EFFECT OF CORPORATE GOVERNANCE ON PERFORMANCE OF SUGAR MANUFACTURING FIRMS IN KENYA: A CASE OF FIRMS IN WESTERN KENYA

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EGERTON UNIVERSITY

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DECLARATION AND APPROVAL

Declaration

I hereby declare that this is my original work and has not been presented in this or any other University for the award of a degree.

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Approval

This work has been submitted with my approval as University supervisor

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DEDICATION

I dedicate this research work to my loving wife Christine, my children Cony, Hanny, Winy and Queen who continuously gave me moral support throughout the period of study.

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I extend my gratitude to Almighty God for making impossible turn possible and giving me sound and good health during my studies. I also wish to extend my appreciation to Egerton University for giving me an opportunity to further my studies and a health studying environment. I wish to acknowledge the staff of the Department of Business Management and faculty of Commerce, Egerton University for their support since I enrolled for my studies. Special thanks go to my University supervisor Mr. Henry Kombo, for his tireless efforts in guiding and shaping this work during the entire research period, besides his positive criticism that withstood the test of time. My heartfelt and sincere gratitude's are extended to the Sugar manufacturing firms in Western Kenya for offering me a conducive environment and support during data collection period. I appreciate the support of my colleagues, for sharing with me useful ideas during the entire period of study and research. For those who supported me but not mentioned, know that your effort and encouragement was felt and appreciated. My academic achievement is for us all. God Bless all.

ABSTRACT

Corporate governance is increasingly becoming important in organization as an approach of improving performance. Corporate governance is the system through which organizations are directed and controlled. It is concerned with transparency, accountability and power relationship within and outside the organization. There has been an increasing importance in corporate governance in organizations in recent years. Some studies have argued for a positive relationship while others argued that there is a negative relationship between corporate governance and organizational performance. This study sought to determine the effect of corporate governance on organizational performance of sugar manufacturing firms in western Kenya. The research employed correlational survey design. The population of the study constituted of eleven sugar manufacturing firms in Western Kenya. A census survey study of sugar manufacturing firms in Western Kenya was conducted. In each sugar firm, 4 respondents were targeted, that is, the C.E.O. marketing manager, production manager and Human Resource manager. Primary data was collected using structured questionnaires. Descriptive statistics was used to summarize the data. Pearson's correlation coefficient was used to determine the relationship between corporate governance and organizational performance of sugar manufacturing firms, multiple regression analysis was used to determine the effect of corporate governance on organizational performance. Findings revealed that the corporate governance practices were positively related to the performance of sugar manufacturing firms in western Kenya, although not very strongly ($r = 0.512$, $p < 0.05$). This means that the corporate governance practices which involve board characteristics, board size, top management characteristics and Shareholders communication policy and Continuous disclosure had an impact on the performance of sugar firms in Western Kenya. The study recommended areas of further research.

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LIST OF ABBREVIATIONS AND ACRONYMNS

GOK Government of Kenya

KESGA Kenya Sugar Growers Association

KESREF Kenya sugar Research Foundation

KSB Kenya Sugar Board

MOA Ministry of Agriculture

SDL Special Development levy

SUCAM Sugar Campaign for Change Management

NED Non-Executive Director

CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

The concept of corporate governance originated in the Nineteenth Century when incorporation was being advocated for as a way of limiting liability (Fletcher, 1996). It began to be used and spoken about more commonly in the 1980s (Parker, 1996) Adams (2002) perceives creation of the registered company to be the real starting point for any discussion on corporate governance. The issues associated with corporate governance have assumed multifarious dimensions with wide implications, especially for profit-oriented business organizations. There has been growing interest in corporate governance in recent times that it has become an issue of global significance. The main reason for the search for a universal understanding of the indicators, drivers and mitigating instruments of corporate governance has been heightened in recent times by the spectacular failure of top organizations including Enron, WorldCom, Tyco, Adelphia, Arthur Anderson, Lehman Brothers, Freddy Mac, Fanny Mae, Goldman Sachs, Marconi, Northern Rock, Parmalat and Yukos (Duke & Kankpang, 2011). In most corporate organizations, conflict of interest is a pervasive phenomenon which characterizes relationships between and among the various stakeholders. Conflict exists at many levels and in varying degrees of intensity. For instance, it is commonly observed between the majority and minority shareholders, and between the internal organizational controllers and some of the external stakeholders.

Sugar industry ensures food security improves rural lives and provides sustainable livelihoods for millions of Kenyans, but it also has to suffer heavy government intervention. The industry is under constant threat of collapsing due to perennial challenges. The major crises the sub-sector is currently experiencing include liberalization and increasing competition from cheap sugar imports, poor industry policies and structures that fail to

address basic problems that would assist in recovery and continued government intervention that has resulted in mismanagement of the industry (Nwadioke, 2009).

The reasons for poor corporate governance are found throughout the world which is mostly coupled with fraudulent acts and other major malpractices. They include irregularities in accounts, non-compliance with law, nepotism, non-merit based system and exploitation of minority shareholders (Love, 2011). Sugar firms have also had their share in corporate frauds and scandals. However the government has taken strides to reduce such malpractices and their effects on corporate environment. Governance is all about encouraging corporate sector to be accountable, fair, transparent and responsible as spelled out by the World Bank president. Companies today have established the concept of corporate governance which is characterized by major components that include company polices, rules and regulations, board of directors, role of CEO and chairman, stock holders, creditors, institutional investors and regulators reporting and maintaining overall transparency. fairness and accountability about the business operations (Nwadioke, 2009).

The World Bank, in 1999, stated that corporate governance comprises of two mechanisms, internal and external corporate governance. Internal corporate governance, giving priority to shareholders' interest, operates on the board of directors to monitor top management. On the other hand, external corporate governance monitors and controls managers' behaviors by means of external regulations and force, in which many parties involved, such as suppliers, debtors (stakeholders), accountants, lawyers, providers of credit ratings and investment bank (professional institutions). Consequently, corporate governance mechanism has been a crucial issue discussed again (Pham *et a*l., 2007). Poor corporate governance has been a problem in the sugar industry. For efficiency and profitability of the industry, the reform process should be geared towards developing and implementing policies that will ensure that the principles of good corporate governance are instilled and maintained. This will ensure competitiveness and sustainability of the industry business enterprises and attract investment (Kenya Sugar Board, 2009).

1.1.1 Corporate Governance

Effective corporate governance was identified to be critical to all economic transactions especially in emerging and transition economies (Banerjee *et al.,* 2009). However, at varying

levels of agency interactions, market institutional conditions reduced information imperfections and facilitated effective monitoring of agents which impinged on the efficiency of investment. Likewise, corporate governance assumed the center stage for enhanced corporate performance. What then is corporate governance? Corporate governance is the system through which organizations are directed and controlled. It is concerned with transparency, accountability and power relationship within the organization. The purpose of corporate governance is to ensure that the organization is managed in the long term interest of the shareholders (Joe, 2007). Corporate governance can also be referred to as set of rules and procedures that ensure that managers do indeed employ the principles of value based management. The essence of corporate governance is to make sure that the key shareholder objective-wealth maximization is implemented (Rashid, 2008). It is concerned with the relationship between the internal governance mechanisms of corporations and society's conception of the scope of corporate accountability (Low, 2006). Keasey et al, (1997) included 'the structures, processes, cultures and systems that engender the successful operation of organizations.

Scholars argue that corporate governance is represented by structures and processes laid down by a corporate entity to minimize the extent of agency problems as a result of separation between ownership and control (Fama, 1980). It must also be indicated 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 constituencies. The corporate governance structure specifies the distribution of rights and responsibilities among different participants in the corporation such as; boards, managers, shareholders and other stakeholders and spells out the rules and procedures and also decision making assistance on corporate affairs (Duke & Kankpang, 2011). By doing this, it also provides the structure through which the company objectives are set and the means of obtaining those objectives and examining the value and the performance of the firms.

The improvement of corporate governance practices is widely recognized as one of the essential elements in strengthening the foundation for the long-term economic performance of countries and corporations (Kyereboah, 2007). The term corporate governance relates to how corporations, firms, organizations among others, are owned, managed and controlled.

Moshe (2006) stressed that corporate governance is about ensuring that the business is running well and investors receive a fair return. Cremers and Nair (2005) asserted that core corporate governance institutions respond to two distinct problems, one of vertical governance (between distant shareholders and managers) and another of horizontal governance (between a close, controlling shareholder and distant shareholders).

1.1.2 Organizational Performance

Measuring and analyzing organizational performance plays an important role in achieving organizational goals. The performance is usually evaluated by estimating the values of qualitative and quantitative performance indicators (Maharm & Anderson, 2008). It is essential for a company to determine the relevant indicators, how they relate to the formulated company goals and how they depend on the performed activities. Measuring firm performance using accounting ratios is common in the Corporate Governance literature Maham and Anderson (2008) in particular, return on capital employed, return on assets, and return on equity. Similarly, economic value added can be as an alternative to purely accounting- based methods to determine shareholder value by evaluating the profitability of a firm after the total cost of capital, both debt and equity are taken into account (Mazumbar, 2006). In this study, Market share, Growth in sales, profit and output in sales were used to measure organizational performance.

Corporate governance promotes reduction of waste on non-productive activities such as shirking, excessive executive remuneration, perquisites, asset-stripping, tunneling, related-party transactions and other means of diverting the firm's assets and cash flows (Bhagat & Bolton, 2008). It also results in lower agency costs arising from better shareholder protection, which in turn engenders a greater willingness to accept lower returns on their investment. The firm ultimately ends up enjoying higher profits as it incurs lower cost of capital. Importantly, firms become more attractive to external financiers in direct proportion to a rise in their corporate governance profile. Finally, managers become less susceptible to making risky investment decisions, and focus more on value-maximizing projects that generally facilitate organizational efficiency. The ultimate outcomes of these corporate governance benefits are generally higher cash flows and superior performance for the firm (Love, 2011).

1.1.3 Sugar Industry in Kenya

The sugar sub-sector is mainly concentrated in the western part of Kenya. These include the populous provinces of Nyanza, Western and parts of Rift valley. Potential also exists in the Eastern and Coastal belts (Sucam, 2003). Shortly after independence in 1963 the government set up Muhoroni (1966), previously East African Sugar Company Ltd in 1961; Chemelil (1968); Mumias (1973); Nzoia (1978); South Nyanza (1979). Miwani Sugar, started in 1922 as private investment, was taken over in 1970. Private investment include: West Kenya Sugar, Soin Sugar Company, Kibos Sugar and Allied Industries Ltd, Butali Sugar Company and Busia Company. Of the private investments only Butali and West Kenya are presently in operation, the rest are proposed or at varying stages of construction. At present, both Miwani and Muhoroni are under receivership; only the latter is operational. According to Kenya Sugar Board(2005), the state stake holding in the industry is: Miwani Sugar (49%); Muhoroni (82.78%); Chemelil (97.64%); Nzoia (98.87%); South Nyanza (99.79%). The government has divested in Mumias and Miwani, currently retaining 20 percent in the former, also the sole firm presently listed at the Nairobi Stock Exchange. The large government ownership makes the industry prone to state and political interference (Sucam, 2003). The industry is one of the largest contributors to the agricultural sector Gross Domestic Product, directly and indirectly supporting and estimated 6 million Kenyans (20% of the Kenyan population), produces over 500,000 metric tons of sugar for domestic consumption (saving the economy in excess of US$250 million or Kshs. 20 billion in foreign exchange annually), GOK (2006).

