THE INFLUENCE OF BOARD ATTRIBUTES ON FIRM VALUE: A CASE OF THE UNIT TRUSTS IN KENYA

Mercellina Moige Bosire


ABSTRACT

Boards have long been the subject of management research and the attention paid to corporate boards has increased substantially in recent years. Although the subject of corporate governance is gaining an increasing attention from both academic and business circles, there is no research hitherto been recorded on board characteristics and their influence of board characteristics on the firm value of firms especially in the developing countries like Kenya? This study aimed to fill the existing gap by carrying out a research on the influence of board characteristics on the firm value. The general objective of this study was to investigate the influence of board characteristics on the firm value of firms with a special focus on the unit trusts in Kenya. The study adopted a descriptive research design, which is used when the problem has been defined specifically and where the researcher has certain issue to be described by the respondents about the problem. The target population composed of 116 staff in different managerial levels currently employed at the 8 unit trusts in registered with the CMA in Kenya. From each stratum the study used simple random sampling to select 35 respondents. The questionnaire was used to collect quantitative data. Quantitative data collected and analyzed by the use of descriptive statistics using SPSS and presented through percentages, means, standard deviations and frequencies. A multivariate regression model was applied to determine the relative importance of each of the four variables with respect to the influence of board characteristics on firm value. This was in an effort to establish the extent to which each independent variable affected the dependent variable. The study found out that majority of the respondents agreed to a great extent that the size of the board has a material impact on the quality of corporate governance and that monitoring expenses and poor communication in a larger board has been seen as a reason for the support of small board size. The study also established that majority of the respondents said that board flexibility affects firm value to a very great extent. At the same time, the study established majority of the respondents agreed that that top management turnover, presence of an audit committee and involvement in strategic planning affects firm value to a great extent and that involvement/participation of non-executive directors/ foreign ownership affect firm affects firm value to a very great extent.
Key Words: Board attributes, Board size, Board effectiveness, non-executive directors, board leadership and firm value

1.0 INTRODUCTION

1.1 Background of the Study

Organizational performance depends to a big extent on the top management and its ability to handle specific issues on the daily proceedings of the company. The company’s control is laid on the hands of the board of directors and other shareholders who decide what measures to undertake so as to enhance the growth and development of the company (Nguyen, Locke & Reddy, 2014). In many organizations across the globe, board members and the shareholder are placed at the heart of the organizations’ continuity and other growth strategies which involves undertaking investment decision and deciding which competitive path does the firm focus on. According to Macey and O’Hara (2013), the board has a more power to decide what happens with the organizational resources and how the resources should be managed. This is to mean that despite the efforts that can be made by the management of the company on how to run the organization, the board of directors have the final say. The board is comprised on non-executive and executive members all being crucial to the performance of the board and the company as a whole.

1.1.1 Board of Directors

A board of administrators may be a body of elective or appointed members’ agency who conjointly superintend the activities of a corporation or organization. It's a gaggle of individuals elective by the homeowners of a business entity, agency have decision-making authority, pick authority, and specific responsibilities that in every case is separate and distinct from the authority and responsibilities of householders and managers of the business entity. Executives (directors) in a very competitive area unite the members of a board of
administrators who should be persons. They will be homeowners, directors, or the other person selected by the proprietors of the business entity. Administrators who are homeowners and/or managers are unit typically mentioned as within administrators, insiders or interested administrators (Mulbert, 2010). Boards of administrators are at times associated to an advice-giving board or panel of advisors (advisory cluster).

1.1.2 Firm Value

Firm Value (FV) is an economic quota shimmering the market price of the total business; a total of claims of all the security-holders: debt-holders, desired shareholders, marginal shareholders, collective equity frames (Mak & Kusnadi, 2015). The worth of the firm is earned by discounting anticipated cash-flows to the firm, i.e., the residual cash-flows when meeting all operational expenses and taxes, however before debt payments, at the weighted monetary value of capital, that is that the price of the various apparatus of finance utilized by the firm, weighted by their market price magnitudes.

