shown in the equation below.

\[ Q_{it} = \beta_0 + A(DISC) + B(BOARD) + C(CONFL) + D(RIGHTS) + E_{it} \]

Where:

DISC: Disclosure
BOARD: Board composition
CONFL: Conflicts and ethics
RIGHTS: Shareholder rights
FSIZE: In (sales)
K/S: Property, Plant and Equipment to sales
Y/S: Operating Income/Sales.
DRUM: A dummy variable equal to Unity if Research & Development data is available, and zero otherwise.
R&D/K: Research & Development expenditure/Property, Plant and Equipment
i and t: firm and time respectively
Q: Tobin’s Q replaced by ROA in the model
Bo: Constant
E: Error Term
CHAPTER FOUR

DATA ANALYSIS AND INTERPRETATION

4.1 Introduction

The chapter presents the results of the analysis of data collected through the questionnaires as well as the secondary data analysed using regression analysis technique. The samples of 11 companies were incorporated in the study. The chapter is organised as follows. First, the results of the analysis of the questionnaire are presented in the sections dealing with sample characteristics as well as the section for corporate governance practices of media houses. Then, the determinants of corporate governance are discussed followed by the discussion on the relationship between corporate governance and firm performance.

4.2 Corporate Governance Index and Sub-Indices

4.2.1 Introduction

The study also revealed that there has been a convergence towards voluntary adoption of corporate governance practices leading to a greater endogeneity of corporate governance quality among the media firms throughout the years. The standard deviation of the CGI was seen to fall from 1.08 in 2006 to 1.01 in 2009. But this convergence is not confirmed in all the CGI sub-indices. The firms in the segment appear to perform well in board composition and functioning with an average of 8.94 in 2009 and poorer on shareholder rights with an average of 6.21 in 2008.
4.2.2 Corporate Governance Index

Generally, the study found that there has been an upward improvement in voluntary compliance to corporate governance among the listed forms. As shown in Table 1, 2006 had the lowest mean score of 6.1 while 2009 had the highest mean score of 7.46. The standard deviation had been falling over the years meaning that there has been a general convergence towards voluntary adoption of corporate governance practice in Kenya. As the table reveals, the minimum score for the firms was 4.58 in 2006 while 2009 had the minimum as 6.25. This still proves the fact that there has been improvement of corporate governance compliance over the years.

Table 1: Corporate Governance Index

<table>
<thead>
<tr>
<th>Corporate Governance Index (CGI)</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mean</td>
<td>6.1</td>
<td>6.1</td>
<td>6.48</td>
<td>7.46</td>
</tr>
<tr>
<td>Standard-Dev</td>
<td>1.08</td>
<td>0.97</td>
<td>0.84</td>
<td>1.01</td>
</tr>
<tr>
<td>Minimum</td>
<td>4.58</td>
<td>4.58</td>
<td>5.42</td>
<td>6.25</td>
</tr>
<tr>
<td>1° Quartile</td>
<td>5.42</td>
<td>5.63</td>
<td>6.04</td>
<td>6.88</td>
</tr>
<tr>
<td>Median</td>
<td>6.25</td>
<td>5.83</td>
<td>6.25</td>
<td>7.08</td>
</tr>
<tr>
<td>3° Quartile</td>
<td>6.67</td>
<td>6.25</td>
<td>6.67</td>
<td>7.92</td>
</tr>
<tr>
<td>Maximum</td>
<td>8.33</td>
<td>7.08</td>
<td>8.33</td>
<td>9.58</td>
</tr>
</tbody>
</table>
4.2.3 Disclosure

On disclosure of corporate governance, the study found that there has been a general improvement in disclosure over the years. As shown in Table 2, 2006 recorded the lowest mean score of 4.7 while 2009 had the highest mean score of 6.52. But the analysis reveals that there has been a divergence on disclosure as show by the mean score. It was lowest in 2006 at 0.67 before rising to 1.87 in 2007 and 2.16 in 2008.