The prominence of the sugar industry in Western Kenya has prompted the growth of regulatory and other industry affiliated bodies. The government oversees the sub-sector principally through the Ministry of Agriculture (MoA) and the Kenya Sugar Board,the latter being made of representatives from the state, sugar companies, farmers' organization and general industry. The industry has over 150 smaller, artisanal 'jaggerries', competing for cane with the regular factories (Harding, 2005). Other related industries are: Agro-chemical and Food Company Limited started in the early 1980s with some government stake holding. This scenario has stimulated growth of rural infrastructure in feeder roads, transport services, spurring economic, educational, medical and other social services and the expansion of other rural facilities, all vital to western Kenya's economic well-being. This desire was expressed in the Sessional Paper No. 10 of 1965 on African Socialism and its Application to Planning in Kenya. Despite these investments, self-sufficiency in sugar has remained elusive over the years as consumption continues to outstrip supply. Total sugar production grew from 368,970

tons in 1981 to 520,404 tons in 2007. Domestic sugar consumption increased even faster, rising from 324,054 tons in 1981 to 741,190 tons in 2007.

The main industry organ is the Kenya Sugar Board. KSB was established to regulate, develop and promote the sugar industry; coordinate the activities of individuals and organizations in the industry and; facilitate equitable access to the benefits and resources of the industry by all interested parties. KSB has 12 members and renewable tenure of three years. Another key player is the Minister of Agriculture who imposes levies on domestic and imported sugar, Special Development Levy (SDL), makes the regulations and appoints the SAT members in consultation with the Attorney General. The stakeholders in the industry include farmers, the government, sugar factories, and out-grower institutions like the Kenya Sugarcane Growers Association (KESGA), Kenya Sugar Research Foundation (KESREF), importers, financial institutions, transporters, consumers and lobby groups like Sugar Campaign for Change (SUCAM). Unfortunately, not all of them have been involved in the due processes and most of them have not been represented. This has resulted in a small group making decisions that affect the entire industry. This is occasioned by political interference.

The performance of the sugar industry has continued to be quite dismal in Kenya, therefore Kenya continues to live off its legacy of being self-sufficient in terms of sugar production. According to sources from the Mumias Sugar Company, current production stands at 520,000 metric tons and consumption which has increased steadily over the last years at 740,000 leaving the country with a deficit of 220,000 metric tons. From the list of registered millers and jaggeries provided by the KSB, Muhoroni and Miwani Sugar Company are currently under receivership. Muhoroni Sugar has been under receivership for the last four years Ramisi Sugar Factory collapsed in 1988 although plans are underway to revive it. According to the agricultural field officers sanctioned by the government to revive Ramisi, commercial growing of cane at the Kiscol project, was expected to commence by June 2010, while it was anticipated that the factory was to be fully operational by 2011. In terms of production arrangements, most Sugar companies typically have a factory, human resources, agriculture and finance department. The factory department has recently been split up into quality control and engineering in a number of the factories such as Chemelil. The sugar companies also maintain nucleus estates to ensure there is enough supply of cane. Out growers' scheme on the other hand covers individuals or private sugar–cane farmers. Despite the existence of

nucleus estates, sugar companies still complain of sugar cane shortage a problem which has also contributed to the production gaps in the industry.

1.2 Statement of the Problem

Corporate governance is increasingly becoming important in organizations as an approach of improving organizational performance. Lack of sound corporate governance has led to poor performance of organizations throughout the world as well as suppressing sound and sustainable economic decisions. Economic crisis that hit the South East Asian stock markets in 1997-1998 was partly due to weak corporate governance in the region. Several studies demonstrated varying positive relationships between corporate governance and organizational performance in quoted companies in Nigeria. Some other studies have however argued against a positive and negative relationship between corporate governance and firm performance. Empirical literature has revealed inconsistent findings regarding the relationship between corporate governance and organizational performance. The performance of the sugar industry in Kenya has continued to be quite dismal. Kenya therefore continues to live off its legacy of being self-sufficient in terms of sugar production. Corporate governance has been a challenge for the industry for a long time. The sugar industry needs to transform itself to profitability and efficiency path through sound management practices. Given the inconsistency reported in Kenya and the fact that little studies has been done in Kenya on sugar firms, this study sought to determine the effect of corporate governance on performance of Sugar manufacturing firms in Kenya.

1.3 Objectives of the Study

The overall objective of this study was to examine the effect of corporate governance on performance of sugar manufacturing firms in Kenya. The specific objectives of the study were to:

i. Determine the effect of Board characteristics on the performance of firms.
ii. Determine the effect of top management characteristics on performance of firms.
iii. Determine the effect of stakeholder communication on performance of firms.
iv. Determine joint effect of Board characteristics, top management characteristics and stakeholder communication on performance of firms.

1.4 Research Hypotheses

This study sought to test the following hypotheses:

H_{a1}: Board characteristics positively affect organizational performance.

H_{a2}: Top management characteristics positively affect organizational performance.

H_{a3}: Stakeholder's communication positively affects organizational performance.

H_{a4}: Combined levels of Board characteristics, top management characteristics and stakeholder communication positively affect organizational performance.

1.5 Significance of the Study

Organizational corporate governance has some financial implication and thus it is imperative to keep track of such activities. The study is important to scholars in management and hence will contribute positively to the academic knowledge.

The study will also be important to management practitioners and will contribute to the existing literature in the field of strategic management and other management courses. The study revealed that corporate governance practice affects the organizational performance of the sugar industry and that relationship exists between corporate governance and the organizational performance.

The findings of the study will therefore be very useful to give a general picture of what corporate governance elements affect the performance of sugar industry. The study will be a basis of reference and will activate more research in the study area by academicians and the business community in Kenya and the world.

1.6 The Scope and Limitation of the Study

1.6.1 Scope of the Study

This study was conducted to determine effect of corporate governance on performance of sugar manufacturing firms. Aspects looked into were Board characteristics, top management characteristics, shareholder communication characteristics, market share, sales growth, profit and output in units. This study used a sample drawn from the top management in various Sugar companies and only focused on sugar manufacturing firms in Western Kenya and Nyanza.

1.6.2 Limitations of the Study

The study was limited to nine public and private sugar manufacturing firms in Kenya. Additionally, respondents were unwilling to provide information for fear that the information was sensitive. Besides, these respondents considered certain information as classified and confidential, and were unwilling to share the information. The researcher, therefore, took the necessary steps and measures to ensure that proper communication was made on the purpose of the study and assured the respondents of confidentiality of information provided.

1.7 Operational Definition of Terms

Corporate governance: Corporate governance is the system through which organizations are directed and controlled. It is concerned with transparency, accountability and power relationship within the organization

Firm performance: Firm performance is thus the effectiveness of a firm in achieving the outcomes it intends to achieve within specified time targets. These outcomes can be explained as the measures by which the firm is evaluated, and broadly include the quality of governance

Stakeholders' interests: This refers to the Structure that specifies the distribution of rights and responsibilities among different participants in the corporation such as; boards, managers, shareholders and other stakeholders and spells out the rules and procedures and also decision making assistance on corporate affairs.

Sugar manufacturing firms: These are all those firms that process sugarcane into sugar

Sugar industry: These are firms concerned with processing sugarcane stokes into sugar, molasses.

Board Size: is the number of directors on the board.

Board independence: is measured as the percentage of directors who are unaffiliated with the sample firm.

Shareholder: somebody who owns one or more shares of a company's stock.

Stakeholder: a person or group with direct interest, involvement or investment in something, this include employees, stockholders, and customers of a business concern

Market share: is the percentage of a market defined in terms of units or revenue accounted for by a specific entity.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter discusses literature review on corporate governance and organizational performance**.** The chapter also discusses theoretical frame work and conceptual frame work as well as the relationship between independent and dependent variables.

2.2 Corporate Governance

Corporate governance is a necessary ingredient for the firm performance as well as the overall growth of the economy of the country (Brava et al., 2006). There was a virtual explosion of interest in corporate values under headings like shareholder value (Copeland et al.,2005), stakeholder value, customer value (Kanellus & George, 2007). Large and new value systems were marketed as general solutions applicable to all kinds of businesses, which attracted little interest among academic researchers (Rajan & Zingales, 2000). The World Bank, in 1999, stated that corporate governance comprises of two mechanisms, internal and external corporate governance. Internal corporate governance gave priority to shareholders' interest and enabled the board of directors to monitor top management. On the other hand, Cremers and Nair (2005) asserted that external corporate governance monitored and controlled managers' behaviors by means of external regulation and force, in which many parties were involved, such as suppliers, debtors (stakeholders), accountants, lawyers, providers of credit ratings and investment bank.

Corporate Governance is about ensuring accountability of management in order to minimize downside risks to shareholders and about enabling management to manage enterprise in order

to enable shareholders to benefit from upside potential of firms (Keasey & Wright, 1993). Macus (2008) extended an agency perspective on governance and suggested that particular blend of incentives, authority relations and norms of legitimacy in founder firms interacted with the external environment which affected the nature and pace of learning and capability development. The corporate governance structure specified the distribution of rights and responsibilities among different participants in the corporation, such as the board, managers, shareholders and other stakeholders and spelled out the rules and procedures for making decisions on corporate affairs. It also provided the structure through which the company objectives were set, means through which those objectives were attained as well as monitoring performance (Abor & Adjasii, 2007).

Corporate governance is important because it promotes good leadership within the corporate sector. Corporate governance has the following attributes; leadership for accountability and transparency, leadership for efficiency, leadership for integrity and leadership for respect and the rights of all stakeholders, (Nanka, 2009). Lack of sound corporate governance has enabled bribery, acquaintance and corruption to flourish as well as suppressing sound and sustainable economic decisions (Yoshikawa & McGuire, 2008).

In general, corporate governance is considered to have significant implications on the growth prospects of an economy, because best practice reduces risks for investors, attracts investment capital and improves the performance of companies (Spanos, 2005). In Sri Lanka, effective corporate governance was considered as means of ensuring corporate accountability, enhancing the reliability and quality of financial information, hence enhancing the integrity and efficiency of capital markets, which in turn improved investor confidence (Rezaee, 2009).

