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Moderating Influence of Board Diversity and Directors Compensation on Corporate Governance Structure and Financial Performance of the companies listed on the Nairobi Stock Exchange

Veronica Nyatichi*

Taita Taveta University College, Kenya

Abstract

Firms' shareholders can be protected from self interest of the directors through effective monitoring role of corporate governance mechanisms. The increasing cases of corporate scandal and failure in recent times have encouraged greater media and public interest in corporate governance than ever before and Kenya has not been spared either. The main objective of the study was to gain better understanding on how the integrated theories and extended model of corporate governance explains the relationship between corporate governance structures and financial performance of listed companies in Kenya. The data was collected using a qualitative technique of questionnaires through self administered interviews and from secondary sources of the annual reports of the firms to be studied. The results of the study suggests significant positive relationship between board composition, board diversity as well as directors' compensation and financial performance measured as ROA and ROE. Furthermore, the study indicates that audit committee was significantly negatively related to financial performance measured as ROE. However, the study found no relationship between board leadership structure and financial performance. Other than that, the findings on integrated model, which incorporated the moderating effect of board diversity and directors' compensation individually and jointly, suggest that the presence of board diversity (women) and directors' compensation individually had significant positive influence on the relationship between board composition and financial performance when measured as ROE. However, the effect of board diversity significantly interacted with the audit committee to exert negative influence on financial performance measured as ROA. Similarly, the study suggests that the presence of joint effect of board diversity and directors' compensation appears to have significantly interacted with board composition and audit committee to influence financial performance measured as ROE.

Keywords: Corporate governance; Board diversity; Directors compensation; Return on equity; Return on asset

Introduction

The increasing cases of corporate scandal and failure in recent times have encouraged greater media and public interest in corporate governance than ever before and Kenya has not been spared either. The concern of corporate governance is to protect the shareholders from self–interest of the directors so that they can get return for their investment [1-3]. However, in the wake of enormous cases of corporate scandal and failure, there is disagreement whether existing mechanisms of corporate governance are actually doing that. Core et al. [4] argued that there will higher agency problem where corporate governance mechanisms are weak.

One issue, which has demonstrated weakness of the corporate governance, is directors' compensation especially the executive pays. This important issue continues to ail many firms in the world Kenya included. Although the controversy surrounding directors' pays is not new neither will this be the end Conyon et al. [5], it is the dimension, which is assuming that is new in the corporate history. Shareholders' discontentment has reached a point of revolting against compensation they consider outrageous. Conyon et al. [5], Jensesn et al. [6] have arugued that director's financial rewards is incentive for entrenching stronger corporate governance culture to enhance greater performance. From the theoretical perspective, the interest of the shareholders can be protected from self-seeking management through effective monitoring of the management via corporate governance structures like board of directors, board committees etc. or by providing the directors with incentive to align their interests with that of shareholders [7-9]. Nevertheless, the empirical findings on how best the corporate governance structures are to be structured to enhance corporate performance and serve the interest of shareholders using diverse theoretical views remains inconclusive [10,11].

In recent time, there are growing attentions from policy makers and researchers on issue of board diversity [12,13]. It is suggested that corporate board structure along demographic diversity such as gender, age, ethnicity etc. is efficient in its monitoring role and protect the interest of the shareholders and other stakeholders better [14,15]. Although Kenya government has adopted board diversity as corporate governance practice from 2012, there is limited empirical evidence on the influencing impact of board diversity on corporate performance. In the light of the development in the corporate governance practice in Kenya, this study seeks to investigate the effects of board diversity and directors' compensation on the relationship between internal corporate governance structures and financial performance to understand how these burning issues will contribute to good corporate governance practice in Kenya.

Literature Review

It is widely acknowledged in the literature that good corporate

***Corresponding author:** : Nyatichi V, Taita Taveta University College, Kenya, Tel: 020-8150257; E-mail: veronicanyatichi@gmail.com

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governance is essential to sustain and promote the interest of the shareholders [16]. However, corporate misconduct and misbehaviour in the last past decade which resulted to economic and social loss to many stakeholders have prompted policy makers, stakeholders and researchers to question the existing corporate governance practices and structures. In Kenya, the burning issues in corporate governance, which have attracted attentions and actions of policy makers and stakeholders, include directors' compensations and board diversity.

Even then, there is great disagreement in the theories of how good or bad is the existing corporate governance structures in protecting the shareholders' interest and enhances corporate performance. However, the common aim of most theories of corporate governance has been to posit a relationship corporate governance mechanisms and corporate performance [17]. Unfortunately,empirical evidence on the relationship between corporate governance structures (board composition, board leadership etc.) and corporate performance are inconclusive [18,19].

Since Kenyan corporate governance practice is based on agency perspective, the underpinning theory of this study is the agency theory. This study assumes that due to the separation of ownership and control in Kenyan corporations, the managers' desire may be driven by self-serving motive behaviour towards serving the interest of shareholders better and improve firm performance.

The agency theorists suggested that board would be more effective in their monitoring function if outside directors dominate it [20]. In line of this, Fama argued that outside directors are independent of the executive and that they have incentive to safeguard their reputation as expert, hence, can be trusted to effectively monitor the executive. Arguing from resource dependence theory, Ferreira [15] also submitted that the involvement of outside directors is key to prosperity of the firm because they connects it to suppliers, financiers, expertadvice and counsel. Similarly, Morck et al. [21] contended that without monitoring role of the outside directors the executive might abuse their position in securing their job and approving their remuneration package.

However, the enormous cases of corporate scandal and failure in recent time have cast doubt on the effectiveness of monitoring role of the board dominated by outside directors. For instance, in the united kingdom the 11 of 14 board members of Enron were outside directors and more than 50% of WorldCom's board were also non executive directors [22]. Also, another world example across the globe is the recent interest fixing in Barclay Bank management in the united kingdom. Combs et al. declared that in practice outside directors are largely depended on the executive and their independent are weaken because they subject to manipulation of the executive.

Despite these shortcomings, scholars have suggested that board composition with outsiders is comparatively better than board without outsiders in protecting the interest of the shareholders and boast firm performance. Wagner et al. [23] declared that the thinking behind the connection between board composition and firm performance emanated from conceptual analysis indicating that board by hiring and evaluating the executive as well as participating in shaping strategic decision and setting corporate objectives, it contributes to corporate governance process and these have great impacts on firm performance. However, findings proofing the relationship between outside directors and financial performance are mixed.

Agency theory is in favour of separation of the role because according to the theory that will create check and balance in the system, and lead to better corporate performance [24]. Jensen and Meckling argued that since the responsibility of the board is to monitoring the performance of the CEO and other executive directors, assigning the role of CEO and chairman of board to the same individual will lead to inefficient and opportunistic behaviour. Rhoade et al. [25] also submitted that allowing the same individual to serve as the CEO and chairman suggests the CEO is expected to monitor and evaluate his own performance and this will create conflict of interest. Sharing the same views, Sharma et al. [26] stated that the combination of leadership roles of CEO and chairman will result to expropriate shareholders' wealth by directors and will raise the agency cost borne by the shareholders.