<table>
<thead>
<tr>
<th>Table 2: Disclosure sub-index</th>
</tr>
</thead>
<tbody>
<tr>
<td>Disclosure sub-index (DISC)</td>
</tr>
<tr>
<td>------------------------------</td>
</tr>
<tr>
<td>Mean</td>
</tr>
<tr>
<td>Standard-Dev</td>
</tr>
<tr>
<td>Minimum</td>
</tr>
<tr>
<td>1° Quartile</td>
</tr>
<tr>
<td>Median</td>
</tr>
<tr>
<td>3° Quartile</td>
</tr>
<tr>
<td>Maximum</td>
</tr>
</tbody>
</table>
4.2.4 Board of Directors

On the variable of board of directors, the study found that the mean score was 8.18 in 2006 before falling to 7.58 in 2007 and further falling in 2008 to 6.82. But 2009 shows the highest means score for the variable implying that the compliance on board of directors is improving greatly. There has also been a general divergence towards compliance with the board composition and functioning as outlined by the CMA. This is shown by the falling standard deviation to 1.35 in 2009 from 1.57 in 2006. This analysis is summarised in Table 3 below.

Table 3: Board of Directors Sub-Index

<table>
<thead>
<tr>
<th>Board of Directors sub-index (BOARD)</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mean</td>
<td>8.18</td>
<td>7.58</td>
<td>6.82</td>
<td>8.94</td>
</tr>
<tr>
<td>Standard-Dev</td>
<td>1.57</td>
<td>1.73</td>
<td>1.74</td>
<td>1.35</td>
</tr>
<tr>
<td>Minimum</td>
<td>5.00</td>
<td>5.00</td>
<td>5.00</td>
<td>6.67</td>
</tr>
<tr>
<td>1° Quartile</td>
<td>7.5</td>
<td>6.67</td>
<td>5.00</td>
<td>8.33</td>
</tr>
<tr>
<td>Median</td>
<td>8.33</td>
<td>8.33</td>
<td>6.67</td>
<td>10.00</td>
</tr>
<tr>
<td>3° Quartile</td>
<td>9.17</td>
<td>8.33</td>
<td>8.33</td>
<td>10</td>
</tr>
<tr>
<td>Maximum</td>
<td>10</td>
<td>10</td>
<td>10</td>
<td>10</td>
</tr>
</tbody>
</table>
4.2.5 Ethics and Conflict of Interest

On ethics and conflict of interest, the study found that the mean score for the variable was lowest in 2007 and highest in 2009. Thus, there has been a general upward trend on compliance to issues regarding ethics and conflict of interest among media houses. The standard deviations do not however clearly reveal whether there has been a divergence or convergence on the compliance on this issue. This analysis is summarised and presented in Table 4 below.

Table 4: Ethics and Conflict of Interest Sub-Index

<table>
<thead>
<tr>
<th>Ethics and Conflict of Interest sub-index (ETHIC)</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mean</td>
<td>7.42</td>
<td>6.53</td>
<td>6.97</td>
<td>8.18</td>
</tr>
<tr>
<td>Standard-Dev</td>
<td>2.02</td>
<td>1.74</td>
<td>2.08</td>
<td>2.04</td>
</tr>
<tr>
<td>Minimum</td>
<td>3.33</td>
<td>3.33</td>
<td>3.33</td>
<td>6.67</td>
</tr>
<tr>
<td>1° Quartile</td>
<td>6.67</td>
<td>5.83</td>
<td>5.83</td>
<td>7.5</td>
</tr>
<tr>
<td>Median</td>
<td>8.33</td>
<td>6.67</td>
<td>6.67</td>
<td>8.33</td>
</tr>
<tr>
<td>3° Quartile</td>
<td>8.33</td>
<td>6.67</td>
<td>8.33</td>
<td>10</td>
</tr>
<tr>
<td>Maximum</td>
<td>10</td>
<td>10</td>
<td>10</td>
<td>10</td>
</tr>
</tbody>
</table>
4.2.6 Shareholder Rights

The analysis on compliance with guidelines on shareholder rights reveals that the mean score was lowest in 2006 at 4.09 and highest in 2009 at 6.21. The general trend is therefore that there has been an improvement on compliance on this. The findings show that some firms had a mean of 0 in 2006 being the lowest score with a maximum of only 5. This point to the fact that this is the variable that rates poorly. Thus, most firms have not complied on this issue as has been with other issues. This summary is provided in Table 5 below.