1.1.3 Unit Trusts in Kenya

Unit trust investments are renowned as assets that have value when it comes to investing. Savings from a number of investors are pooled together to form a fund. The overall risk of the investment is reduced through diversification to maximize returns achieved by active portfolio management by professional asset managers. The Kenyan capital markets give a range of investment opportunities in the form of shares, bonds and unit trusts. The products are chosen by the vendor to pledge their capital depending to a great extent on the financial aims/objectives, available time, and volume of investment available.

Over the past few years, unit trusts have immensely expanded with most of them gaining popularity even from people who were not aware of them before. This has been evidenced by
the rise in the sum of accepted unit trust funds as of virtually zero in the year 2001 to eleven percent in the year 2008. Unit trusts sound to be the solutions to smaller investors who seek to have plans to expand their business or diversify to other operations through increased investments. As the operating area becomes sophisticated and more unpredictable, unit trusts become safe anchorages for less, refined and less capitalized, conventional persons in the market. Currently, there are 8 unit trusts registered by the CMA (as per appendix IV). This is the number that is presently operative and making the obligatory commentary in the local dailies. Others who are accredited by CMA include CFC Unit trust, Dyer and Blair unit trust and standard unit trust (Aygün & İç, 2010).

1.2 Statement of the Problem

Boards have long been the focus of management research and the attention paid to corporate boards has increased considerably in recent years (Liang, Xu & Jiraporn, 2013), with a particular focus on the panel’s association to firm value (e.g., Pettigrew, 1992; Zahra & Pearce, 1989). The tasks of a board of administrators differ based on the nature of trade body and the laws smearing to the body. The nature of the business may be one that is merchandized on a public market (public company), not merchandised on a public market (a private, limited or closely held company), owned by family members (a family business), or immune from pay levies (a non-profit, not for profit, or tax-exempt entity).

There are numerous types of business entities available throughout the world such as a corporation, limited liability company, cooperative, business trust, partnership, private limited company, and public limited company. Much of what has been written about boards of directors relates to boards of managers of business entities actively traded on public markets (Guest, 2017). Some of the board characteristics are specifically related to the board
as a separate entity, reflecting the characteristics of directors as a whole. These types of board process characteristics are called directors' collective characteristics.

As research on boards continues to progress, there is increasing indication that control structures are symbiotic, both upsetting and replacing for each other in such a way that manifold governance appliances and arrangements might be actual (Stein, 2013; and Raheja, 2015). Cohen, Cohen, West and Aiken (2013) have disputed that taking a multi-theoretic slant to corporate governance is essential to identify and comprehend the unified apparatuses and edifices that possibly improve company performance. Faccio and Lang (2012) extended upon these thoughts disagreeing that better heights of panel capital allow the board to protected more possessions and more efficiently display the corporation.

A number of studies have explored what styles boards purpose as well as clutches and the role that executives production in swaying and administering the firm in overall (Postma, van Ees & Sterken, 2013; Eisenberg, Sundgren & Wells, 2013). While the study purposes at examining the relations between board characteristics and firm value, there is no accord on what constitutes suitable procedures of firm value (Daily et al., 2002; Claessens, Fan & Lang, 2016). It is also doubtful that any solitary gauge could sufficiently incorporate numerous features of firm value. The trend, consequently, has been near consuming manifold gauges of firm value (Black, Jang and Kim, 2014). Even though the theme of corporate governance is attaining an increasing focus from both educational and business rings, there is no research previously been chronicled on board qualities and their effect on the firm value of companies expressly in the emerging countries such as Kenya. Further, there is comparatively petite research that surveys the connection between boards of executives and firm value (Beiner, Drobetz, Schmid & Zimmerman, 2014). This study targeted at satisfying the prevailing gap
by conducting a research on the effect of board qualities on the value of firms with a special focus on the unit trusts in Kenya.