On the benefits of non-duality, Jensen declared that separating of the position of CEO and board chairman will increase board efficiency as chairman has the right to initiate board appointment, board committee assignment and set board agenda and this will reduce agency cost and enhances performance. Similarly, Brennan and McCafferty [27] stated that separation of board leadership role is to avoid concentration of too much power in a single individual and enhance corporate performance.

However, despite the benefit of non-duality, Brickley et al. [28] argued that separation of CEO and board chairman position has potential costs. The authors provided examples of such costs including the difficulties to pinpoint the individual to be held accountable for bad performance and creating of rivalry that mayslowdown decision process with attendant consequence on corporate performance. Moreover, the supporters of CEO duality argued that the concentration of authority in one individual would reduce board conflict and facilitate greater board productivity, which will have impact on performance [29].

The audit committee is critical to corporate accountability and by its responsibility,it enhances confidence in the financial statements [30]. The committee monitors the preparation of financial statement by the directors and review significant judgments made in the financial statements. It also serves as link between the corporate board and the external auditor on all matters relating to audits. In Kenya audit committee should constitute 3 to 5 members majority of who are independent non-executive directors, one of which should be a chair person. The chairperson should an independent non executive director and not the same person as the chairperson of the board. The members of the committee should be elected by the full board of directors. Abdur Rouf [1] declared that the role of the committee ensures the integrity of corporate financial report, which is critical to the implementation of corporate governance principle and improving firm performance. Similar view was also expressed in Brennan and McCafferty [11].

Arguing from the microeconomic perspective, Campbell et al. [31], Mwaura K et al. [32] and Ferreira [22] stated that diversity of board is desirable because it will lead to greater knowledge base, creativity, innovation, increase discussion, cross-fertilization of ideas and enhances problem solving and decision making capacity of the board. They argued further that since women control the global consumer spending, diversity in favour of more women on the board may allow for greater market penetration because of greater access to information on market needs and preference.

From the ethical point of view, Brammer et al. [33] argued that it is wrong for an individual to be excluded from the position, which is qualified on the ground of gender. Other views in favour of board diversity were also expressed in the work of Marimuthu [34] and Gilbert et al. [35]. However, board diversity is not without cost. In summary, Dobbin et al. [36] declared that diversity in race and gender to some extent may cause to conflict, hinder communication and interfere with cooperation among board members thereby lower performance.

In the united states the study of Cater et al. [19] used the data of

683 firms and found significant positive relationship between fraction of women on the board and performance. Catalyst [37] which is most cited study on board diversity used data of 353 US firms for 1997-2000, reported connection between gender diversity and financial performance. Similarly, Catalyst [37] also indicates that firms with women on board outperform those without by 53%, 42% and 66% using ROE, return on sales and return on invested capital respectively. These studies did not used method, which produced cause effect. Francoeur et al. [38] and Erahardt et al. [39] reported positive relationship between the two variables. In other studies, Dobbin et al. [36] and Marimathu [34] found negative board diversity and performance.

Directors are provided with financial incentives such as salary, bonus, long-term incentive reward, fees and benefit to compensate them for their labour in the service of a company. As expected, the executive directors are well compensated than non-executive directors (NEDs) for a number of reasons. First, the executives are full time employees with specialised skill and knowledge, which contribute substantially to economic performance of the firms. Second, incentives are used as mean to align the interest of CEO to those of the shareholders and for maximising the value of the firm [40,41]. In line of this, agency theorists claimed that such financial incentive would discourage the managers from pursuing any interest other than that of the shareholders as well as encourage effective monitoring on the board as a whole for better performance.

However, since agency theory claims that both effective monitoring role and provision of incentive to executive will reduce agency problems and enhances firm performance, it is imperative that NEDs are adequately motivated financially to discharge their responsibility. In this regard, Combs et al. declared that given the role of financial incentive and monitoring in agency theory, compensation might likely be one factor that may motivate and influence the effectiveness of NEDs. Therefore, the NEDs compensation is important as executive compensation in enhancing firm performance. Combs et al. [42] argued that the capacity of the board to be more effective in monitoring corporate performance depend upon the incentive given to the directors. Premised on this view, we advance the proposition that the directors' compensation interacted with board composition, leadership and committees to influence firm performance.

Research Methodology

The methodology of the study was based on quantitative approach because the phenomenon under study was of numeric nature. The quantitative research approach was adopted in line with the suggestion by Creswell [43] that quantitative approach is suitable for research whose objective is to examine the relationship among variables measured in numbered data.The use of positivism based on quantitative research approach in this study followed after most studies on corporate governance [44].

The research was conducted as a panel study. Panel methodology involves the use of longitudinal or cross sectional time series data which allows the behaviour of entities to be observed across time [45]. This study covered a period from 2002 to 2012. In designing this study, the theoretical model of corporate governance was expanded to incorporate moderating variables of board diversity and directors' compensation to reflect the current challenges facing corporate governance practices in the world particularly in Kenya. This was done to provide alternative method to understanding and explaining of the relationship between corporate governance structures and firm performance in the light of the inconclusive findings of the previous studies.

Data collection

The data needed to validate the hypotheses of this study are data on number of directors, women on the board, audit committee, corporate leadership style, directors' remuneration, large share ownership, total assets, total debts, profit before tax, equity and market capitalisation. These data was obtained from primary source by use of questionnaires which will be personally administered and from secondary sources, the published annual reports of the samples for the period from 2002 to 2012. The annual reports was obtained electronically from the Nairobi stock exchange website or individual company websites.

The dependent variable of this study is financial performance. It is widely acknowledged in the literature that corporate governance structures influence corporate financial performance [46]. Although there are different measurement of financial performance Kiel et al. [47], this study used both accounting and market based performance indicators to satisfy the need of the different stakeholders.

The accounting based indicators use historical accounting data. According to Topak [48], accounting based performance indicators are commonly used in research studies. They reflect the impact of many factors including efficiency of the management and the success of monitoring and advisory role of the board and they remain the traditional indicators of corporate performance. The accounting based performance will be indicated using Return on Assets (ROA), Retrun on investment (ROI), Return on Equity (ROE) and Net income (NI).

The Independent Variables include board composition,board leadership structure and board audit committee. Board composition is defined as the combination of executive directors and non- executive directors. However, since the underpinning theory of this study is Agency Theory, non-executive directors was adopted as proxy of board composition. The use of Non executive directors to represent board composition is consistent with the studies of Comb et al. [21]. Non-executive directors are directors who not are employees and do not have material interest in the corporation. Board leadership structures can either be dual or non-dual leadership structure. Brickley et al. [12] defined dual leadership as leadership structure in which thesame individual occupies the position of CEO and chairman while non-dual as leadership style where the different individuals are assigned the role of CEO and chairman. Following Comb et al. [21] board leadership structure (BLS) was measured using dummy variables with value of (0) to represent dual leadership while value of (1) for non-dual. Board committee is a group of directors given specific assignment by the board. Cadbury [49] emphasised the need for UK corporate board to have committees particularly audit committee (AUDCOM) and Agency Theory supported such suggestion. Therefore, similar to UK study of Weir et al. [50], only audit committee was considered in this study. In line of Haniffa et al. [51] audit committee was measured with dummy variable and if there exist an audit committee and constituted as required by regulation- yes means score of a value of (1) and no is value of (0).