Table 5: Shareholder Rights Sub-Index

<table>
<thead>
<tr>
<th>Shareholder Rights sub-index (SHARIG)</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mean</td>
<td>4.09</td>
<td>4.24</td>
<td>6.21</td>
<td>6.21</td>
</tr>
<tr>
<td>Standard-Dev</td>
<td>2.72</td>
<td>1.73</td>
<td>1.84</td>
<td>2.12</td>
</tr>
<tr>
<td>Minimum</td>
<td>0.00</td>
<td>1.67</td>
<td>3.3</td>
<td>3.3</td>
</tr>
<tr>
<td>1° Quartile</td>
<td>2.5</td>
<td>3.33</td>
<td>5.00</td>
<td>5.00</td>
</tr>
<tr>
<td>Median</td>
<td>3.33</td>
<td>3.33</td>
<td>6.67</td>
<td>6.67</td>
</tr>
<tr>
<td>3° Quartile</td>
<td>5.00</td>
<td>5.00</td>
<td>6.67</td>
<td>7.50</td>
</tr>
<tr>
<td>Maximum</td>
<td>10.00</td>
<td>8.33</td>
<td>10.00</td>
<td>10.00</td>
</tr>
</tbody>
</table>
4.3 Determinants of Corporate Governance

The study found out that there was a positive correlation between corporate governance quality and the firm characteristics such as operating income to sales, the firm size, and the ratio of property plant and equipment to sales. The Pearson correlation, R, was found to be 0.493. This shows that 24.3 percent of the change in the corporate governance is as a result of the firm characteristics. As can be observed from Table 6, this relationship is not a strong positive one.

![Table 6: Model Summary for Determinants of Corporate Governance](image)

The tests of significance also revealed that the positive relationship was significant. This is shown in Table 7. The significance for the regression was 0.505. This implies that in as much as the variables determine corporate governance, the effect is not significant at 95% confidence level. Thus, there may be other variables not tested by the model that significantly affect corporate governance for media houses in Kenya.

![Table 7: ANOVA for Determinants of Corporate Governance](image)
The coefficients in Table 8 show the significance levels of the different firm characteristics. The results show that all the firm characteristics do not affect the corporate governance quality. This contravenes the earlier studies which contend that corporate governance is significantly affected by the firm characteristics. Thus, this study concludes that the firm characteristics affect corporate governance quality but fail to confirm that the relationships are significant.

Table 8: Coefficients for Determinants of Corporate Governance

<table>
<thead>
<tr>
<th></th>
<th>Unstandardized Coefficients</th>
<th>Standardized Coefficients</th>
<th>t</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>B</td>
<td>Std. Error</td>
<td>Beta</td>
<td></td>
</tr>
<tr>
<td>(Constant)</td>
<td>26.407</td>
<td>4.034</td>
<td></td>
<td></td>
</tr>
<tr>
<td>FSIZE</td>
<td>-.198</td>
<td>.114</td>
<td>-.526</td>
<td>-1.732</td>
</tr>
<tr>
<td>KS</td>
<td>-4.492</td>
<td>3.638</td>
<td>-1.168</td>
<td>-1.235</td>
</tr>
<tr>
<td>KS²</td>
<td>2.354</td>
<td>1.865</td>
<td>1.184</td>
<td>1.262</td>
</tr>
<tr>
<td>YS</td>
<td>-.943</td>
<td>.829</td>
<td>-.348</td>
<td>-1.138</td>
</tr>
</tbody>
</table>
4.4 Relationship between Corporate Governance and Financial Performance

The results show that there was a very strong positive relationship between the firm the quality of corporate governance and corporate value. As shown in Table 9 below, the Pearson correlation was 0.853 meaning that 72.8 percent of the change in the corporate value was as a result of corporate quality.