1.3 Objectives of the Study

i. To establish the influence of board size on the firm value of the Unit Trusts in Kenya

ii. To find out the role of board effectiveness on the firm value of the Unit Trusts in Kenya

iii. To establish the influence of non-executive directors/foreign ownership on the firm value of the Unit Trusts in Kenya

iv. To assess the relationship between board leadership structure/CEO duality and firm value of the Unit Trusts in Kenya

2. LITERATURE REVIEW

2.1 Theoretical Framework

2.1.1 Agency Theory

Agency theory explains how best the relationship between agents and doyennes can be tapped for purposes of governing an establishment to realize its goals. Interest on agency relations became more prominent with the emergence of the large corporation. There are businesspersons who have a knack for build-up of capital, and managers who had a surplus of ideas to effectively use that capital. Broader descriptions of corporate governance are now appealing superior courtesy. The primary contributors are the boards of directors, shareholders and management, but other key players whose securities are affected by the corporation are the general community, employees, partners, suppliers and customers (Naser, Khalid & Karbhari, 2012).
2.1.2 Stakeholders Theory

Stakeholder theory focuses on enhancing involvement of key organizational stakeholders in the matters of the organization for an integrated performance (Gill, 2011). The theory enhances the administration’s vision of its roles and errands beyond the profit expansion role and patrons recognized in input-output replicas of the enterprise, to as well include benefits and entitlements of non-stockholding assemblages (Mansuri & Rao, 2004). Patton (2008) expounded that the stakeholder model involves that all folks or assemblages with authentic interests partaking in an firm do so to attain doles and that there is no pre-set importance of onset of securities and paybacks over another (Karl, 2007). The individuality is normally a sham, not for off-putting superfluous of pay, but for vindicating it (Klapper & Love, 2014). Unambiguously, a stakeholder is defined as any group or distinct person who can upset or is affected by the accomplishment of the firm's goals, and this is destined to oversimplify the impression of stockholder as the only assemblage to whom administration need to be receptive.

2.1.3 Shareholder Theory

There are two major theories of shareholder-oriented governance: the principal-agent or finance model and the myopic market model. The principal-agent model starts from a supposition that the communal tenacity of companies is to get the best out of shareholders’ wealth (Coelho et al., 2003). Shareholders’ constancy and voice should upsurge, while the affluence of shareholders' departure should decrease. Strategy applications for the reorganization include the reinforcement of rapport capitalizing to lock financial institutes into long-term stations, precincts on the takeover process and on elective privileges for short-term shareholders.
2.1.4 Trait Theory of Leadership

The trait theory of leadership was preordained to define the traits of a leader with relation to the leader efficiency and have a clear view on the differences between leaders and non-leaders. According to Church and Ware (2009), leader effectiveness is the ability of a person to influence the thoughts and actions of an individual or group of people to act in certain way particularly for the benefit of the organization. Uniqueness in a person and the ability of the person to act different from others and think critically, demonstrates the ability of that individual to lead (Yuki, 2011). Zaccaro (2007) contends that being a leader, the traits that an individual portrays in the workplace, proves the workability and the need for the said individual to become a capable leader. Thus the personal traits are highly endorsed in most of the organizations since they are the ones used to mentor an imminent leader. Trait leadership theory can act as the central foundation of the acquaintance on the prerequisite for ascertaining subjective traits of an individual.

2.2 Conceptual Framework

<table>
<thead>
<tr>
<th>Independent variable</th>
<th>Dependent variable</th>
</tr>
</thead>
<tbody>
<tr>
<td>Board Size</td>
<td>Firm value</td>
</tr>
<tr>
<td>Board effectiveness</td>
<td></td>
</tr>
<tr>
<td>Non-executive directors/foreign ownership</td>
<td></td>
</tr>
<tr>
<td>Board Leadership</td>
<td></td>
</tr>
<tr>
<td>Structure/CEO Duality</td>
<td></td>
</tr>
</tbody>
</table>
3.0 METHODOLOGY

3.1 Research Design

The study adopted a descriptive survey research design which incorporates both qualitative and quantitative data. The design has a nature that allows broad and detailed analysis and findings thus was considered appropriate for the study.