The diversity of corporate board particularly gender diversity has attracted the attention of policy makers in recent time. The Stakeholders Theory supports the representation of different interest group on the corporate board. In this study, board diversity is defined as the representation of women on corporate board. The use of gender to represent board diversity is to reflect the great attention accorded to gender diversity in Kenya. In this study, apart from having direct relationship with financial performance, board diversity is a moderating variable and it was introduced in the framework to measure how it

interacts with each of the independent variable to influence corporate financial performance (dependent variables). Similar to the work of Dobbin et al. [36] board diversity was estimated as the proportion of women (BDIV) on each corporate board.

It is recognised in the Agency Theory that compensation serves as incentive to directors to perform. Directors compensation is included in this study as a moderating variable to ascertain the extent to which directors' compensation has influenced the relationship between corporate governance structures and financial performance. Directors' compensation is defined as total remuneration of all the directors which is sum of salary, fees, annual bonus etc. [52]. Following the work of Larcker et al. [52] etc. directors' compensation (DCOMP) was estimated as natural logarithm of the summation annual financial benefits paid to all directors.

In order to account for industry and firm characteristics as well as to strengthen confidence in the outcome of this study, board size, firm size, block shareholder and capital debt were incorporated in the model as control variables. The introduction of these control variables followed after the previous studies [53,54].

Data analysis

The statistical techniques for treating data collected for the study using SPSS programme will include descriptive statistic, correlation analysis and multiple regression. The relationships between variables of the study was statistically treated using multivariate regression analysis. This statistical technique is considered appropriate given that the study's models have multi-variables and the relationship between these variables is assumed to be linear. In using the technique, Ordinary Least Square (OLS) method was used for model estimation. OLS is used when all the observations for the time series are treated as single sample [55-57]. The same method was used in several past studies on corporate governance which applied panel methodology [58]. However, in addition to determining the relationship between dependent variables and independent variables, this study will also determine the moderating effect of two variables on this relationship.

Data Analyis and Findings

Descriptive statistics

The descriptive statistics for the entire firm with 64 observations and industry are presented in Table 1 and appendix III respectively. Table 1 shows the firm performance measured by ROA ranged from -16.63 to 54.33% with an average of 10. 51% and a standard deviation of 8.45. Similarly, Return on Equity (ROE) average performance was 9531.89. On industrial performance, The Banking industry had highest average ROA (16.04%) and the highest Return on Equity (ROE) of 38166.27. This suggests that on average, there was positive performance for all.

Furthermore, the table also reveals board composition had nonexecutive directors (NEDs) ranging from 2 to 14 with an average of 6.38 NEDs for all the firms. For the industry, Telecommunication had the highest average 9.33 NEDs. Overall, this implies the NEDs constituted majority (65%) on the board which is within the recommendations by code of corporate governance practices for public listed companies in Kenya. The code states that, "the Board shall comprise a balance of executive and non-executive directors, with a majority of non-executive directors" (Capital Markets Code of Corporate Governance 2014). Concerning board leadership structure, 61 or 94% of the observations had non-dual leadership structure leaving 6% as dual and this means nearing all the firms complied with the Code in respect to separation of CEO and chairman positions. Recommendation 1.3.3 observes that the roles of Chairman and CEO should not be exercised by the same individual.

Table 1 further indicates 63 or 98% of the observations had audit committees as defined by Kenya Governance Code as per Capital Markets Code of Corporate Governance 2014 with 1,471 members or an average of 3.97. The committee held average 4.03 meetings with 98.38% attendance. This shows the efficiency of the committees. However, of all the industries, Banking had highest audit committees (488) with average of 4.17. This shows how the banking industry is tightly regulated by the Central Bank of Kenya.

On board diversity, there were 351 women on the boards of the samples representing 9.6% of the board size with average of 0.94. With less than 1% women on each board, this suggests that male totally dominated corporate decision making in Kenya. On industrial basis, Consumer Service had the highest number of women (143) on its board while Telecommunication had the lowest (6). The reason for this may not be far from the fact that the former deals with products with great feminine content and characteristics while the latter is highly specialized.

Similarly, the average log directors' compensation and standard deviation were 1.17 and 0.62 respectively. On absolute terms, the total directors' compensation for all firms was Kshs 195,732.46 million with an average of Kshs 444.88 million. Of this amount, 85% was paid to executive directors leaving 15% to NEDs. This suggests executives were highly favoured in directors' compensation. This may be due to their full involvement in management of the firms and the fact that compensation is tied to performance. On average Banking and Telecommunication industry paid the highest directors' compensation (Kshs 944.164 million). Perhaps, the specialist nature of the industry contributed to this high compensation Figure 1. Thus, executive compensation rose by margins of up to 38 per cent in a single year, mostly reflecting growth in profitability [59].

Table 1 also documents board size of the firms to range from 5 to 19 members with an average of 9.79 and standard deviation of 2.62. Telecommunication industry had the highest average of board size (13.67). Furthermore, firm size had mean score of 7.62 and standard deviation of 1.39. Telecommunication industry had the largest firm size with an average of 10.20. This implies that the firms in this industry invest heavenly on assets because their machine and equipment are special.

The descriptive analysis on block shareholders indicates that there were 978 shareholders having more than 5% block shares in the observations with average of 2.64. Similarly, the debt ratio for all the firms ranged from 7.45 to 177.70% with an average of 57.12% while Telecommunication with mean of 94.72% had the highest debt ratio among the industries. Generally, the debt ratio is more than 50% and this indicates these firms are characterized by some degree of risk. However, this varies from industry to industry.