<table>
<thead>
<tr>
<th>R</th>
<th>R Square</th>
<th>Adjusted R Square</th>
<th>Std. Error of the Estimate</th>
</tr>
</thead>
<tbody>
<tr>
<td>.853(a)</td>
<td>.728</td>
<td>.490</td>
<td>.19675</td>
</tr>
</tbody>
</table>

This relationship was however found not to be significant. This is shown in Table 10.

<table>
<thead>
<tr>
<th>Sum of Squares</th>
<th>df</th>
<th>Mean Square</th>
<th>F</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Regression</td>
<td>.829</td>
<td>7</td>
<td>.118</td>
<td>3.058</td>
</tr>
<tr>
<td>Residual</td>
<td>.310</td>
<td>8</td>
<td>.039</td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>1.138</td>
<td>15</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Table 11 also shows the way the various components of corporate governance relate to the corporate value. The variables in the model were found to affect the corporate value but not to a very significant extent.
The analysis from the table above indicates that there is a positive correlation between all the variables of disclosure, board, ethics and conflict of interest, and shareholder rights and performance of media houses. The general model shows that 72.8% of the changes in performance are as a result of corporate governance variables. Thus, good corporate governance translates to good financial results.
CHAPTER FIVE

CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

This chapter gives the summary, conclusions and recommendations of the study. It further provides direction for further research. Lack of well-laid corporate governance legislation in Kenya has led to a wide gap of application and practice of corporate governance principles in companies. The existing instruments of corporate governance are just by mere chance or borrowed from other existing operating principles. The fact that many organisations have competent CEOs and top management who have acquired proper skills and experience is a major step towards the right direction on corporate governance application.

5.2 Summary of Findings

The primary objective of the study was measuring the corporate governance practices of media firms and their influence on the financial performance. The study focused on the CEOs and the top management of the sampled firms. The study found that the mean score for the board was 8.18 in 2006, 7.58 in 2007, 6.82 in 2008 and 8.94 in 2009. As shown, it is clear that the compliance on this was high in 2006 then went down for the following two years before plunging back to its highest in 2009. The regression analysis indicates that there is a moderate positive correlation between board composition and performance of firms over the years.

On Disclosure, the study found that the mean score was highest in 2009 at 6.52 and lowest in 2006 at 4.7. This shows that there has been an improvement on disclosure of corporate governance among media houses over the years. On its effect on financial
performance, the study found that it had an average positive correlation with performance.

On ethics and conflict of interest sub-index of corporate governance, the study found that the mean score was lowest in 2007 at 6.53 and highest in 2009 at 8.18. This still indicates an upward trend in the index as it had improved for the three years beginning 2007 to 2009. On the effect of compliance on ethics and conflict of interest on financial performance, the study found that it had an average positive correlation with performance.

The compliance on shareholder rights was also measured for the years. The study found that the mean score for the sub-index had been improving over the years with 2006 being its lowest point at 4.09 and 2009 being its highest point at 6.21. On its effect on financial performance, the study found that it had an average positive correlation with performance.

5.3 Conclusions

The study was designed with the objective of assessing the corporate government practices of media houses. Using a questionnaire developed from the literature on corporate governance, the data was collected and results were then tabulated and explained.