3.2 Target Population

The target population for the study was the unit trusts in Kenya which constituted of 416 workers in several social control levels presently utilized at the eight unit trusts in Kenya. The population was stratified through high management level, senior officer level and low level management.

3.3 Sampling

Stratified proportionate sampling technique was accustomed choose the sample. Stratification aims to cut back customary error by providing some management over variance. From every stratum the study used straightforward sampling to pick thirty five respondents. This gave a total of 116 respondents.

3.4 Data Collection

The data was collected using a self-administered questionnaire which was conveyed at the respondents work station and picked at the agreed time when dully filled.

3.5 Data Analysis

The data was analysed by use of SPSS whereby the questionnaires were sorted and cleaned then coded in the software. The software was used to generate means and standard deviation for the findings. The findings were presented by use of frequency tables, pie-charts and bar-graphs.
4.0 FINDINGS

4.1 Board Size

The study sought to find out the board size of the institution. The respondents were asked to indicate their level of agreement to various aspects on board size and how it affects the value of the firm. The findings as shown in table 1 below compare with the literature reviewed in that board size is a main determinant of the value and performance of a firm. Gill and Obradovich (2013) identified board size as one of the aspects steering organizational growth. According to Gill and Obradovich (2013), a bigger board size slows the decision making process due to need of involvement of many chains of members of the board. The findings also concur with those of Elsayed (2011) who found that there was a strong relationship between the board size and the efficiency in an organization. Elsayed (2011) found that the smaller the board, the higher the communication flow and lower operational expenses. This shows that the study findings have a clear link on the board size and value of the organization.

Table 1: Agreement Level with the Aspects of Board Size Affecting the Firm Value

<table>
<thead>
<tr>
<th>Aspects</th>
<th>Very</th>
<th>Great</th>
<th>Moderate</th>
<th>Little</th>
<th>No</th>
<th>Mean</th>
</tr>
</thead>
<tbody>
<tr>
<td>The size of the board has a material impact on the quality of corporate governance.</td>
<td>70</td>
<td>15</td>
<td>5</td>
<td>5</td>
<td>5</td>
<td>1.9</td>
</tr>
<tr>
<td>Smaller board sizes are better than larger ones that may be plagued with free rider and monitoring problems.</td>
<td>40</td>
<td>20</td>
<td>20</td>
<td>10</td>
<td>10</td>
<td>2.2</td>
</tr>
<tr>
<td>Smaller boards are more effective since they experience fewer communication and coordination problems.</td>
<td>40</td>
<td>20</td>
<td>20</td>
<td>10</td>
<td>10</td>
<td>2.1</td>
</tr>
<tr>
<td>Larger boards are found to be slow in decision making</td>
<td>20</td>
<td>50</td>
<td>20</td>
<td>5</td>
<td>5</td>
<td>2.7</td>
</tr>
<tr>
<td>Monitoring expenses and poor communication in a larger board has been seen as a reason for the support of small board size</td>
<td>70</td>
<td>15</td>
<td>5</td>
<td>5</td>
<td>5</td>
<td>1.9</td>
</tr>
<tr>
<td>Firms with larger board size have the ability to push the managers to pursue lower costs of debt and increase performance</td>
<td>20</td>
<td>50</td>
<td>5</td>
<td>5</td>
<td>2.5</td>
<td>20</td>
</tr>
<tr>
<td>Large corporate boards may be less efficient due to</td>
<td>70</td>
<td>15</td>
<td>5</td>
<td>5</td>
<td>5</td>
<td>1.9</td>
</tr>
</tbody>
</table>
difficulties in solving the agency problem among the members of the board

4.2 Board Effectiveness

The second objective of the study was to find out the relationship between board effectiveness and the firm value. According to the findings, as shown in table 2 below top management turnover affected the firm value to a great extent as shown by a mean of 2.0, presence of an audit committee affected the firm value to a great extent as shown by a mean of 2.3, involvement in strategic planning affected the firm value to a great extent as shown by a mean of 2.4 and meeting frequency affected the firm value to a great extent as shown by a mean of 2.5. In addition, company management monitoring affected the firm value to a moderate extent as shown by a mean of 2.6 and compliance and communication affected the firm value to a great extent as shown by a mean of 3.1. This implies that the facets of board effectiveness affected the firm value to a great extent.