The main reason for emerging economies to consider introducing corporate governance was their need to build investor confidence to attract foreign and local investment and expand trade (Abhayawansa & Johnson, 2007). International donor agencies such as the IMF and World Bank indirectly influenced developing countries to improve their corporate governance mechanisms and regulatory infrastructure (Nwadioke, 2009). The adoption of corporate governance was also stimulated by the belief that the economic crisis that hit the South East Asian stock markets in 1997-1998 was partly due to weak corporate governance

in the region (Mobius, 2002). This resulted in governance reforms in the emerging markets to restore investor confidence by providing a secure institutional platform on which to build an investment market (Maharm & Anderson, 2008).

Corporate governance provides a firm foundation for the development of economies. A good corporate governance mechanism improves the health of the corporate sector, thus enhancing national competitiveness. Corporate governance mechanisms consist of a combination of economic and legal institutions that ensure the flow of external financing to the firm, aligns the interests of owners (investors) with managers and other stakeholders, and guarantees a return to investors. Board governance is one of the important controls in managing the firms operations (Fama 1980; Fama & Jensen 1983). Previous studies by researchers (Anderson & Reeb 2003; Miller & Breton-Miller 2006; Villalonga & Amit 2006, Amran & Ahmad 2009, Samad et al., 2008) found mixed findings on corporate governance mechanisms and firm performance. Liu (2005) identified various corporate governance mechanisms. These included aspects of board characteristics, top management characteristics and stakeholder communication and disclosure characteristics such as board size, board composition, audit committee, CEO status, board independence and transparency and accountability.

Larger organizations often use corporate governance mechanisms to manage their businesses because of their size and complexity. Publicly held corporations are also primary users of corporate governance mechanisms (Young et al.,2008). The literature suggests that both market and non-market mechanisms could be used to promote the alignment of interest of managers and stakeholders. The managerial labour market and the market for corporate takeover exerted pressures both within and outside the firm in order to achieve such an alignment of interest. Fama (1980) asserted that a firm can be viewed as a team, whose members realize that in order for the team to survive, they must compete with other teams, and that the productivity of each member has a direct effect on the team and its members.

Thus, within the firm, each manager has the incentive to monitor the behavior of other managers, whether subordinates or superiors. Secondly, Fama (1980) argued that the firm was in the market for new managers and the reward system was based on performance in order for it to attract good managers or even to retain existing ones. Demsetz and Lehn (1985) provided an explanation for the weakness of the market induced mechanisms as a

means of protecting stakeholder interests. They observed that the free rider problem tended to prevent any of the numerous owners of equity from bearing the cost of monitoring the managers. Empirical works on the mechanisms aimed to help reduce the agency problem. Abstracting from other dimensions of corporate governance they focused on various mechanisms, board composition, board size, independence of chief executive officer, Audit committee, Transparency and accountability, Shareholders communication policy and Continuous disclosure

2.2.1 Board Characteristics

Board characteristics comprises of Board of directors, Board size, Board composition and Independence of the Board.

2.2.1.1 Board of Directors

Langton and Robbins (2007) defined a Board as a team brought together to work towards achieving organizational goals. Therefore, from an organizational perspective, the board can be observed as being placed in a hierarchy above the chief executive and other managers. A board of directors is a corporate governance mechanism that protects the interests of a company's shareholders. The shareholders use the board to bridge the gap between them and company owners, directors and managers. The board is often responsible for reviewing company management and removing individuals who do not improve the company's overall financial performance. Shareholders often elect individual board members at the corporation's annual shareholder meeting or conference. Large private organizations may use a board of directors, but their influence in the absence of shareholders may diminish (Vitez, 2011).

2.2.1.2 Board Size

Limiting board size to a particular level is generally believed to improve the performance of a firm because the benefits by larger boards of increased monitoring are outweighed by the poorer communication and decision making of larger groups. Empirical studies on board size provided the same conclusion; a fairly clear negative relationship appeared to exist between board size and firm value. A big board is likely to be less effective in substantive discussion of major issues among directors in their supervision of management. Scarborough et al, (2010) argued that large boards are less effective and are not easier for the CEO to control.

When a board gets too big, it becomes difficult to coordinate and for it to process and tackle strategic problems of the organization.

Empirical evidence on the relationship between board size and performance was mixed; hence bigger board having representation of people with diverse backgrounds was expected to bring diversified knowledge and expertise to the board. Gao and Yoshikawa (2010) contended that by increasing the number of directors, the pool of expertise available to the firm increases and so larger boards are likely to have more knowledge and skills at their disposal as compared to smaller boards. Further, Forbes and Milliken (1999), and Goodstein, Gautam, and Boeker (1994) provided evidence that larger boards reduced the domination by the CEO. Pearce and Zahra (1992), and Dalton, Daily, Ellstrand, and Johnson (1999) reported positive association between board size and performance. Kathuria and Dash (1999) investigated the relationship between the size of the board and firm performance for 504 Indian firms.

Jensen (2009) indicated that a value relevant attribute of corporate board is its size. Organizational theory indicated that larger groups took relatively longer time to make decisions hence more input time (Cheng, 2008). Empirical studies have shown that limiting board size to a particular level is generally believed to improve the performance of a firm (Lipton & Lorsch, 1992, Yarmack, 1996, Sanda et al., 2005, Eisenberg et al., 1998).There was a convergence of agreement on the argument that board size is associated with firm performance. However, conflicting results emerged on whether it is a large, rather than a small board, that is more effective. Yarmack (1996), found out that Tobin's Q declined with board size, and his finding was corroborated by those of Mak and Kusnadi (2005) and Sanda, Mikailu and Garba (2005) who found out that small boards were more positively associated with high firm performance.

However, results of the study of Kyereboah-Coleman (2007) further indicated that large boards enhanced shareholders' wealth more positively than smaller ones. Separation of office of the chair of the board from that of CEO generally seemed to reduce agency costs for a firm. Kajola (2008) found a positive and statistically significant relationship between performance and separation of the office of the chair of the board and CEO. Yarmack (1996) equally found that firms were more valuable when different persons occupied the offices of

chair of the board and CEO. Kyereboah-Coleman (2007) proved that large and independent boards enhanced firm value, and the fusion of the two offices negatively affected a firm's performance, as the firm had less access to debt finance. From a sociological point of view, a larger board of directors was beneficial and increased the collection of expertise and resources accessible to a firm (Dalton et al., 1999). Boards with too many members led to problems of coordination, control, and flexibility in decision-making (Cheng, 2008).

Large boards gave excessive control to the CEO and harming efficiency (Eisenberg et al*.,* 1998; Fernandez et al*.,* (1997). Furthermore, Jensen (2009) argued that as board size increases, boards' ability to monitor management decreases due to a greater ability to avoid an increase in decision-making time. Similarly, Hermalin and Weisbach (2007) argued that the consensus among the economic literature was that a larger board could weaken firm performance. Empirical studies on board size provided a similar conclusion: a fairly clear negative relationship appeared to exist between board size and firm value. Too big boards are likely to be less effective in substantive discussion of major issues among directors in their supervision of management.

Research studies on higher market value of companies from Finland and China by Yarmack (1996) and Liang and Li (1999), found a negative correlation between board size and profitability. Similarly, Mak and Yuanto (2003) using sample of firms in Malaysia and Singapore, found that firm valuation is highest when board size is small. Study of Nigerian firms by Sanda et al., (2003) reported that firm performance was positively correlated with small, as opposed to large boards. Finally, Mak and Kusnadi (2005) also reported that small size boards were positively related to high firm performance.

Overall, the findings were consistent with the notion that a large board was characteristic of weak corporate governance and limiting board size to a particular level was believed to improve the performance of a bank as the benefits by larger boards were outweighed by the poorer communication and decision making of larger groups. These arguments suggested that large board size affected banks' performance negatively. In specific terms, the results of Klein (2002) and Anderson, Mansi and Reeb (2004) showed a strong association between internal audit committee and firm performance, whereas Kajola (2008) found no significant relationship between both variables. This lack of consensus presented scope for deeper

research on the impact of this corporate governance variable. Regarding board size, there was a convergence of agreement of its association with firm performance. However, conflicting results emerged on whether it was a large, rather than a small board, that was more effective. For instance, while studies conducted by Yarmack (1996), Mak and Kusnadi (2005), and Sanda, Mikailu and Garba (2005) found that small boards were more positively associated with high firm performance, Kyereboah-Coleman (2007) found that larger boards enhanced shareholders' wealth more positively than smaller ones.

2.2.1.3 Board Composition

Board composition is a key factor in allowing the board to act as a guardian of the principal's interests. Inside directors have access to information that is relevant to assessing managerial competence and the strategic desirability of initiatives (Samad et al.,2008). In that sense they are better able to discriminate legitimate or illegitimate causes of organizational misfortune. However, insider directors usually do not make exhaustive evaluation of the strategic decision processes since they are influenced by the CEO (Simpson et al.,2012).

Enhanced director independence, according to (Young, 2003, Young et al., 2008) is intuitively appealing because a director with ties to a firm or its CEO finds it more difficult to turn down an excessive pay packet, challenge the rationale behind a proposed merger or bring to bear the skepticism necessary for effective monitoring. The proponents of agency theory said that corporate governance led to higher stock prices or better long-term performance, because managers were better supervised. However, Gompers and Metrick (2003) submitted that the evidence of a positive association between corporate governance and firm performance had little to do with the agency explanation.

Empirical studies on the effect of board membership and structure on firm performance generally showed results either mixed or opposite to what was expected from the agency cost argument. Some studies found better performances for firms with boards of directors dominated by outsiders (Cornett et al., 2008; Ravina & Sapienza, 2009) while Weir and Laing (2001) and Pinteris (2002) found no such relationship in terms of accounting profit or firm value. Also, Forsberg (1989) found no relationship between the proportions of outside directors and various performance measures. Adams et al, (2010), Bhagat and Black (2006) found no correlation between the degree of board independence and four measures of firm performance. Bhagat and Black (2006) found that poorly performing firms were more likely

to increase the independence of their board. McAvoy, Dana, Cantor and Peck (1983), Baysinger and Butler (1985) and (Klein, 1998, Rezaee, 2009) argued that firm performance was insignificantly related to a higher proportion of outsiders on the board. Thus, the relation between the proportion of outside directors and firm performance was mixed.

2.2.1.4 Boards Independence

Board independence was considered crucial because outside directors were considered as true monitors' who could discipline the management and improve firm performance (Duchin et al., 2010). Nank and Bruce (2009) argued that a board is more independent if it has more non-executive directors (NEDS). As to how this relates to firm performance, empirical results have been inconclusive. In one breath, it was asserted that executive (inside) directors are more familiar with a firms activities and therefore are in a better position to monitor top management. On the other hand, it was contended that NEDS may act as professional referees to ensure that competition among insider's stimulated actions consistent with shareholders value maximization. Gao (2010), asserted that the presence of non-executive directors in the board, would make the board more independent and an independent board could be better placed to make independent decisions and help safeguard the interests of all the stake holders, particularly the rights of minority shareholders. The issue of board independence stems from the concern to protect shareholder interests from managerial opportunism. Independence is critical to ensuring that the Board of Directors fulfills its objective of oversight role and holds management accountable to shareholders (Seamer & Psaros, 2009). Having majority of independent directors (outsiders) on the board will counterbalance the power of the CEO in decision-making and provide assurance to shareholders. As for the relation between board independence and firm performance, if outside directors are independent and have professional ability, they could be more objective to make decisions and monitor managers. Empirical research on the state of corporate governance by Bebchuk and Weisbach (2009), Ravina and Sapienza, (2009) Corroborated that the higher ratio of independent directors led to better firm performance. Corporate governance is a necessary ingredient for the firm performance as well as for the overall growth of the economy of the country (Brava et al., 2006).