Correlation analysis

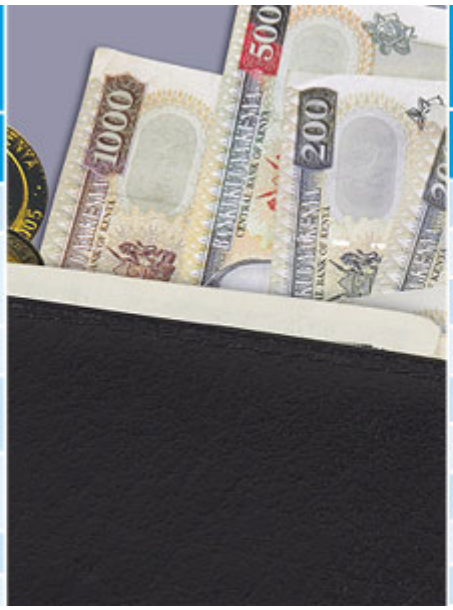
Table 2 presents inter-correlation between various variables of this study and the results indicate that the strength of correlation between most variables are weak hence produced small effect (± 0.1) while association between other variables produced moderate effect (±0.3) and high effect (±0.5) respectively. Specifically, ROA is correlated to the independent and moderating variables to certain degree (BCOM, r =

Monthly executive pay (Sh mn)

CEO/ Executive	Immediate	Previous	Change (%)
Frank Ireri	4.9	4.2	14.5
Titus Naikuni	8.5	6.4	33.7
Alex Mbugua			
Tom Gitogo	2.5	2.3	9
Jonathan Ciano	2.2	1.6	38.7
Peter Mwangi	1.1	1.1	1.7

*For the past two immediate financial years

SOURCE: COMPANY REPORTS



Annual executive teams' pay (Sh mn)

Company	Immediate	Previous	Change (%)
EABL	214.8	188.5	13.9
Safaricom	211.7	154	37.4
Stanchart	130.6	115.3	13.1
Barclays	120	104	15.3
KCB	95.4	86.7	10
Britam	78.6	43.1	82.4
Co-op	30.8	19.3	59.5

*For the past two immediate financial years

SOURCE: COMPANY REPORTS

Source: Business Daily, (2014)

Figure 1: Top CEOs pay in 2014.

Variables	Minimum	Maximum	Sum	Mean	S.Dev
Main Variables					
ROA	-16.63	54.33	3935.02	10.51	8.45
ROE	237.93	122047.75	3536329.33	9531.89	16848.98
B COM	2.00	14.00	2367.00	6.38	2.18
BLS	0.00	1.00	349.00	0.94	0.24
AUDCOM	0.00	1.00	364.00	0.98	0.14
Moderating Variables					
BDIV	0.00	4.00	350.00	0.94	0.89
DCOMP	-0.59	3.22	433.55	1.17	0.62
Control Variables					
BDSIZE	5.00	19.00	3631.00	9.79	2.62
FMZ	4.03	10.79	2825.95	7.62	1.39
BSH	0.00	8.00	978.00	2.64	1.61
DEBT	7.45	177.70	21192.76	57.12	23.69
Others					
Board Meeting	4.00	26.00	3271.00	8.82	2.89
Board Attendance	79.00	100.00	35909.00	96.79	3.30
Audit Committee Members	2.00	9.00	1471.00	3.97	1.02
Audit Committee Meeting	2.00	14.00	1496.00	4.03	1.29
Audit Committee Attendance(%)	67.00	100.00		96.38	5.63
Women CEO (WCEO)	1.00	1.00	17.00	1.00	0.00
Women Executive (WEX)	1.00	2.00	34.00	1.21	0.42
Directors' Compensation (DCOM)	0.55	25.01	1460.69	3.93	3.02
Executive Compensation	0.30	23.62	1233.06	3.32	2.75
Nonexecutive Total Compensation	0.05	5.49	226.07	0.61	0.55
Block Shareholders Number	0.00	8.00	978.00	2.64	1.61

Note: S.Dev = Standard Deviation.

Table 1: Descriptive statistics (N=64).

-0.08; BLS, r = 0.06; AUDCOM, r = 0.38; BDIV, r = 0.015; DCOMP = -0.045) but not significant. This suggests that these variables may not be having any great impact on ROA. However, for the control variables, ROA is negatively associated with board size (r = -0.111) and firm size (r = -0.257) at 5 and 1% significant level respectively. This is an indication that as these variables are increasing performance (ROA) is falling. Similarly, ROE positively related to all the variables except for BSH (r = -0.130) and DEBT (r = -0.030) to which is negatively correlated. For

the variables which ROE has positive relationship, BCOM (r = 0.551), BDIV (r = 0.440), DCOMP (r = 0.590), BDSIZE (r =0.501) and FMZ (r = 0.717) are significant at 1%.

On the other side, the correlation among other variables indicates mixed results. Some are positive while other negative. On the whole, BCOM (r = 0.818) and DCOMP (r = 0.718) are highly associated with BSIZE than other variables at 1% significant. This suggests as expected that as board size increases both board composition and directors' compensation will equally increase. Similarly, BLS (r = 0.136) and AUDCOM (r = 0.175) are highly positively correlated to firm size at 1% significant. This implies that as firm size increases there is need for efficient board leadership structure (non-dual) and audit committee to address the challenges associated with firm complexity. Women on the board (BDIV, r = 0.476; 1% significant) has highest positive association with directors' compensation and this means board diversity increase directors' compensation. As expected board size (BDSIZE, r = 0.575) is highly positively related to firm size meaning that as the firm is increasing in size more directors are needed on the board to manage the complexity of the firm. Furthermore, block shareholders (BSH, r = -0.183 at 1% significant) strongly negatively related to firm size than other variables and this implies as firm size increases block shareholders may likely reduce their holding perhaps this may due to the risk their investment may be subject in large firms.

Multiple regression analysis

The relationship between firm performance and the various corporate governance structure variables as well as moderating variables were estimated using OLS.

OLS (Ordinary Least Squares Assumptions)

As suggested in Coakes et al. [60], basic assumptions underlying application of OLS analysis were evaluated because the violation of these assumptions may affect the integrity of the regression result.

Sample size

Bartlett declared that the regression result might lack power of generalization if samples are considerable small. Tabachnick and Fidell provided rule of thumb for calculating sample size for regression as N ≥ 50 +8m while N ≥ 104 +8m for testing individual predictors where m is the number of the independent variables. In this study where the independent and moderating variables are 9, the minimum desirable samples would be 122 [that is 50 + 8(9)] for testing regression while 176 [that is 104 + 8(9)] for testing individual predictors.

However, with 64 firm-year observations and approximately ratio 41 case to one variable, the samples of this study is lower than the minimum sample size recommended in Tabachnick and Fidell and desirable ratio of 20:1 in Hair et al. [61]. Hence, this study did not satisfy the assumption underlying sample size. But the study was done successfully because the sample size for the listed firms could not be increased further.

Linearity

The common method of assessing the linearity between two variables recommended in statistics literature is a scatter plot. Alternatively, Meyers et al. declared Pearson correlation coefficients are also used to assess the degree of linear association between two variables. The results documented in Table 2 on inter-correlation analysis show that linearity of the variables was fairly assumed.

Multicollinearity

There exists multicollinearity problem when some independent variables are highly related. To detect multicollinearity problem, Hair et al. [61] suggested the use of tolerance and variance inflation factor (VIF) which is part of regression process. Hair et al. [61] recommended that multicollinearity with a tolerance value within the threshold of 0.10, which equal to a VIF of 10, is acceptable. Alternatively, Meyers suggested that there exists multicollinearity problem when correlation between variables is more than 0.90. The results of multicollinearity for the variables in the main effect and joint moderating effect are documented in Table 3. In all cases, the values of tolerance and VIF for each independent and moderating variable were within the threshold of 0.10 and 10 suggesting that multicollinearity did not pose any problem in the study. The correlation analysis in Table 2 equally indicates similar result as highest correlation is 0.818. However, to obtain this result, all variables were centered as recommended by Aiken and West for the treatment of multicollinearity problem in moderating study [62-65]. The same method was used in Comb [21].