The findings compare with those of O’Connell and Cramer (2010) who found that board of management was essential in an organization but pointed its effectiveness as the main determinant of how well the board can serve to increase the organizational performance. Bozec (2015) on the other hand contends that an effective board can be observed through enhanced communication among the board members, ability to speak in one language and hold frequent meetings to discuss organizational matters without waiting for emergence of problems. Similar to the current study, Vo and Phan (2013) found that monitoring was a role that an effective board took into consideration and this served to increase the value of the firm.

Table 2: Extent to which the facets of board effectiveness affected the firm value
4.3 Non-Executive Directors/ Foreign Ownership

The third objective of the study was to find out the influence of non-executive directors on firm value. The research sought to find out the extent that the facets of non-executive directors/ foreign ownership affected the firm value. According to the findings in table 4.3 below, involvement/participation affected the firm value to a very great extent as shown by a mean of 1.2, number of members affected the firm value to a great extent as shown by a mean of 2.3 and proportion affected the firm value to a great extent as shown by a mean of 2.5. This implies that the facets of non-executive directors/ foreign ownership affected the firm value to a great extent. According to Baptista et al (2011), non-executive directors have a very big impact in the performance of an organization. Baptista et al (2011) contend that the foreign directors have a comprehended say in an organization and their views and advices contribute to a great extent on the organizational performance.

Table 3: Extent that the facets of non-executive directors/ foreign ownership affected the firm value

<table>
<thead>
<tr>
<th>Facets</th>
<th>Very great extent</th>
<th>Great extent</th>
<th>Moderate extent</th>
<th>Little extent</th>
<th>No extent</th>
<th>Mean</th>
</tr>
</thead>
<tbody>
<tr>
<td>Involvement in strategic planning</td>
<td>40</td>
<td>20</td>
<td>20</td>
<td>10</td>
<td>10</td>
<td>2.4</td>
</tr>
<tr>
<td>Top management turnover</td>
<td>50</td>
<td>20</td>
<td>20</td>
<td>5</td>
<td>5</td>
<td>2</td>
</tr>
<tr>
<td>Company management monitoring</td>
<td>20</td>
<td>50</td>
<td>20</td>
<td>5</td>
<td>5</td>
<td>2.6</td>
</tr>
<tr>
<td>Meeting frequency</td>
<td>20</td>
<td>60</td>
<td>10</td>
<td>5</td>
<td>5</td>
<td>2.5</td>
</tr>
<tr>
<td>Compliance and communication</td>
<td>30</td>
<td>40</td>
<td>20</td>
<td>5</td>
<td>5</td>
<td>3.1</td>
</tr>
<tr>
<td>Presence of an audit committee</td>
<td>25</td>
<td>45</td>
<td>20</td>
<td>5</td>
<td>5</td>
<td>2.3</td>
</tr>
</tbody>
</table>
4.4 Board Leadership Structure/CEO Duality

The research sought to find out the extent that the facets of board leadership structure/CEO duality affected firm value. The findings as shown in the table 4 below, indicate that board flexibility affected firm value to a very great extent as shown by a mean of 1.2, transformational style affected firm value to a great extent as shown by a mean of 1.7, firm-level assessment affected firm value to a great extent as shown by a mean of 1.8, delegation of duties affected firm value to a great extent as shown by a mean of 2.0 and roles of the CEO affected firm value to a great extent as shown by a mean of 2.1. This implies that the facets of board leadership structure/CEO duality largely affected firm value.

The findings compare with those of Horváth and Spirollari (2013) who contend that a board should contain a flexible and integrated structure whereby information flow and division of activities is easy and effective. According to Horváth and Spirollari (2013), a board structure that has clear roles of every board member are more capable of meeting their goals and those of the organization than those with unclear roles.