2.2.2 Top Management Characteristics

Top Management characteristics in this study focused on Audit committee, Independence of Chief Executive Officer, Director's Professional Qualification, Transparency and Accountability

2.2.2.1 Audit committee

Corporate structure should include an audit committee composed of independent directors with significant exposure on financial transactions. The size and effectiveness of the Audit Committee could be an indicator of the seriousness attached to issues of transparency and sends the right signal to the public who then develops confidence in the organization (Renato, 2009). Klein (2002) reported a negative correlation between earnings, management and audit committee independence. Anderson, Mansi and Reeb (2004) found that independent audit committees had lower debt financing costs. The audit committee is established with the aim of enhancing confidence in the integrity of an organization's processes and procedures relating to internal control and corporate reporting including financial reporting. Audit Committee provides an 'independent' reassurance to the board through its oversight and monitoring role.

Among many responsibilities the boards entrust the Audit Committee with the transparency and accuracy of financial reporting and disclosures, effectiveness of external and internal audit functions, robustness of the systems of internal audit and internal controls, effectiveness of anti-fraud, ethics and compliance systems, review of the functioning of the whistleblower mechanism(Maharm & Anderson, 2008). Audit Committee may also play a significant role in the oversight of the company's risk management policies and programs (Ertugrul & Hedge, 2009). Although results of studies by Klein (2002), Anderson, Mansi and Reeb (2004) showed a strong association between audit committee and firm performance. Kajola (2008) found no significant relationship between both variables. This lack of consensus presented scope for deeper research on the effect of corporate governance on organizational performance.

2.2.2.2 Independence of Chief Executive Officer

Separation of office of the chair of the board from that of CEO generally sought to reduce agency costs for a firm. Kajola (2008) found a positive and statistically significant relationship between performance and separation of the office of the chair of the board and CEO, Scarborough et al. (2010) equally found that firms were more valuable when different persons occupied the offices of the chair of the board and CEO. Kyereboah-Coleman (2007) proved that large and independent boards enhanced firm value, and the fusion of the two offices negatively affected a firm's performance, as the firm had less access to debt finance. The results of the study of Klein (2002) suggested that boards that were structured to be more independent of the CEO were more effective in monitoring the corporate financial accounting process and therefore more valuable. Fosberg (2004) found that firms that separated the functions of the chair of the board and CEO had smaller debt ratios (financial debt/equity capital). The amount of debt in a firms' capital structure had an inverse relationship with the percentage of the firm's common stock held by the CEO and other officers and directors.

This finding was corroborated by Abor and Biekpe (2005), who demonstrated that duality of the both functions constituted a factor that influenced the financing decisions of the firm. They found that firms with a structure separating these two functions were more able to maintain the optimal amount of debt in their capital structure than firms with duality. Accordingly, they argued that a positive relationship existed between the duality of these two functions and financial leverage. Separation of these two offices was however sharply challenged by Mangena and Chamisa, (2008), who found that shareholders' returns were maximized when there was duality.

2.2.2.3 Director's Professional Qualification

Director's educational background and competency contributed positively to the success of firms (Castillo & Wakefield, 2006). Nevertheless, companies faced a challenge in searching for qualified directors to sit on the board. A survey by Ernst and Young showed that many firms in Europe and America struggled to find qualified directors (Hartvigsen, 2007). Raber (2005) claimed that there was no shortage of qualified directors, but stringent laws and rules pertaining to directorship and litigation by shareholders made directors to be more careful in accepting their job. Nowadays, firms can no longer be satisfied with directors who simply make technical appearance (Berube, 2005). Firms seek qualified directors, together with their

expertise. A report by Christian and Timbers in New York reflected the tough competition for recruiting qualified outside directors (Hartvigsen, 2007).

2.2.2.4 Transparency and Accountability

Managers' accountability to shareholders is an important objective of corporate governance. Corporate governance is concerned with how a company is directed, controlled and managed, so as to ensure that there is an effective framework for accountability of directors to owners. Accountability is enhanced when the roles and responsibilities are clearly articulated in a program charter, memorandum of understanding, or partnership agreement and when these agreements work out such issues as to whom and for what purposes the members of the governing body are accountable to the program or the organization (Ridley, 2009). Stakeholder participation in the formulation of these agreements and their public disclosure also strengthens the accountability of program governance. All persons in leadership positions should uphold high standards of ethics and professional conduct over and above compliance with the rules and regulations governing the operation of the program (Albuquerque & Wang, 2008).

Members of the governing, executive and advisory bodies, as well as members of the management team, must exercise personal and professional integrity, including the avoidance of conflicts of interest. Program's decision-making, reporting, and evaluation processes should be open and freely available to the general public (Berglof & Claessens, 2006).

2.2.3 Stakeholders' Communication Characteristics

Stakeholders' Communication Policy formed part of Corporate Governance Principles and Best Practices framework.

2.2.3.1 Stakeholders' Communication Policy

The accuracy and reliability of the financial reports issued by management affected the perception of the firm by all other stakeholders and prospective investors (Nwadioke,2009). The Zenith Company was to develop a Shareholder Communications Policy so as to promote effective communication with shareholders. The Shareholder Communication Policy formed part of Corporate Governance Principles and Practices framework. It was to develop a Continuous Disclosure Policy to ensure that it complied with the Corporations Act and the ASX Listing Rules (Seamer & Psaros, 2009). The Zenith Company Secretary had primary

responsibility for ensuring that implementation and enforcement of the Policy had been given full support and cooperation of the Board. The Continuous Disclosure Policy formed part of Corporate Governance Principles and Practices framework. The Company recognized the value of providing current and relevant information to its shareholders. The Disclosure Officers had the primary responsibility to communicate with shareholders. Information was communicated to shareholders through: Continuous disclosure to relevant stock markets of all material information; Periodic disclosure through the annual report (or concise annual report), half year financial report and quarterly reporting of exploration, production and corporate activities, Notices of meetings and explanatory material, The annual general meeting, and Periodic newsletters or letters from the Chairman or Chief Executive Officer (Welsh, 2007).

The Company was committed to the promotion of investor confidence by ensuring that trading in the Company's securities took place in an efficient, competitive and informed market (Petersen et al.,2009). The Board was committed to timely disclosure of information and effective communication with its shareholders. This commitment was effected through the application of the External Disclosure and Market Communications Policy and a Communications strategy which included processes which ensured that directors and management were aware of and fulfilled their obligations (Welsh, 2007).

2.3 Organizational Performance

In the field of business an important component of empirical research is organizational performance (Simpson, Padmore & Newman, 2012). Firms' performance refers to the level of success of the firm (Sulaiman, Yusoff, & Chelliah, 2010). According to Toudas et al., (2007), corporate governance was extensively important to the value of the firm as the policies were important for the firm to grow. In the same article it was found out that firms that were shareholder and manager friendly attained negative abnormal returns. Toudas et al., (2007), recommended that the firms were to practice corporate governance in order to get better returns in future.

Organizational performance is a complex and multidimensional phenomenon (Rashid, 2008). Previous research suggested that organizational performance measurement provided managers with not only a means of control, which specified the gap between what was

expected and what was actually achieved, but also support for developing strategy and questioning their perceptions and assumptions about their organizations, which was consistent with the concept of double-loop learning (Moshe, 2006). A wide variety of definitions of firm performance were proposed in the literature (Barney, 2002). The existing literature on corporate governance practices had used accounting-based performance measures, such as return on equity (ROE) return on assets (ROA), and market-based measures, such as Tobin"s Q, as proxies for firm performance (Abdullah, 2004; Cheng, 2008).

Market share is the percentage of a market (defined in terms of either units or revenue) accounted for by a specific entity." "Marketers need to be able to translate and incorporate sales targets into market share because this will demonstrate whether forecasts are to be attained by growing with the market or by capturing share from competitors (O'Sullivan & Abela, 2007). Market share is closely monitored for signs of change in the competitive landscape, and it frequently drives strategic or tactical action. Increasing market share is one of the most important objectives of business. The main advantage of using market share as a measure of business performance is that it is less dependent upon macro environmental variables such as the state of the economy or changes in tax policy. Market share is said to be a key indicator of market competitiveness, since it indicates how well a firm is doing against its competitors. This metric, supplemented by changes in sales revenue, helps managers evaluate both primary and selective demand in their market. It enables them to judge not only total market growth or decline but also trends in customers' selections among competitors (Gong, Law, Chang & Xin, 2009). Generally, sales growth resulting from primary demand (total market growth) is less costly and more profitable than that achieved by capturing share from competitors. Conversely, losses in market share can signal serious long-term problems that require strategic adjustments. Firms with market shares below a certain level may not be viable. Similarly, within a firm's product line, market share for individual products are considered early indicators of future opportunities or problems. Large size or large market share can lead to economies of scale (O'Sullivan & Abela, 2007).

Research has also shown that market share is a desired asset among competing firms. The aforementioned usage of market share as a basis for gauging the performance of competing firms has fostered a system in which firms make decisions with regard to their operation with

careful consideration of the impact of each decision on the market share of their competitors (Gao, 2010).

Recent study of managers found sales volune to be the most commonly identified measure of overall organizational performance (Hubbard & Bromiley, 1995). Sales volume measure the pace at which organization's sales revenue increases or decreases. This is a key metric for any organization to monitor since it is an essential part of growth projections and is instrumental in strategic decision-making at the highest level. The sales volume metric is used to provide executives and sales directors with an assessment of the sales organization's performance (O’Sullivan & Abela,2007). Sales are often used to gauge the performance of organizations. Nevertheless, several variants of sales have been utilized. In one study, for example, conducted by Salamon and Robinson (2008), sales relative to targets were calculated. That is, senior management had estimated the sales target of each site, depending on the product lines, characteristics of the clientele, and other factors. To compute sales performance, actual sales was divided by target sales, and then multiplied by 100. This study showed that sites in which employees felt trusted by management experienced a sense of responsibility and accountability, which translated into improvements in the sales index (Salamon & Robinson, 2008).

Organizations analyses profit earned among other things, to measure the performance of management as well as identifying whether a company has a viable or worthwhile investment opportunity and to determine a company’s performance relative to its competitors. Profitability ratio indicates how the company uses short term financing to fund its activities (Petersen et al., 2009).