To centre a variable, the overall mean of the variable is deducted from the variable.

Regression model and OLS regression results

In specific term, regression analysis of this study was carried out in 4 steps for each dependent variable with each step having its model [66-72]. In the first step, all independent and control variables were regressed to obtain the main effect of the study and the result from this analysis was used to estimate the predictive power of these variables

	Variables	1	2	3	4	5	6	7	8	9	10	11
1	ROA	1.000										
2	ROE	0.047	1.000									
3	B COM	-0.080	**0.551****	1.000								
4	BLS	0.006	0.075	**0.159****	1.000							
5	AUDCOM	0.038	0.069	**0.197****	-0.035	1.000						
6	BDIV	0.015	**0.440****	**0.410****	-0.016	0.036	1.000					
7	DCOMP	-0.045	0.590**	**0.556****	0.106	**0.139***	**0.476****	1.000				
8	BDSIZE	**-0.111***	0.501**	**0.818****	**0.106***	**0.156****	**0.447****	**0.718****	1.000			
9	FMZ	**-0.257****	**0.717****	**0.621****	**0.136****	**0.175****	**0.442****	**0.714****	**0.575****	1.000		
10	BSH	0.093	-0.130*	**-0.138****	-0.081	-0.045	**-0.156****	**-0.194****	**-0.217****	**-0.183****	1.000	
11	DEBT	-0.065	-0.030	**0.228****	**0.129***	-0.022	**0.134****	0.071	**0.169****	**0.133***	-0.007	1.000

Note: *Correlation is significance at 0.01.
**Correlation is significance at 0.05.

Table 2: Inter- Correlation matrix.

to meet the first five objectives of this study. Furthermore, this result was used to test hypotheses H_1, H_2, H_3 and H_4. The variables in this step together formed regression model 1, which is presented in equation 1 below.

$$\text{Financial Performance}_{it} = \beta_0 + \beta_1 BCOM_{it} + \beta_2 BLS_{it} + \beta_3 AUDCOM_{it} + \beta_4 BDIV_{it} + \beta_5 LogDCOMPit + \beta_6 BDSIZE_{it} + \beta_7 LogFMZ_{it} + \beta_8 BSH_{it} + \beta_9 DEBT_{it} + e_{it} \quad 4.1$$

Where β_0 is the intercept, $\beta_1 - \beta_9$ are coefficient and e is the error.

In the second step, the moderating effect of board diversity was introduced into regression together with independent and control variables while moderating effect of directors' compensation was held constant [73,74]. This step was necessary to satisfy fourth objective of the study and to test hypotheses H_6, H_7 and H_8. All the variables regressed in this step combined to give regression model 2 and this represented equation 2.

$$\text{Financial Performance}_{it} = \beta_0 + \beta_1 BCOM_{it} + \beta_2 BLS_{it} + \beta_3 AUDCOM_{it} + \beta_4 BDIV_{it} + \beta_5 BDSIZE_{it} + \beta_6 LogFMZ_{it} + \beta_7 BSH_{it} + \beta_8 DEBT_{it} + \beta_9 BCOM_{it} * BDIV_{it} + \beta_{10} BLS_{it} * BDIV_{it} + \beta_{11} AUDCOM_{it} * BDIV_{it} + e_{it} \quad 2$$

Where β_0 is the intercept, $\beta_1 - \beta_{11}$ are coefficient and e is the error.

To achieve the fifth objective of this study, the moderating effect of directors' compensation on relationship between relationship between independent and dependent variables were estimated while interacting effect of board diversity was held constant [75-79]. The result for this analysis was used to evaluate the validity of hypotheses H_9, H_{10} and H_{11}. The variables in this step together formed regression model 3 and it is presented in equation 3.

$$\text{Financial Performance}_{it} = \beta_0 + \beta_1 BCOM_{it} + \beta_2 BLS_{it} + \beta_3 AUDCOM_{it} + \beta_4 DCOMPit + t + \beta_5 BDSIZE_{it} + \beta_6 LogFMZ_{it} + \beta_7 BSH_{it} + \beta_8 DEBT_{it} + \beta_9 BCOM_{it} * LogDCOMPit + {}_{10} BLS_{it} * LogDCOMPit + \beta_{11} AUDCOM_{it} * Log DCOMPi + e_{it} \quad 3$$

Where β_0 is the intercept, $\beta_1 - \beta_{11}$ are coefficient and e is the error.

In the fourth step, the joint interacting effect of board diversity and directors' compensation on the relationship between independent and dependent variables was estimated [80-86]. The regression under this step meet the sixth objective and the result was used to test hypotheses H_{12}, H_{13} and H_{14}. The variables in this step formed model 4 and this is presented as equation 4.

$$\text{Financial Performance}_{it} = \beta_0 + \beta_1 BCOM_{it} + \beta_2 BLS_{it} + \beta_3 AUDCOM_{it} + \beta_4 BDIV_{it} + \beta_5 LogDCOMPit + \beta_6 BDSIZE_{it} + \beta_7 LogFMZ_{it} + \beta_8 BSH_{it} + \beta_9 DEBT_{it} + \beta_{10} BCOM_{it} * BDIV_{it} * LogDCOMPit + \beta_{11} BLS_{it} * BDIV_{it} * DCOMPit + \beta_{12} AUDCOM_{it} * BDIV_{it} * LogDCOMPit + e_{it} \quad 4$$

Where β_0 is the intercept, $\beta_1 - \beta_{12}$ are coefficient and e is the error.

Regression results

The regression results for the models stated in section 6.4 are summarized in Tables 4 and 5 for dependent variable of ROA and ROE respectively.

ROA dependent variable

Table 4 reveals that the value of the F ratios being significant for all four models suggested the models were statistically fit to predict the financial performance represented by ROA. With R^2 0.159 and 0.154 respectively for model 1 and 2, this means that all the variables in each of these models could only offered about 16% and 15% explanation of the variance in the dependent variable (ROA) respectively. But, the conservative explanation offered by adjusted R^2 was 14% and 13% respectively. This estimate (R^2) slightly increased to about 16% in both model 3 and 4. This suggests that there were other factors not incorporated in these models that may likely influence ROA to account for remaining variance in ROA.

On the contribution of individual variables in each model, Table 4 indicates that among the independent variables only board composition (BCOM) ($\beta = 0.274$; $p < 0.01$), board diversity ($\beta = 0.137$; $p < 0.05$) and directors' compensation (DCOMP) ($\beta = 0.387$; $p < 0.01$) had significant positive influence on financial performance (ROA) in model 1 and this implies that these factors are critical for improving corporate financial performance. Therefore, this results support hypotheses H_1 and H_4. Although, board leadership ($\beta = 0.052$; $p < 0.1$) and audit committee ($\beta = 0.082$; $p < 0.1$) had positve impact on ROA, the impact was not strong enough hence the relationship between these variables and ROA was not significant. As a result, hypothesis H_2 and H_3 are not supported by the study. Among the control variables, two variables were significant while others were not.