The study found out that the quality of corporate governance for the media houses has been improving over the years. The better performance in terms of the corporate governance practices over the last few years can be said to be as a result of government's concerted efforts to ensure that all firms observe good corporate governance practices. This has also been due to the increased awareness by the investors who demand that issues of corporate governance be addressed before they invest in the firms.
Corporate governance is a dynamic process. The initial focus was the way in which individual firms are directed and controlled and its effect on financial performance. As the wider economic and social significance of corporate governance becomes apparent, international standards were published to advance its course more broadly. The study has shown that media houses are moving in the right direction as far as corporate governance practice is concerned. The firms have instituted strict conditions on the performance contracting and also the balanced scorecard.

5.4 Limitations of the Study

The main limitation that faced the study emanated from the bias of the respondents as well as self-reports. The respondents might have been biased towards having more positive self-assessments which may mean that there is a high extent of corporate governance practice among the media houses.

The second limitation involved the issue of confidentiality. Some of the institutions were not willing to reveal all information about their organization fearing that it would be used by their competitors. However, this was minimized by sending the questionnaires together with the introductory letters with specific information on the purpose of the research and the confidentiality of information provided. The letter detailed the fact that the information collected will be used specifically for academic purposes.

5.5 Recommendations

The governance framework is there to encourage the efficient use of resources and accountability for the stewardship of those resources. The aim is to align as much as possible the agreed interest in any given firm. The incentive to media houses and to the
management to adopt the internationally accepted corporate governance standards will assist them to achieve their aims and to attract more investors which will result to growth of the organisation.

The study recommends that there is evidence that better standards of corporate governance are positively related to better financial performance, the media houses need to take the issues of corporate governance seriously so as to achieve high corporate value. The firms that still have low corporate governance values need to pull up their socks so as to reap from the benefits of corporate governance.

The Government also needs to increase its monitoring role by ensuring that the corporate governance codes are adhered to so as to entrench sound corporate governance practices. This will ensure that the public investors are protected against any malpractices.

5.6 Areas for Further Research

The study recommends that a study be done that covers a longer period than one year to determine the results here still holds. The study failed to confirm that firm characteristics affect corporate governance. More studies need to investigate this by including other variables such as shareholding and other industry effects.

The study suggests further research on the constitution of corporate governance needs to be enhanced as corporate governance cannot pass the test of having no limitation. Other factors that determine the form of corporate governance have not been fully addressed by this study. An investigation therefore needs to be done on what factors may determine extent to which financial performance impacts on corporate governance.
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APPENDICES

Appendix I: Introductory Letter to Media Houses

Arwa Abubakar Ahmed,

P. O. Box 84296 (80100),

Mombasa,

Kenya.

To Whom It May Concern,

I am a postgraduate student studying at Kenyatta University. As part of the course, I am required to undertake a research and present a Project on CORPORATE GOVERNANCE PRACTICES AND THEIR EFFECT ON FINANCIAL PERFORMANCE OF MEDIA HOUSES IN KENYA.

To facilitate this, your organisation has been identified as one of the focus of the study. I kindly request your assistance by availing time to respond to the questionnaire.

All responses received will be strictly used for the purpose of this study and not otherwise and anonymity of actual respondents within the organization will be maintained.

Your assistance will be highly appreciated.

Yours faithfully,

Arwa Abubakar Ahmed

Kenyatta University
Appendix II: Questionnaire

(To be used by Interviewer)

Before completing this questionnaire please read it carefully and fill as appropriate. It is divided into 3 Sections. The first two sections should be completed in uppercase letters. The third section comprises of a closed ended questionnaire where the respondent is required to tick (✓) the appropriate answer.