Many researchers utilize traditional accounting measures of profit. The most common indices, is return on assets (Staw & Epstein, 2000; Wan & Hoskisson, 2003). Roughly, return on assets is the annual profit or net income divided by the average assets over the year. More precisely, to compute the numerator, researchers usually subtract the interest expense and the interest tax savings from the annual profit. Return on assets is a measure of operating efficiency, reflecting the long term financial strength of organizations (O’Sulliva et al., 2009). There is a wide variety of approaches, techniques, and measures for measuring firm performanc. The researchers can measure performance by market share, sales growth, and

profitability. Firms' performance can also be measured through the sales growth or profit growth and turnover rate of its people (Sulaiman et al., 2010).

Output Measures are tools, or indicators, that count the services and goods produced by an agency. The number of people receiving services or number of services delivered, are often used as measures of output. It focuses on the quantity, quality, or timeliness of products and services delivered Mills and Bos (2011). Literature reveal that output are performance measures, tools or indicators of the state's actions in achieving a given goal or objective. Performance measures can generally be divided into output measures, outcome measures, input measures, or efficiency measures to quantitative evidence of organizations products or services provided (WHO, 2010). Mills and Bos (2011) define outputs as, "The immediate products or results of the activities implemented, such as the number of personnel trained, number of deliveries conducted, or number of contraceptives distributed."

2.4 Corporate Governance and Organizational Performance

Braga-Alves and Shastri (2011) asserted that good corporate governance enhanced firm's performance .In spite of the generally accepted notion that effective corporate governance enhanced firm performance, other studies reported negative relationship between corporate governance and firm performance (Hutchinson, 2002) or never found any relationship (Park & Shin, 2003; Prevost et al., 2002; Singh & Davidson, 2003; Young, 2003).

There are many studies on the relationship between corporate governance and firm performance that showed that corporate governance enhanced organizational performance and prevented fraud (Michael, 2010). In general terms, several attempts at establishing a link between corporate governance and firm performance confirmed causality. The literature indicated relationships that ranged between a strong and very weak association (Abor & Adjasi, 2007). Black (2001) found a strong correlation between corporate governance and firm performance while studies of Gompers, Ishii and Metrick (2003), Black and Khana (2007), Chhaochharia,Vidhi and Luc (2007), El Mehdi (2007), Kyereboah-Coleman (2007), Larcker, Richardson and Tuna (2007), revealed varying degrees of positive association (Love, 2011). On the other hand, Ferreira and Laux (2007), Gillan, Hartzell and Starks (2006) and Pham, Suchard and Zein (2007) all found a negative relationship between corporate governance and firm performance.

Companies with better corporate governance had better operating performance than those companies with poor corporate governance (Black & Khama, 2007). Jensen and Meckling (1976) were concurrent with the view that better governed firms had more efficient operations, resulting in higher returns. Studies also revealed that good corporate governance helped to generate investor goodwill and confidence. Another study demonstrated that the likelihood of bankruptcy was related to poor corporate governance characteristics (Daily & Dalton, 1994). It pointed out that the nature of performance measures (restrictive use of accounting based measures) such as return on assets (ROA), return on equity (ROE), return on capital employed (ROCE) or restrictive use of market based measures (such as market value of equities) contributed to this inconsistency (Gani & Jermias, 2006).

Furthermore, it was argued that the "theoretical and empirical literature in corporate governance considered the relationship between corporate performance and ownership or structure of boards of directors that used only two of these variables at a time" (Krivogorsky, 2006). Hermalin and Weisbach (2007) and McAvoy et al., (1983) studied the correlation between board composition and performance while Hermalin and Weisbach (2007), and Demsetz and Villalonga (2001) studied the relationship between managerial ownership and firm performance. The rewards of good corporate governance included reduction of waste on non-productive activities such as shirking, excessive executive remuneration, perquisites, asset-stripping, tunneling, related-party transactions and other means of diverting the firm's assets and cash flows. It also resulted in lower agency costs that rose from better shareholder protection, which in turn led to greater willingness to accept lower returns on their investment. The firm ultimately ended up enjoying higher profits as it incurred lower cost of capital. Importantly, firms became more attractive to external financiers in direct proportion to a rise in their corporate governance profile (Bauer et al., 2010).

Finally, managers became less susceptible to making risky investment decisions, and focused more on value-maximizing projects that generally facilitated organizational efficiency. The ultimate outcomes of these corporate governance benefits were generally higher cash flows and superior performance for the firm (Love, 2011). Most of the studies on the link between corporate governance and firm performance confirmed causality (Abor & Adjasi, 2007). However, the evidence indicated between a strong and very weak relationship. Black (2001),

for instance found strong correlation between corporate governance and firm performance, as represented by stock valuation. Some other studies however argued against a positive relationship between corporate governance and firm performance (Ferreira & Laux, 2007; Gillan, Hartzell & Starks, 2006; Pham, Suchard & Zein, 2007).

2.5 Theoretical Framework

This study was based on two theories, the shareholder theory and stakeholder theory. Having a clear understanding of different theories provided insights that were based on in identifying good corporate governance practices.

2.5.1 Shareholder Theory

There are several ways to think about the theory of the firm and each has different implications for reporting organizational performance. The key ways are shareholder theory and stakeholder theory (Brown et al., 2006). In the 1980s, the firm was viewed as belonging to the shareholders, so shareholder theory that used shareholder returns to measure overall firm performance, dominated organizational performance measurement systems .

The identification of the separation of ownership and control as a source of conflicting interests between owners and managers can be traced back to Berle and Means (1932). Macus (2008) argued that whereas an agent (manager) acts on behalf of the principle (owner), differing objectives of the owners and managers, incomplete information on the managers' behavior, and incomplete contracts gave rise to the principle-agent problem. Particularly, incomplete contracts as a source of agency problems have been discussed by many authors such as, Fama and Jensen (1983) and Hart (1995).

Much conventional corporate governance thinking was focused on arrangements to solve the agency problem and ensure the firm was operated in the interests of the owners (shareholders and creditors). In line with this thinking Rezaee (2009) described "corporate governance as the way a company is managed, monitored and held accountable". There has been a great deal of critique relating to this 'conventional' view of corporate governance. Firstly, this perspective overlooked the diversity of the stakeholders within the principal-agent relationship and thus ignored the game around an enterprise, which was performed by multiple stakeholders with varying degrees of conflicting interests among themselves. Secondly, this perspective focused too narrowly on the bilateral contract between owners and

managers, and ignored the interdependencies and interactions among stakeholders. It was also criticized for treating managers as opportunistic agents that were driven by individual utility maximization (Rezaee, 2009). Opponents of the shareholder theory stressed that the interests of all the stakeholders' was accounted for. If the emphasis was solely on shareholder value maximization, there were externalities that were imposed on other stakeholders of the corporation. This critique is the foundation of the corporate governance stakeholder model advocated by many theorists (Maharm & Anderson, 2008).

2.5.2 Stakeholder Theory

Stakeholder theory assesses organization performance against the expectations of a variety of stakeholder groups that have particular interests in the effects of the organization's activities. Its perspective of organizational performance incorporates shareholder value, but recognizes that shareholders are just one group of stakeholders, and only relevant to those organizations that issue shares (Maharm & Anderson, 2008). Stakeholders in a corporation include suppliers, employees, customers, governmental bodies, political groups, trade associations, trade unions, communities, associated corporations, prospective employees, prospective customers and the general public.

Allen (2005) suggested that corporate governance concerns arrangements to ensure that firms are operated in a way that society's resources are used efficiently, and that competition and reputation should also be included as mechanisms to deal with, in addition to the conventional ones. Rashid (2008) advocated that corporate governance consists of institutions that induce or force management to internalize the welfare of stakeholders

The stakeholder and shareholder theories are relevant to this study in the sense that the theories are relevant to the functioning of Board characteristics, Top management characteristics and stakeholder communication characteristics. As noted by Michael and Jensen, (2010) in their study, the common aim of stakeholder and shareholder theories was to posit a link between various characteristics of the Board and Firm performance. A review of shareholder and stakeholder theories demonstrated how these two theories positively had impact on performance of a firm and formed the basis for this study; hence it created better look for company performance from corporate governance perspective. Stakeholder and shareholder theories described, and explained, specific corporate characteristics and

behaviors (Miles, 2012).

The firm and its managers have special obligations to ensure that the shareholders receive a fair return on their investment; but the firm also has special obligations to other stakeholders, which go above and beyond those required by law. In cases where these interests conflict, the demands and interests of some stakeholders, including shareholders, must be moderated or sacrificed in order to fulfill basic obligations to other stakeholders (Allen & Zhao, 2007).

2.6 Conceptual Framework

The framework for this study considered corporate governance as a dependent variable a key component influencing the firm performance of sugar manufacturing industry. The conceptual framework for this study is illustrated in Figure 2.1. According to this framework, the corporate governance of sugar manufacturing industries is the independent variable whereas organizational performance is the dependent variable