Furthermore, the result of model 2 after introducing the moderating effect of board diversity while holding directors' compensation constant reveals that the relationship between audit committee ($\beta = 0.100$; $p <$

Variables	ROA				ROE			
	Model 1		Model 4		Model 1		Model 4	
	Tol.	VIF	Tol.	VIF	Tol.	VIF	Tol.	VIF
BCOM	0.261	3.827	0.256	3.906	0.261	3.827	0.256	3.906
BLS	0.938	1.066	0.931	1.074	0.938	1.066	0.931	1.074
AUDCOM	0.942	1.062	0.732	1.367	0.942	1.062	0.732	1.367
BDIV	0.713	1.402	0.643	1.556	0.713	1.402	0.643	1.556
DCOMP	0.312	3.204	0.301	3.326	0.312	3.204	0.301	3.326
BDSIZE	0.218	4.582	0.218	4.586	0.218	4.582	0.218	4.586
FMZ	0.390	2.566	0.388	2.577	0.390	2.566	0.388	2.577
BSH	0.930	1.075	0.924	1.083	0.930	1.075	0.924	1.083
DEBT	0.923	1.084	0.880	1.136	0.923	1.084	0.880	1.136
BCOM* BDIV*DCOMP			0.530	1.887			0.530	1.887
BLS* DIV*DCOMP			0.869	1.150			0.869	1.150
AUDCOM* BDIV*DCOMP			0.700	1.428			0.700	1.428

Note: Tol. = tolerance, VIF = variance inflation factor

Table 3: Test for multicollinearity.

Variables	Model 1	Model 2	Model 3	Model 4
Main Effect				
Constant	**26.352 (5.475)*** **	**20.399 (4.151)*** **	**27.410 (4.916)*** **	**28.409 (5.421)*** **
B COM	**0.274 (2.897)*** **	0.110 (1.212)	**0.255 (2.675)*** **	**0.267 (2.789)*** **
BLS	0.052 (1.039)	0.045 (0.909)	0.032 (0.608)	0.052 (1.045)
AUDCOM	0.082 (1.645)	0.**100 (1.910)***	0.070 (1.065)	0.066 (1.167)
BDIV	**0.137 (2.397)** **	**0.157 (2.702)*** **		**0.125 (2.079)** **
DCOMP	**0.387 (4.473)*** **		**0.449 (5.173)*** **	**0.367 (4.159)*** **
Control Variables				
BDSIZE	**-0.344 (-3.324)*** **	-0.103 (-1.150)	**-0.348 (-3.337)*** **	**-0.342 (-3.304)*** **
FMZ	**-0.571 (-7.386)*** **	**-0.456 (-5.786)*** **	**-0.576 (-7.423)*** **	**-0.577 (-7.429)*** **
BSH	0.056 (1.114)	0.066 (1.310)	0.065 (1.278)	0.051 (1.021)
DEBT	-0.044 (-0.867)	0.089 (1.128)	-0.013 (-0.253)	-0.052 (-1.006)
Moderating Effects				
BCOM* BDIV		**0.189 (3.309)*** **		
BLS *BDIV		0.025 (0.485)		
AUDCOM *BDIV		-0.046 (-0.893)		
BCOM* DCOMP			**0.146 (2.582)** **	
BLS *DCOMP			-0.033 (-0.615)	
AUDCOM * DCOMP			-0.053 (-0.784)	
BCOM* BDIV*DCOMP				0.050 (0.751)
BLS *BDIV*DCOMP				-0.051 (-0.975)
AUDCOM *BDIV* DCOMP				0.029 (0.502)
R^2	0.159	0.154	0.161	0.162
Adjusted R^2	0.138	0.128	0.135	0.134
Change R^2	0.159	0.030	0.016	0.004
F Value	7.563	5.956	6.256	5.788
P Value	0.000	0.006	0.085	0.650
Dubin Watson	1.047	1.081	1.070	1.057

Note: 1.*T* Statistics in parenthesis. 2. Significant levels are: *** P<.01, ** P<.05 and * P<.10.

Table 4: OLS regression result for ROA (N = 64).

Variables	Model 1	Model 2	Model 3	Model 4
Main Effect				
Constant	**-34487.906 (-5.090)*** **	**-41793.409 (-7.258)*** **	**-39547.315 (-5.683)*** **	**-31358.685 (-4.546)*** **
B COM	**0.241 (3.614)*** **	**0.134 (2.407)** **	**0.168 (2.815)*** **	**0.179 (2.834)*** **
BLS	-0.016 (-0.449)	-0.039 (-1.240)	-0.009 (-0.266)	0.003 (0.082)
AUDCOM	**-0.080 (-2.275)** **	-0.044 (-1.328)	-0.030 (-0.736)	-0.055 (-1.485)
BDIV	**0.122 (3.016)*** **	**0.084 (2.310)** **		0.035 (0.888)
DCOMP	**0.110 (1.806)***		**0.234 (4.308)*** **	0.057 (0.974)
Control Variables				
BDSIZE	-0.086 (-1.183)	0.013 (0.238)	**-0.141 (-2.158)** **	-0.095 (-1.387)
FMZ	**0.525 (9.610)*** **	**0.556 (13.506)*** **	**0.483 (9.932)*** **	**0.508 (9.901)*** **
BSH	0.016 (0.444)	0.025 (0.795)	**0.054 (1.696)***	0.004 (0.133)
DEBT	**-0.164 (-4.614)*** **	**-0.109 (-3.376)*** **	**-0.093 (-2.902)*** **	**-0.133 (-3.917)*** **
Moderating Effects				
BCOM* BDIV		**0.327 (9.797)*** **		
BLS *BDIV		-0.037 (-1.163)		
AUDCOM *BDIV		0.005 (0.139)		
BCOM*DCOMP			**0.355 (9.983)*** **	
BLS *DCOMP			0.015 (0.451)	
AUDCOM * DCOMP			-0.026 (-0.624)	
BCOM* BDIV* DCOMP				**0.302 (6.879)*** **
BLS *BDIV*DCOMP				0.006 (0.165)
AUDCOM *BDIV* DCOMP				**-0.078 (-2.054)** **
R^2	0.580	0.668	0.671	0.635
Adjusted R^2	0.570	0.658	0.661	0.623
Change R^2	0.580	0.092	0.101	0.055
F Value	55.500	65.694	66.599	51.905
P Value	0.000	0.000	0.000	0.000
Dubin Watson	0.712	0.964	0.824	0.861

Note: 1.*T* Statistics in parenthesis. 2. Significant levels are:*** P<.01, ** P<.05 and * P<.10.

Table 5: OLS Regression Result for ROE (N = 64).