1. Personal Details

<table>
<thead>
<tr>
<th>Age:</th>
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<tbody>
<tr>
<td>Gender:</td>
</tr>
<tr>
<td>Designation</td>
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</tbody>
</table>

2. Company Profile

<table>
<thead>
<tr>
<th>Name of Company:</th>
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<tbody>
<tr>
<td>Address of the company:</td>
</tr>
<tr>
<td>When It was established:</td>
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</tbody>
</table>
3. Corporate Governance Issues

<table>
<thead>
<tr>
<th>Governance Dimension</th>
<th>#</th>
<th>CGI questions</th>
<th>Yes</th>
<th>No</th>
</tr>
</thead>
<tbody>
<tr>
<td>Disclosure</td>
<td>1</td>
<td>Does the company’s annual report, website or public disclosure include information about potential conflicts of interest such as related party transactions?</td>
<td></td>
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<td></td>
<td>2</td>
<td>Does the company specify in its charter, annual reports or other means sanctions against management in the case of violations of its desired corporate governance practices?</td>
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<td></td>
<td>3</td>
<td>Does the company produce its legally required financial reports by the required date?</td>
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<td></td>
<td>4</td>
<td>Does the company use an international accounting standard?</td>
<td></td>
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<tr>
<td></td>
<td>5</td>
<td>Does the company use one of the leading global firms?</td>
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<tr>
<td></td>
<td>6</td>
<td>Does the company disclose in its website or annual report compensation information for the CEO and board members?</td>
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<tr>
<td>Board</td>
<td>7</td>
<td>Are the Chairman of the Board and the CEO</td>
<td></td>
<td></td>
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<tr>
<td>Composition and Functioning</td>
<td>different persons?</td>
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<td></td>
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<td>-----------------------------</td>
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<td></td>
<td></td>
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<tr>
<td>8</td>
<td>Does the company have monitoring committees such as a compensation and/or nominations and/or audit committees?</td>
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<tr>
<td>9</td>
<td>Is the board clearly made up of outside and possibly independent directors?</td>
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<tr>
<td>10</td>
<td>Is the board size between 5 and 9 members as recommended by the IBCG Code of Best Practices?</td>
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<td>11</td>
<td>Do board members serve consecutive one-year terms as recommended by the IBCG Code of Best Practices?</td>
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<tr>
<td>12</td>
<td>Is there a permanent Fiscal Board</td>
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<tr>
<td>Ethics and Conflict of Interest</td>
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<tr>
<td>13</td>
<td>Is the company free of any undergoing inquiry regarding governance malpractices</td>
<td></td>
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<tr>
<td>14</td>
<td>Is the company free of any convictions and/or fining for governance malpractices or other securities law violations in the last five years?</td>
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<td>15</td>
<td>Does the company submit to arbitration in place of regular legal procedures in the case of corporate governance malpractices?</td>
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<tr>
<td>16</td>
<td>Do ultimate controlling shareholders,</td>
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<td></td>
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<tr>
<td>Shareholder rights</td>
<td>17</td>
<td>Is the percentage of non-voting shares in total capital less than 20%?</td>
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<td></td>
<td>18</td>
<td>Is the ultimate controlling shareholder’s ratio of cash flow rights to voting rights greater than 1?</td>
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<tr>
<td>19</td>
<td>Does the company charter or verifiable actions facilitate the process of voting to all shareholders beyond what is legally required?</td>
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<tr>
<td>20</td>
<td>Does the company charter grant additional voting rights beyond what is legally required?</td>
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<td>21</td>
<td>Does the company grant tag along rights beyond what is legally required?</td>
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<td>22</td>
<td>Are there pyramidal structures that decrease control concentration of the ultimate controlling shareholder?</td>
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<tr>
<td>23</td>
<td>Does the company have shareholder agreements that decrease control concentration?</td>
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<td>24</td>
<td>Is the free-float greater than or equal to what is required in NSE</td>
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</table>
Appendix III: List of Companies in Print Media

PRINT MEDIA

MAINSTREAM NEWSPAPERS

1. NATION NEWSPAPER
2. THE STANDARD
3. THE PEOPLE DAILY
4. KENYA TIMES
5. THE EAST AFRICAN

ALTERNATIVE MEDIA/OTHER MEDIA

6. CITIZEN
7. FINANCIAL TIMES
8. FAITH DAILY
9. THE LEADER

GOVERNMENT MEDIA

11. KENYA NEWS AGENCY (KNA)
12. KENYA BROADCASTING CORPORATION