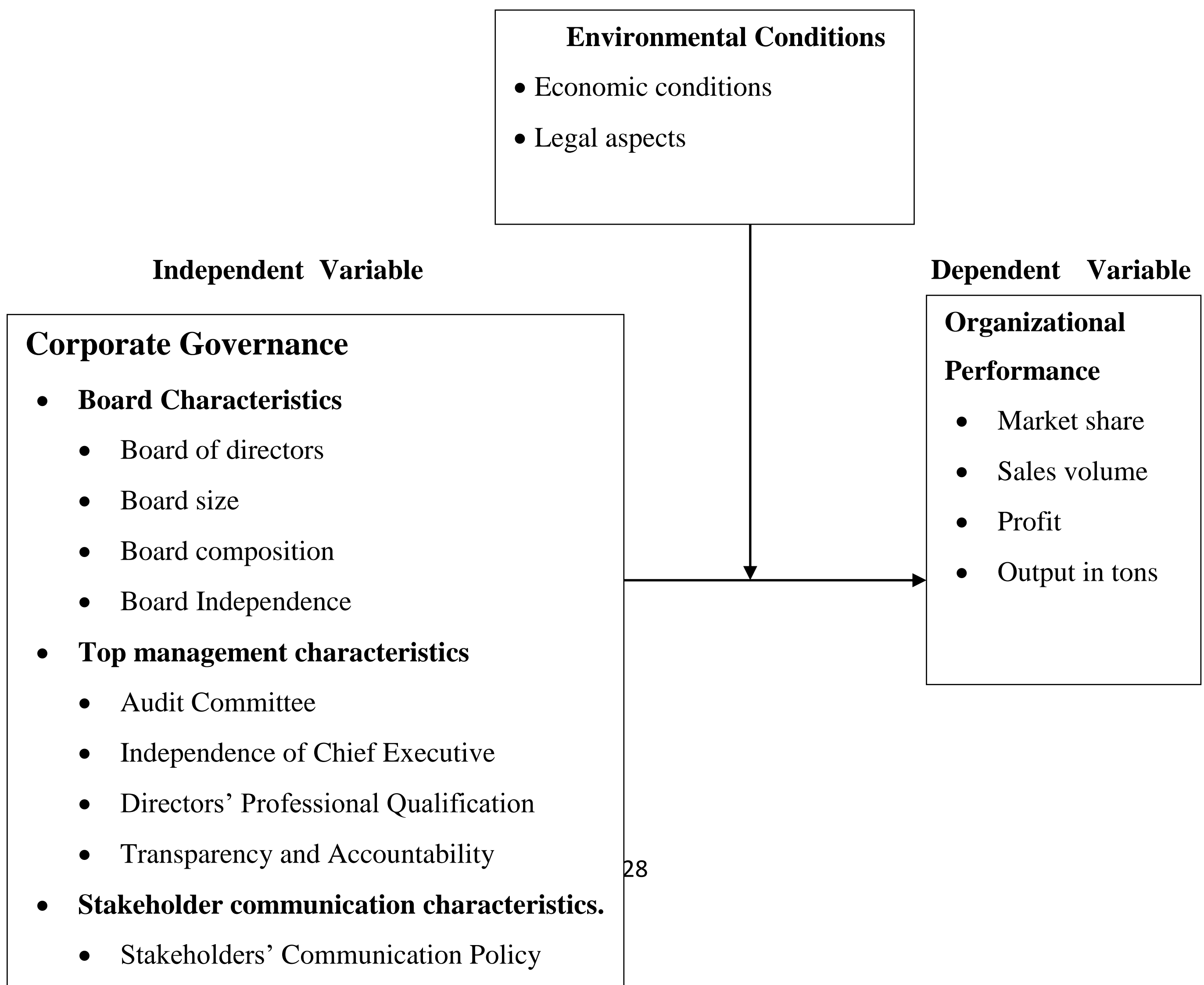

Figure 2.1: Relationship between Corporate Governance, Environmental conditions and organizational performance.

Source: Self conceptualization (2015)

Elements of corporate governance as shown in figure 2.1 include board characteristics, Top management characteristics, Stakeholder communication characteristics. On the other hand, organizational performance was assessed in relation to the output in tons, sales volume, profit and market share. Organizational performance is influenced by Board characteristics, Top management characteristics and Stakeholder communications. Organizational performance is moderated by environmental factors such as economic conditions and legal aspects.

Ogundele (2005), asserted that economic conditions had vital concerns to an organization. He further stated that, the economic environment went a long way to determine and define the opportunities for an organization hence they provided operational scope for the organizational existence as well as establishment of new ones. When organizations adapt board characteristics, top management characteristics, stakeholder characteristics the performance of the organization improves in relation to increase in market share, sales volume, profit and output in tons. This is further influenced by economic conditions and legal aspects such as trade liberalization, taxation, policy making. Trade liberalization for the sugar sub-sector removed barriers restricting the flow of trade and eliminated price controls. This resulted in an increase in dumping of chip sugar from other countries hence affecting performance of sugar firms in regard to market share, sales volume, profit and output in tons. This oversupply was detrimental to local producers who were unable to dispose of their higher priced supplies

The political environment is viewed via the legal framework where the organization operates and this is done through the laws and regulations that guides the operations of the business in question. The political stability of the environment is also a necessity for effective and efficient operation of the business. The management of the organization must take

precautions of these constraints, actual and potential, and seek out the implications for the business organization from legal advisers (Ogundele, 2005).

When the organization adapts board characteristics, top management characteristics as well as stakeholder characteristics and the Government makes laws to protect local sugar industry from dumping of chip sugar as well as making policies to give farmers subsidies and remove value added tax from farm inputs such as fertilizer ,pesticides ,machinery such as boilers and tractors this will lead to good organizational performance in relation to increase in market share, sales volume, profit and output in tons.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter discusses research design, target population, sample design, data collection procedure, reliability and validity of the research instruments used and data analysis and presentation.

3.2 Research Design

This study used correlational survey design, which sought to examine the relationships between variables (Sekaran, 2004). The study sought to determine the strength of relationship between corporate governance and performance of the sugar manufacturing firm. The study adapted cross sectional sample survey in that data was collected over a short period of time.

3.3 Target Population

Nachmias and Nachmias (2008) define a population as all cases of individuals or things or elements that fit a researcher's specification. The population of the study comprised of sugar manufacturing firms in Kenya. As at March 2012, there were eleven (11) sugar manufacturing firms in Kenya (Kenya Sugar Board, 2010). Given the small number of firms, this study adapted a census survey and all the eleven (11) firms were studied. In each sugar firm, 4 respondents were targeted, that is, the C.E.O. marketing manager, production manager and Human Resource manager.

3.4 Data Collection

Primary data was used for the study. The primary data was collected using a structured questionnaire that was self-administered to the CEOs or relevant senior managers, marketing managers, production managers and human resource managers. This was preferred because of the simplicity on their administration and analysis (Ary et al., 1979).The questionnaire was designed based on the objectives of the study. The questionnaire was administered personally by the researcher. The researcher explained to the respondents the purpose of the study to enhance adequate response.

3.5 Validity and Reliability

To enhance validity of the instruments a pilot study was carried out. This was expected to help the researcher in identification of items in the research instrument, which were ambiguous in eliciting the relevant information. The researcher sought assistance of research experts, to help improve the validity of the instruments.

Cronbach's alpha reliability coefficient was calculated to estimate the reliability of the questionnaire. The average Cronbach's alpha coefficient for corporate governance instrument was 0.772 and 0.702 for organization performance. The alpha coefficients were above the threshold of 0.7 which was considered good (Sekaran, 2003).

3.6 Data Analysis and Presentation

Data was analyzed with the help of the Statistical Package for Social Sciences (SPSS). Data was first "cleaned" to ensure consistency, exhaustiveness and completeness in information expected. In order to analyze data, descriptive and inferential statistics were employed. Descriptive statistics like set frequencies and means were used to summarize the data regarding corporate governance and performance of the firms. Preset analysis output was presented using frequency distribution tables, graphs, pie charts and bar graphs. Pearson's correlation was used to test the relationship between corporate governance and performance. Multiple regressions were used to determine the effect of aspects of corporate governance on organizational performance.

$Y = a + b_1x_1 + b_2x_2 + b_3x_3 + e$

Where:

y = Organizational performance

a = constant

$b_{1,}$ - b_3 = Regression coefficients

x_1 = Board characteristics

x_2 = Top management characteristics

x_3 = Stakeholder communication and disclosure

e = Error term

CHAPTER FOUR

RESULTS AND DISCUSSIONS

4.1 Introduction

This chapter presents the research findings and discussions of the results; it presents results regarding the profile of the firms, corporate governance practices in sugar firms, performance of the firms and relationship between corporate governance and performance of firms. The general objective of the study was to determine the relationship of corporate governance on the performance of various sugar firms in western Kenya.

4.2 Descriptive Analysis

4.2.1 Organizational Profile

The research focused on the effect of corporate governance on performance of sugar firms' in western Kenya. Descriptive statistics was used to summarize quantitative data. A survey of 11 sugar firms was used in which 9 responded since Miwani and Busia Sugar Company were not in operation at the time of study. In each sugar firm, 4 respondents were targeted, that is, the C.E.O. marketing manager, production manager and Human Resource manager. Out of the 36 targeted populations, 30 respondents duly completed and returned the questionnaires representing a response rate of 83%.The population distribution of the respondents is as shown in Table 4.1.

Table 4.1: Sample Distribution of Sugar Firms

Market Served

	Frequency	Percent
Local	8	88.8
International	1	11.2
Total	9	100.0
Ownership		
Public	22	75
Private	8	25
Total	30	100.0
Products and Services Offered		
Sugar	9	100.0
Molasses	9	100.0
Total	9	100.0

Source: Field Data (2013)

From table 4.1, 88.8% of the sugar manufacturing firms acknowledged that they served the local markets and more specifically Kenya in regions such as Western Kenya, Rift Valley, Nairobi, Central, Mombasa and Eastern Kenya while 11.2% said that they served these markets and also exported internationally to countries in the eastern Africa region.

Information concerning the ownership of the companies was also analyzed. As shown in table 4.1, most of the sugar manufacturing firms were State Corporation. This was represented by 75% of the firms which were publicly owned. On the other hand 25% of the firms acknowledged that they were privately owned. Regarding the products and services offered, all the respondents agreed that they offered both sugar and molasses which were the main product from these firms. This gave a response rate of 100% for both the products offered.

4.2.2 Corporate Governance in Sugar Firms

To establish the extent to which corporate governance was being practiced in sugar firms, the researcher sought responses on different aspects of corporate governance. Table 4.2 shows the respondents responses on aspects of corporate governance on scale ranging from not at all as the lowest to a very great extent on the higher side.

Table 4.2 Corporate Governance Practices

	Responses in Percentages (%)					
Aspects of corporate governance	Not at all	Little extent	Moderate extent	Great extent	Very great extent	Total %
Board Characteristics	15.6	3.4	12.1	35.9	33.0	100
Top Management Characteristics	5.4	3.9	16.0	30.2	44.5	100
Stakeholders Communication Characteristics	8	4.9	15.0	32.8	39.3	100

As shown in table 4.2, the respondents gave their opinion on the extent of the aspects of corporate governance practiced by sugar manufacturing firms. This was represented by seven aspects comprising of board of directors, board composition, board size, audit committee, independence of C.E.O, transparency and accountability, Shareholder communication and disclosure. The responses varied between not at all to very great extent. Most of the respondents agreed that the board characteristics significantly influenced the operations of the organizations with 35.9% agreeing to great extend and 33% agreeing to a very great extent.

These were greatly represented by some of the functions of the board of directors like board promulgating the functions of sugar firms on annual basis, the board understanding the beliefs, values, philosophies, mission and vision, the board devoting significant time to the organization's long term objectives and to the strategic options available to achieve and meet legal responsibilities.

Further, 44.5% of the respondents agreed to a very great extent that Top management characteristics such as audit committee, independence of C.E.O, transparency and accountability significantly influence the performance of the organization. These was greatly represented by some of top management characteristics such as Audit committee that had sufficient expertise, support, time and access to key staff and information to enable it to discharge its monitoring and oversight role effectively, proper discussion where everyone was made aware on issues discussed and the resolutions, internal audit, fully transparent accounting in the financial statements review of external audit.

The respondents also agreed to a very great extent that CEO's job description was well defined, the CEO was satisfactorily supported by board, CEO performance was monitored by the board and that the board avoided intrusion in the CEO management responsibilities. The results of the study are consistent with Klein (2002) who suggested that boards that are structured to be more independent of the CEO are more effective in monitoring the corporate financial accounting process and therefore more valuable. These findings of the study are in line with the findings of Ridley (2009), which found out that accountability is enhanced when the roles and responsibilities are clearly articulated in a program charter memorandum of understanding or partnership agreement and when these agreements work out such issues as to whom and for what purpose the members of the governing body are accountable to the organization.