0.1) and ROA was slightly strenghtened and became significant just as board diversity (β = 0.157; p < 0.01). For the moderating impact, the result indicates that board diversity interacted significantly and positively with board composition (β = 0.189; p < 0.01) to influence financial performance (ROA) but not significantly moderated the relationship between audit committee (β = 0.025; p < 0.1) as well as board leadership (β = -0.046; p > 0.1) and ROA. This suggests that these statistical results support objective 6 that board diversity moderate relationship between corporate governance structure and financial performance.

In model 3, moderating effect of directors' compensation was entered into regression while the effect of board diversity was held constant and the regression coefficient indicates that board composition (β = 0.255; p < 0.01)and directors' compensation (β = 0.499; p < 0.01) had significant positive influence on financial performance. Other than that, the regression coefficient suggests directors' compensation interacted positively and significantly with board composition (= 0.146; p < 0.05) to influence the ROA. However, directors' compensation had weak but negative moderating impact on the relationship between board leadership (β = -0.033; p < 0.1) as well as audit committee (β = -0.059; p < 0.1) and ROA. In all cases, this result shows support for objective 6 that directors' compensation moderate relationship between corporate governance structure and financial performance.

Similarly, Table 4 indicates that in the presence of joint moderating effect of board diversity and directors' compensation, board composition ($\beta = 0.267$; $p < 0.01$)board diversity ($\beta = 0.125$; $p < 0.05$) and directors' compensation ($\beta = 0.367$; $p < 0.01$) had significant positive influence on ROA as the case in model 1. However, the joint effect of board diversity and directors' compensation did not significantly moderate the relationship between board composition ($\beta = 0.050$; $p < 0.1$) board leadership ($\beta = -0.051$; $p > 0.1$) as well as audit committee ($\beta = -0.029$; $p > 0.1$) and ROA. This statistical evidence indicates that this study fails to support research objective 6 and H1.

On the whole, the consistency of regression coefficients on board composition, board diversity and directors' compensation in all the models suggest these variables are important factors influencing financial performance.

ROE dependent variable

Using ROE as the measurement of financial performance, the F ratios as presented in Table 5 suggests that all the four models are statistically fit to predict corporate financial performance as the case under ROA. However, with ROE, the R^2 and adjusted R^2 values for all the models are greater than under ROA, with highest in model 3 (R^2 0.671; adjusted R^2 0.661). This suggests the variables in each of these models provide better explanation of firm financial performance than under ROA but specifically, the combined variables in model 3 account for about of 67% or conservatively 66% of ROE.

For the individual variable predictive power, beta values of board composition ($\beta = 0.241$; $p < 0.01$), board diversity ($\beta = 0.122$; $p < 0.05$) and directors' compensation ($\beta = 0.110$; $p < 0.1$) indicates that these variables are significantly and positively related to financial performance (ROE) while audit committee ($\beta = -0.80$; $p < 0.05$) had negative impact on ROE in model 1. Just as under ROA, board leadership ($\beta = 0.052$; $p > 0.1$) was positive but insignificantly related to ROE. This is an indication that this study supports hypothesis H_1, H_2, and H_4 but reject H_3. Further evidence shows that among the control variables, firm size and debt had significant positive and negative impact on ROE respectively in all the four models while in model 3, board size and block shareholders were negatively and positively related to ROE respectively.

In the presence of only moderating effect of board diversity in model 2, board composition ($\beta = 0.134$; $p < 0.05$) and board diversity ($\beta = 0.084$; $p < 0.05$) are positively and significantly related to ROE. In other results, board diversity strongly and positively moderated the relationship between board composition ($\beta = 0.327$; $p < 0.01$) and ROE. Similarly, board diversity interacted negatively with board leadership ($\beta = -0.037$; $p > 0.1$) and positively with audit committee ($\beta = -0.005$; $p > 0.1$) to influence ROE. These results provide evidence to support hypothesis H_4 and objective 6.

Furthermore, with introduction of only moderating effect of directors' compensation in model 3, board composition ($\beta = 0.168$; $p < 0.01$) and directors' compensation ($\beta = 0.234$; $p < 0.01$) had explanatory power which influenced performance (ROE) significantly. However, the effect of directors' compensation significantly and positively moderated the relationship between board leadership ($\beta = 0.355$; $p < 0.01$) and ROE. Similarly, directors' compensation shows insignificant positive and negative interacting effect on the relationship between board leadership ($\beta = 0.015$; $p < 0.1$) as well as audit committee ($\beta = -0.026$; $p > 0.1$) and ROE respectively. These results provide evidence to support hypothesis H4 and objective 6. It does not support the notion that directors' compensation has interacting influence on the relationship between board leadership and corporate financial performance and directors' compensation has interacting influence on the relationship between audit committee and corporate financial performance.

In model 4, with joint moderating effect of board diversity and directors' compensation, the regression coefficients indicate that only board composition ($\beta = 0.179$; $p < 0.01$) showed strong positive influence on ROE while the influences of other independent variables are weak. However, board diversity and directors' compensation significantly jointly interacted with board composition ($\beta = 0.302$; $p < 0.01$) and audit committee ($\beta = -0.084$; $p < 0.05$) to influence ROE positively and negatively respectively. But this joint moderating effect was not significant on the relationship between board leadership ($\beta = 0.006$; $p > 0.1$) and ROE. Therefore, the result supports objective number six and H4 which can be explained as follows: board diversity and directors' compensation have interacting influence on the relationship between board composition and corporate financial performance; board diversity and directors' compensation have interacting influence on the relationship between board leadership and corporate financial performance and board diversity and directors' compensation have interacting influence on the relationship between audit committee and corporate financial performance.

On the overall, board composition showed consistently a strong positive influence on ROE and was consistently moderated by board diversity and directors' compensation in all the models. This implies that board composition, board diversity and directors' compensation are important factors in influencing ROE as the case with ROA. Table 6 summarized the hypotheses findings.

Conclusion

This study provides empirical evidence on the relationship between board composition, board leadership, as well as audit committee and financial performance. This relationship is as conceptualized by the agency theory and supported by the stakeholders theory but further extended to incorporate the moderating effect of board diversity and directors' compensation. The study was motivated by recent corporate failures and recent policy of the Kenyan Government on board diversity and board composition which encourages corporate firms to increase women representation on corporate boards, enhance the number of independent and non-executive directors on corporate boards as well as the reaction of shareholders against directors' pays in some Kenyan firms especially Parastatals.

The results of the study suggests significant positive relationship between board composition, board diversity as well as directors' compensation and financial performance measured as ROA and ROE. Furthermore, the study indicates that audit committee was significantly negatively related to financial performance measured as ROE. However, the study found no relationship between board leadership structure and financial performance. Other than that, the findings on integrated model, which incorporated the moderating effect of board diversity and directors' compensation individually and jointly, suggest that the presence of board diversity (women) and directors' compensation individually had significant positive influence on the relationship between board composition and financial performance when measured as ROE. However, the effect of board diversity significantly interacted with the audit committee to exert negative influence on financial performance measured as ROA. Similarly, the study suggests that the presence of joint effect of board diversity and directors' compensation appears to have significantly interacted with board composition and audit committee to influence financial performance measured as ROE.

Hypotheses	ROA			ROE		
	Effect	Significant Level (%)	Result	Outcome	Significant Level (%)	Result
H_1: Other things being equal, board composition and board diversity relates positively to corporate financial performance.	+	1	Supported	+	1	Supported
H_2: Other things being equal, board leadership relates positively to corporate financial performance.	+		Not Supported	-		Not Supported
H_3: Other things being equal, audit committee relates positively to corporate financial performance.	+		Not Supported	-	5	Not Supported
H_4: Other things being equal, board diversity relates positively to corporate financial performance.	+	5	Supported	+	1	Supported
H_5: Other things being equal, directors' compensation relates positively to corporate financial performance.	+	1	Supported	+	10	Supported
Objective 6: Other things being equal, board diversity and directors' compensation has interacting influence on the relationship between board composition and corporate financial performance.	+	1	Supported	+	1	Supported

Table 6: Summary of research findings.

The finding on the link between board composition represented NEDs and financial performance reaffirms previous findings on the role of NEDs in good corporate governance as well as justify the provision in the CMA's Governance Corporate Code that corporate boards should have majority of NEDs. However, contrary to theoretical proposition, the study shows no significant relationship between non-dual board leadership structures. This is an indication that separation of the position CEO and chairman may not add significant value to the corporate performance. Theoretically, contrary to the perception in practice, that board diversity (women) adds no value to firms, findings of this study demonstrate board diversity contributes significantly corporate performance through its interaction on the corporate boards. In the same vein, the study points out the important role of directors' compensation in enhancing financial performance as well as influencing the connection between corporate board and financial performance. This completely contradicts the perception of the stakeholders that directors' compensation is not connected to corporate performance.

Recommendations

The findings of this study have some distinctive implications. First, the findings distinctively demonstrates the importance of the interacting influence of board diversity and directors' compensation individually and jointly on the relationship between the board composition and firm performance and such influence cannot be ignored theoretically. Hence, this suggests that Agency Theory should explicitly include the argument that the presence of board diversity and directors' compensation entrenches good corporate governance.

Furthermore, the findings suggests that policy makers particularly in the Kenya should be more concerned with issues surrounding board diversity, directors' compensation as well as other related issues which could entrench good corporate governance in Kenya. To this end, based on this study's findings, the following recommendations are advanced:

- Although recently the Kenyan Corporate Governance Code was amended in 2014 to require listed firms to disclose in the annual reports diversity of their boards. Such requirement would have more impact that is meaningful on corporate governance practice, if it is specific in term of suggesting minimum number of women that should be on the corporate boards as was done for nonexecutive and independence directors.
- The Kenya government needs to intensify efforts in encouraging the corporate families on the need for gender balance on the boards. This can be done by emphasis on the benefits accruing from such policy. Perhaps, some kinds of incentive can be provided for firms, which pursue such policy. This is because descriptive statistics from this study suggested that women on boards for firms listed at the NSE (10%) were less than the target.
- In the light of the finding on the moderating influence of directors' compensation on firm performance, Kenyan government and governments from other part of the world contemplating regulating the directors' compensation should have a re-think as such policy would contradict the principle of free market economy and completely discourage board productivity. In the place of such regulation, the internal corporate governance structures should be further strengthened to check any manipulation that may be taking place when fixing directors' compensation particularly executive pays.
- Despite the outcry about directors' compensation, the descriptive statistics of this study indicates that NEDs earn just a small fraction of the directors' emolument and as suggested in the literature, Kenyan NEDs are poorly compensated compared to their counterparts in countries like UK and US. Therefore, taking into account the practical and theoretical role of NEDs, Kenyan companies should provide the NEDs with sufficient financial incentive in order to further motivate them in their role and enhance board productivity.
- The descriptive statistics indicate that firms listed at the NSE boards had an average 10 members above between 7 and 8 members recommended in the literature. The implication of such large board is that I tis unnecessarily crowded and difficult to control hence, may experience low productivity. In addition, it will drain the financial recourses of the firms. Therefore, Corporate Governance Code should be amended to include provision for maximum size for the Kenyan corporate boards as guide for corporations.
- In the light of the finding indicating that board leadership structure shows no significant impact on financial performance, the Kenyan Corporate Governance Code on non-dual board leadership should be revisited. This is because economic costs attributed to the consequences of separation of the positions of CEO and chairman such as rivalry, conflicts etc. are enormous and besides, the specialized nature of certain industry makes separation of such positions inappropriate.
- The finding on the negative impact of audit committee makes the need for further restructure of the audit committee particularly

in Kenya in the area of membership and qualification imperative. The present requirement that audit committee should have at least one member with relevant and recent financial experience is loose and inadequate. The committee with majority non-financial experts may not make any meaningful deliberations and contributions, which would have impact on corporate governance as whole and firm performance in particular.

Limitations of the Study

This study is not completely free of limitations. First, the data used for most variables of this study were extracted from the financial statements but certain items of these financial statements such as valuation of assets etc. were accounting estimate, which were derived from the management judgement. The management judgement may be subjective and may be exercised with bias and different motives such as boasting the performance of the firm for economic reason, hence, the information presented in financial statement may not be a truthful reflection of the affair and performance of the sampled firms.

Secondly, the data of this study were exclusively collected on the NSE firms, as a result, the findings of the study may not be generalized to other countries of the world. Perhaps a case study on a particular sector would allow foe an in depth analysis and increase levels of generalizations.

Furthermore, the focus of study was NSE firms but corporate governance structures and performance of the small firms in other market segments and the ones not listed at the NSE may exhibit different trend and characteristics from that of firms listed at the NSe. Therefore, caution has to be exercised in generalizing the findings of this study to small firms. Finally, the study concentrated on only the board composition, board leadership, audit committee, board diversity as corporate governance factors influencing financial performance. The study ignored social, psychological, CSR activities as well as corporate cultural factors having impact on corporate performance.

Future Research

The findings and the observed limitations of this study encourage suggestion for possible areas which potential researchers may pay attention in the future. First, since this study was the first to test the moderating effects of board diversity and directors' compensation on corporate governance structure, more researches are needed on these effects on the relationship between corporate governance structure and financial performance. Such a follow up research is necessary to check the consistency of the findings of this study.

Secondly, it is desirable that researchers in future should incorporate social, psychological and corporate cultural factors into an integrated model with the moderating effects of board diversity and directors' compensation and test what would be reaction of the connection between these factors and firm performance. This research effort is necessary because this study did not incorporate comprehensive factors having impact on firm performance. Similarly, future researchers may want to consider extending study incorporating the moderating effects of board diversity and directors' compensation on corporate governance structure to financial institutions and small firms in Kenya.

Finally, duplication of this study in other countries particularly developing countries, will provide empirical evidence on the moderating effects of board diversity and directors' compensation on corporate governance structure and firm performance in these countries. Such research efforts are desirable in the light of the differences in corporate governance practices as well as differences in corporate culture, social and economic development.

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