Finally on the other aspects of corporate governance, stakeholder communication policy and continuous disclosure 39.3% of the respondents equally agreed to a great and very great extent on the practice, which is consistent with the findings of Nwadioke (2009) and welsh (2007) who found out that stakeholder communication policy promotes effective communication and forms part of corporate governance principles and practices. They further found out that the firm is committed to the promotion of investor confidence by ensuring that

trading in company's securities takes place in an efficient, competitive and informed market and that the firm should be committed to timely disclosure of information and effective communication with stakeholders.

4.2.3 Performance of Sugar Firms

To establish performance of the firms, a Likert-type scale was used. Respondents were asked to indicate on scale ranging from Lowest 20% to Top 20% how the performance of their firms ranked with other competing firms in the industry. Table 4.3 shows the responses on aspects of organizational performance.

Table 4.3: Organizations Performance

Statements	Percentages responses %					
Aspects of organization performance	Lowest 20%	Lower 20%	Middle 20%	Next 20%	Top 20%	Total %
Organization market share	14	12	26.4	42.1	5.5	100
Sales growth	17.7	5	11.7	55	10.6	100
Output in units	16.7	4	10	62.3	7	100

As shown in table 4.3, the respondents had different views concerning performance of Sugar manufacturing firms. Most of the respondents felt that organization market share changed up to 42.1% for the last three years. When the organization market increases at a moderate rate compared to the competitors it means that they can gain a sustainable advantage compared with its competitors. Furthermore, the company's sales for all the sugar firms were moderately high compared to the competitor with an increase of 55%.The study findings revealed that the company's output were moderately high with 62.3% increase. A wide variety of studies have proposed accounting based performance indicators. Some of the variables used in this study were organizations market share, company's sales and output

which increased moderately at 20% within a span of three years.

From table 4.3, it can be concluded that organizational performance is evident at the next 20% in most of the sugar firms. Organization Market share was ranked at 42.1%, sales growth at 55% and output in units at 62.3% with other competing firms in the industry. These findings suggest that different indicators of performance were doing well in all the sugar firms that gave their different responses. These were issues relating to the organizations market share, company's sales and company's output. The results presented concur with literature that suggests that corporate governance is important to the value of the firm as the policies are important for the firm to grow. In the same article it also found out that firms which were shareholder and manager friendly attained abnormal returns. So the writers recommended that the firms must practice corporate governance in order to get better returns in future (Toudas et al., 2007)

Further literature suggests that organizational performance is a complex and multidimensional phenomenon, its measurement provides managers with not only a means of control, which specifies the gap between what is expected and what is actually achieved, but also support for developing strategy and questioning their perceptions and assumptions about their organizations(Abdullah & Valentine, 2009). The existing literature on corporate governance practices has used accounting-based performance measures, such as return on equity (ROE) , return on assets (ROA), and market-based measures, such as Tobin's Q, as proxies for firm performance (Abdullah, 2004) which are some of the indicators for the sugar firm performance considered.

4.2.4 Corporate Governance in public and private companies.

The T-test was performed to test if there was a significance difference in corporate governance and organization performance. The results are presented in table 4.4 showing the variance.

Table: 4.4 T-test of sugar firms on corporate governance

Independent Sample Test

	Levene's	T-test for Equality of Means

	Test for Equality of Variance							
	F	Sig.	T	Df	Sig. (2-tailed)	Mean Difference	Std. Error Difference	95% Confidence interval of the difference Lower Upper
CORPORATE GOVERNANCE Equal variances assumed	.106	.747	.726	28	.474	.250	.345	-.456 .956
Equal variances not assumed			.697	11.617	.499	.250	.358	-.534 1.034

Source: Field data (2014)

Based on the result from the t-test, the significance level for Levene's test is 0.747 which is larger than the cut-off of p>0.05. This means that the assumption of equal variances has not been violated. The significance level p=0.474 which is greater than the required significance level of p>0.05. As this value is greater than the required cut-off, it can be concluded that there is no statistical significant difference between public and private firms.

4.3 Hypotheses testing

The study hypotheses were tested using both Pearson's correlation analysis and multiple regression analysis. Hypotheses one to three were tested using correlation analysis while hypothesis four was tested using multiple regression analysis.

4.3.1 Corporate Governance and Organizational Performance

The study sought to determine the effect of Corporate Governance on performance of sugar firms. This study was determined using one-tailed Pearson correlation analysis. This provided correlation coefficients which indicated the strength and direction of linear relationship. Thus, both the strength of the relationship between variables and the level of statistical

significance were assessed. The results of analysis are presented in table 4.5 the p-level represents the probability of error that is involved in accepting the observed result as valid, that is, as a representative of the population (MacColl, 2004). Devore and Peck (1993) provided a guideline for assessing resultant correlation coefficients as follows: coefficients 0.1-0.3 represent a weak relationship, coefficients 0.4-0.6 represent a moderate relationship, coefficients 0.7 and above represent a strong relationship. The hypothesis of the study is concerned with establishing the effect of board characteristics on performance of sugar firms thus, it is necessary to use statistical tests to test the strength and direction of the relationship between these two variables of the hypothesis. The output of correlation of board characteristics and performance of sugar firms is shown in table 4.5

Table 4.5: Correlation matrix

Correlations				
	BOARD CHARACTERISTICS	**TOP MANAGEMENT CHARACTERISTICS**	**STAKEHOLDER COMMUNICATION AND DISCLOSURE**	**ORGANIZATIONAL PERFOMANCE**

Board Characteristics	Pearson Correlation	1	.073	-.073	.246
	Sig. (1-tailed)		.351	.351	.095
	N	30	30	30	30
Top Management Characteristics	Pearson Correlation	.073	1	-.028	.329*
	Sig. (1-tailed)	.351		.442	.038
	N	30	30	30	30
Stakeholder Communication and Disclosure	Pearson Correlation	-.073	-.028	1	.297
	Sig. (1-tailed)	.351	.442		.055
	N	30	30	30	30
Organizational Perfomance	Pearson Correlation	.246	.329*	.297	1
	Sig. (1-tailed)	.095	.038	.055	
	N	30	30	30	30
*. Correlation is significant at the 0.05 level (1-tailed).					

Source: Field data (2014).

4.3.2 Board Characteristics and Organizational Performance

Hypothesis one states that Board characteristics positively affect organizational performance. From Table 4.5, the results reveal that there is a positive relationship between board characteristics and performance of sugar firms. ($r = 0.246$). This supports H_{a1} and concludes that Board characteristics are positively correlated to performance of sugar firms but not statistically significant ($p>0.05$). Therefore by incorporating different activities of the board, the firm will achieve greater performance. The results are consistent with a study conducted by Vitez (2011) which found that the board is often responsible for reviewing company management and removing individuals who do not improve the company's overall financial performance. The findings also concur with Klein (2002) and Kyereboah-Coleman (2007)

who proved that independent boards enhance the firms value where the CEO are more effective in monitoring the corporate financial accounting process which enhances the firm value. According to Lipton and Lorsch (1992) ,Yermack, (1996) Sanda et al., (2005) and Eisenberg et al., (1998) limiting board size to a particular level is generally believed to improve the performance of a firm. There is a convergence of agreement on the argument that board size is associated with firm performance. However, conflicting results emerge on whether it is a large, rather than a small board, that is more effective. In this case it is considered that both cases where there is a small board size for privately owned sugar firms and large board size for publicly owned sugar firms have effect on the performance of sugar firms.

4.3.4 Top Management Characteristics and Organizational Performance

Hypothesis two states that Top management characteristics positively affect organizational performance. As shown in Table 4.5, the results reveal that there is a positive relationship between top management characteristics and organizational performance ($r = 0.329$). The results therefore support this hypothesis and the conclusion is that there is statistically significant correlation ($p<0.05$) between top management characteristics to performance of sugar firms. This brings a consensus between the results of Klein (2002) and Anderson, Mansi and Reeb (2004) who showed a strong association between top management characteristics and firm performance. This is consistent with results of Ridley (2009), who stated that accountability was enhanced when the roles and responsibilities were clearly articulated in a program charter, memorandum of understanding, or partnership agreement and when those agreements worked out such issues as to whom and for what purpose the members of the governing body were accountable to the program or the organization.

4.3.5 Stakeholder Communication, Disclosure and Organizational Performance

Hypothesis three states that Stakeholder’s communication positively affects organizational performance. From Table 4.5, the results reveal that there is a positive relationship between stakeholder communication, disclosure and organizational performance ($r = 0.297$). The results therefore supports this hypothesis and concludes that there is no statistically significant correlation between stakeholder communication, disclosure ($p>0.05$) to sugar firm’s performance. This agrees with Welsh (2007), who said that the Company recognizes the value of providing current and relevant information to its shareholders and the disclosure

officers have the primary responsibility for communication with shareholders. Information is communicated to shareholders through: - Continuous disclosure to relevant stock markets of all material information, Periodic disclosure through the annual report (or concise annual report), half year financial report and quarterly reporting of exploration, production and corporate activities; Notices of meetings and explanatory material; The annual general meeting; and Periodic newsletters or letters from the Chairman or Chief Executive Officer. This is what is adopted by most sugar firms to promote investors' confidence by ensuring that trading in the company's securities takes place efficiently.

4.4 Effect of Corporate Governance on the Performance of Sugar Firms

Hypothesis four states that Combined levels of Board characteristics, top management characteristics and stakeholder communication positively affect organizational performance**.** The study sought to determine the effect of corporate governance on organizational performance of sugar firms. Regression analysis was conducted between independent variables and the dependent variable. The results in table 4.5 show the model summary of multiple regression analysis of Independent variables and dependent variable. To determine to what extent corporate governance has an effect on organizational performance of sugar firms multiple regressions was used to address this objective as shown in Table 4.6.

Table 4.6: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics				
					R Square Change	F Change	df1	df2	Sig. F Change
1	.512[a]	.262	.177	.803	.262	3.072	3	26	.045

a. Predictors: (Constant), Stakeholder Communication , Top Management Characteristics, Board Characteristics

R value of the table shows the correlation (r) of the analysis (r =.512), it shows that there is a strong and positive relationship between corporate governance and performance of the

organization. Coefficient of determination (R^2) is 0.262. This shows that 26.2% variation in the dependent variable (organization performance) is explained by the independent variable (corporate governance). The result is consistent with Black (2001) who found a strong correlation between corporate governance and firm performance. Further, other studies suggest that the ultimate outcomes of these corporate governance benefits are generally higher cash flows and superior performance for the firm (Love, 2011).

Table 4.7: Regression Coefficients

Model	Unstandardized Coefficients		Standardized Coefficients			Collinearity Statistics	
	B	Std. Error	Beta	T	Sig.	Tolerance	VIF
(Constant)	-2.168	2.084		-1.040	.308		
Board Characteristics	0.381	.262	0.246	1.452	.159	.990	1.010
Top Management	0.568	.300	0.320	1.891	.070	.994	1.006
Stakeholder Communication and Disclosure	0.575	.300	0.324	1.917	.066	.994	1.006

a. Dependent Variable: Organization Performance
Source: Field data (2014).

From the regression Coefficients in table 4.7, the regression equation is therefore expressed as:
$Y= -2.168 + 0.381x_1 + 0.568x_2 + 0.575x_3 + e$

As shown in table 4.7 elements of stakeholder communication and disclosure characteristics have greater influence on organizational performance (β=0.324), followed by top management characteristics (β=0.320), while board characteristics (β=0.246), has the lowest influence. The regression equation shows that an improvement in elements of board characteristics, Top management characteristics, Stakeholder communication and disclosure characteristics positively affects organizational performance. This means that results support

all the four hypotheses which states that there is a positive effect of board characteristics on performance of sugar firms in Kenya, there is a positive effect of Top management characteristics on performance of sugar firms in Kenya, there is a positive effect of stakeholder communication and disclosure on performance of sugar firms in Kenya. However the effect of the dimensions of corporate governance on organizational performance is not significant.

The findings of this study support the findings by (Braga-Alves & Shastri, 2011) who found that good corporate governance enhances a firm's performance. The results also support findings of Toudas et al*.*, (2007) who found out that corporate governance is as extensively important to the value of the firm as the policies are important for the firm to grow.

CHAPTER FIVE

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

This chapter covers the summary of the findings based on specific objectives as well as the conclusions of the study. Recommendations for practice and further research are also presented here.

5.2 Summary of Findings

The main objective of the study was to assess the effect of corporate governance on the performance of sugar firms in Western Kenya. The variables were classified into the various practices of corporate governance, that is, board characteristics, Top management characteristics, Stakeholders communication policy and Continuous disclosure. As the different corporate governance practices affect the performance of sugar firms, the variables were moderated by trade liberalization and government. The corporate governance practices are considered strong determinants of the performance of sugar manufacturing firms in western Kenya.

The first objective was to determine the effect of Board Characteristics on performance of firms. This study found that elements of board characteristics were positively related to the performance of sugar manufacturing firms in western Kenya. This means that the corporate governance practices which involve board characteristics such as defining and promulgating its functions on annual basis, devoting significant time on organization's long term objectives, having balance of executive and non-executive directors, explain some variations in the performance of sugar firms in Kenya. The more efficiently and effectively these actions are carried out the higher the likelihood that performance will improve.

The second objective was to determine the effect of Top management characteristics on the performance of firms. This study found that elements of Top management characteristics positively affect organizational performance. This means that performance of the firm will improve when, the CEO's job description is well defined, CEO is supported by the board, the CEO's performance is monitored and appraised satisfactorily and when all persons in leadership positions uphold high standards of ethics and professional conduct over and above compliance with the rules and regulations governing the operations of the company.
The third objective was to determine the effect of shareholder communication on performance of firms. This study found out that Stakeholder communication and disclosure positively affect organizational performance. When accompany develops stakeholder communication policy it promotes effective communication with stakeholders. Performance improves when roles and responsibilities are clearly articulated in a program charter, memorandum of understanding, and when there is an effective framework for accountability. These practices had other indicators which most of the managers acknowledged that it had an impact on the performance of Sugar manufacturing firms.

The fourth objective was to determine joint effect of Board characteristics, Top management characteristics and Stakeholder characteristics on performance of firms. This study revealed that although elements of board characteristics, top management characteristics, stakeholder communication and disclosure are practiced in sugar firms in Kenya, board characteristics had a greater influence on organizational performance compared to top management characteristics and stakeholder communication and disclosure characteristics.

Finally, from Regression coefficient, the Beta and significance values in table 4.7 the study found out that element of corporate governance significantly influenced organizational performance in sugar firms. This means that the independent variables did contribute significantly to the model, hence corporate governance have significant influence on organizational performance of sugar firms.

5.3 Conclusions

From the findings, there is a positive relationship between corporate governance practices and the performance of sugar manufacturing firms in Western Kenya. The result also indicated a weak but significant positive relationship between corporate governance practices

and the performance. Stakeholder communication and disclosure had greater influence, followed by top management while Board characteristics had the lowest influence. The results of the study show that corporate governance practices should be adopted in all organizations whether private or public because they have an effect on the performance of sugar manufacturing firms. This may suggest that most organizations need to adopt the corporate governance practices.

5.4 Recommendations

5.4.1 Recommendations for Practice

Sugar manufacturing firms in Western Kenya should ensure that they adopt corporate governance practices to enhance the performance of sugar manufacturing firms such as, board composition, board size, independence of chief executive officer, Audit committee, transparency and accountability, Shareholders communication policy and continuous disclosure. Managers can ensure that this is adopted by promoting a culture in the organization that advocate for values of corporate governance practices through a collaborated vision, mission and core values and objectives that enhance these practices. They should ensure that employees are committed to corporate governance characteristics by sharing information, providing relevant information to shareholders through disclosure of information especially financial reports and incorporating different activities of the board. All the corporate governance practices had an impact on the performance of Sugar manufacturing firms in Western Kenya. Therefore all sugar firms whether private or public should ensure that they implement the corporate governance practices for their success.

5.4.2 Recommendations for Further Research

This study focused on the effect of corporate governance practices on the performance of sugar firms in western Kenya. The study acknowledges that most of the sugar firms implemented and adopted the corporate governance practices to greater. As explained by variation of corporate governance practices indicates that there are other factors which influence the performance of sugar firms in western Kenya. These factors may include trade liberation and government intervention introducing new variables which have an impact on the performance of Sugar firms in Western Kenya which can also provide base for future research. This can be extended to other manufacturing firms in other sectors in Kenya.

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APPENDIX I ; QUESTIONNAIRE

Section A: Background Information

1. Name of the company ………………………………………………………….

2. Position of the respondent ……………………………………………………

3. Markets served (Tick as appropriate)
   A. Local (   )
   B. International (   )
4. Year of establishment ………………………………………………………….

5. Ownership (Tick as appropriate)
   A. Public (   )
   B. Private (   )

6. Products and services offered ………………………………………………

Section B: Corporate Governance

The following statements are Corporate Governance mechanisms. Using the key (Where: 1- Not at all; 2 – Little extent; 3 – Moderate extent; 4 – Great extent, and; 5 – Very great extent) tick as appropriate to indicate the extent to which the statements characterize corporate governance as practiced in your organization.

I	**Board Characteristics**	**1**	**2**	**3**	**4**	**5**
1.	The Board understands, agrees, defines and promulgates its functions on an annual basis.					
2.	The Board knows and understands the Company's beliefs, values, philosophy, mission and vision and reflects this understanding on key issues throughout the year.					
3.	The Board devotes significant time and serious thought to the organization's long term objectives and to the strategic options available to achieve them.					
4.	The Board has defined and communicated to management the scope and powers, roles and responsibilities to be adhered to by management to meet routine and exceptional circumstances.					
5.	The Board ensures that the organization has sufficient and appropriate resources to achieve its strategic goals					
6.	The Board ensures that key members of management are brought into the Board meetings so that they can participate and add value to their deliberations and work on behalf of the Board.					
7.	The Board has procedures in place to ensure that the					

	organization is meeting its legal responsibilities.					
8.	The Board is chaired by an independent director who is not managing the company.					
9.	The Board include a balance of executive and non-executive directors (including independent nonexecutive directors)					
10.	The company contain at least one third of its members as non-executive directors					
11.	The board of directors play their role well as key players in decision-making					
12.	The board is made up of both executive and non-executive board members					
13.	There is a mix of skills in the selection of the board of directors					
14.	There is an independent body that evaluates the board of directors					
15.	Large boards performs better than smaller boards					
16.	Expanding the size of the board provides increased pool of expertise					
17.	The functioning of the board depends on the size of the board					
18.	The Board directors monitors and discipline management on behalf of outside investors					
Ii	**Top management Characteristics**					
19	The CEO's job Description is well defined					
20.	The CEO is satisfactorily supported by counsel from the Board					
21.	The CEO's performance is monitored and appraised satisfactorily					
22.	The Board avoids excessive intrusion in the CEO and/or management's responsibilities					
23.	The audit committee has sufficient expertise, support, time, and access to key staff and information to enable it to discharge its monitoring and oversight role effectively.					
24.	There is a proper discussion (not just nodding through) by the					

	board of reports from the audit committee, ensuring all members are aware of the issues discussed and their resolution.					
25.	The internal audit function is independent of management, appropriately skilled, competent and complies with Government Internal Audit Standards					
26.	The C.E.O Reviews and discusses with the external auditors aspects relevant to internal control procedures, risk management and internal audit.					
27.	All persons in leadership positions uphold high standards of ethics and professional conduct over and above compliance with the rules and regulations governing the operation of the company					
28.	Members of the governing, executive and advisory bodies, as well as members of the management team, exercise personal and professional integrity, including the avoidance of conflicts of interest					
Iii	**Stakeholder Communication and Disclosure**					
29.	The shareholders regularly receive communication in incase of any changes in the Board and management					
30.	Shareholder communications are distributed to shareholders in accordance with the Corporations Act and Listing Rules					
31.	The Shareholder Communication Policy is updated and maintained as required.					
32.	The Company has developed a Shareholder Communications Policy in order to promote effective communication with shareholders					
33.	Roles and responsibilities are clearly articulated in a program charter, memorandum of understanding					
34.	There is an effective framework for accountability of directors to owners.					

Section C: Organization Performance

For each of the following measures of performance, please indicate how your firm currently ranks compared to the competitor's in your industry by ticking appropriately, where:

1=Lowest 20% (0-20) %;

2=Lower 20% (21-40) %;

3=Middle 20% (41-60) %;

4=Next 20% (61-80) %;

5=Top 20% (81-100) %

		1	2	3	4	5
35	Market Share					
36	Sales Growth					
37	Profits					
38	Output in Units					

APPENDIX II

LIST OF SUGAR MANUFACTURING COMPANIES IN WESTERN KENYA

Name of the Companies

1. Ramisi Sugar Company
2. Chemelil Sugar Company Ltd
3. Mumias Sugar Company Ltd
4. Miwani Sugar Company Ltd
5. Nzoia Sugar Company Ltd
6. South Nyanza Sugar Company Ltd
7. Muhoroni Sugar Company Ltd
8. West Kenya Sugar Company Ltd
9. Soin Sugar Company
10. Busia Sugar Company
11. Kibos Sugar Company

Source: Kenya Sugar Board Strategic plan (2010- 2014)

APPENDIX III: CRONBACH'S ALPHA RELIABILITY COEFFICIENTS

Reliability Statistics Corporate Governance

Cronbach's Alpha	Cronbach's Alpha Based on Standardized Items	N of Items
.800	.772	3

Reliability Statistics Organization performance

Cronbach's Alpha	Cronbach's Alpha Based on Standardized Items	N of Items
.800	.0.702	1