Table 4.5: Extent that the facets of board leadership structure/CEO duality affected firm value

<table>
<thead>
<tr>
<th>Facets</th>
<th>Very great extent</th>
<th>Great extent</th>
<th>Moderate extent</th>
<th>Little extent</th>
<th>No extent</th>
<th>Mean</th>
</tr>
</thead>
<tbody>
<tr>
<td>Board flexibility</td>
<td>70</td>
<td>15</td>
<td>5</td>
<td>5</td>
<td>5</td>
<td>1.2</td>
</tr>
<tr>
<td>Roles of the CEO</td>
<td>40</td>
<td>25</td>
<td>15</td>
<td>10</td>
<td>10</td>
<td>2.1</td>
</tr>
<tr>
<td>Firm-level assessment</td>
<td>40</td>
<td>25</td>
<td>15</td>
<td>10</td>
<td>10</td>
<td>1.8</td>
</tr>
<tr>
<td>Transformational style</td>
<td>25</td>
<td>45</td>
<td>20</td>
<td>5</td>
<td>5</td>
<td>1.7</td>
</tr>
<tr>
<td>Delegation of duties</td>
<td>60</td>
<td>25</td>
<td>5</td>
<td>5</td>
<td>5</td>
<td>2</td>
</tr>
</tbody>
</table>

Table 5: Respondents’ level of agreement on the statements that related to the effect of board leadership structure/CEO duality on firm value
The research sought to find out the respondents’ level of agreement on the statements that related to the effect of board leadership structure/CEO duality on firm value. According to the findings, the respondents agreed that separating CEO and chairman roles was in the shareholders’ interest to a very great extent as shown by a mean of 1.1, the respondents agreed to a great extent that firms that separated the two functions trade at higher price-to-book multiples and have higher return on assets and cost efficiency ratios than firms where the same person holds both titles as shown by a mean of 1.7, the respondents agreed to a great extent that bestowing the CEO and chairman duties on one individual made it harder for a board to replace a poorly performing CEO which could reduce the flexibility of a board to address sizable declines in firm value as shown by a mean of 1.9, the respondents also agreed to a moderate extent that combining the positions of chairman and CEO conferred greater power to the CEO, who gained the title of chairman after having outperformed his/her peers as shown by a mean of 3.0 and the respondents agreed to a little extent that CEO duality hindered effective governance of the firm as shown by a mean of 4.4. This implies that the
respondents agreed to a great extent with the statements that related to the effect of board leadership structure/CEO duality on firm value.

The findings clearly show a connection between the board leadership structure and the firm value. The literature reviewed in chapter two indicates that a good and effective board should have an integrated structure whereby the roles of every member of the board are clearly stated. Kim (2015) considers the role of a CEO and the chairman to be effective when separated unlike in most cases where the roles are combined. Similar to the study findings, Kim (2015) and Rashid et al (2010) found that the board was more effective when the positions of the CEO and the chairperson were separated in that the CEO had a person to supervise him or her and at the same time the chairman has a close person (CEO) to give corrections where necessary. Lasfer (2014) on the other hand contends that a board should be structured in a manner that is flexible in that any board member can perform any other role and thus enhancing usability and effectiveness of the board members and the board itself.

4.5 Firm Value
The main aim of the study was to establish the relationship between the firm board characteristics and the firm value of the unit trusts in Kenya. Study findings (Table 6) show that the mean ROCE values among the investment portfolios ranged between 2.2817 (lowest) and 16.5913 (highest). The East African fund (16.5913) and Equity Fund (14.9897) had the highest ROCE. The Balanced Fund, Bond Market fund, Fixed Income Fund, Kenya Shilling Fund had their ROCE as 10.3200, 10.1536, 7.1557 and 5.8156, respectively. It was noted that Money Market Fund and Kenya Management Fund and had the lowest ROCE (4.6606 and 2.2817, respectively).
Table 6: Return on Capital Employed (ROCE) (2012-2017)

<table>
<thead>
<tr>
<th>Trust</th>
<th>ROCE (Mean)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Equity Fund</td>
<td>14.9897</td>
</tr>
<tr>
<td>Balanced fund</td>
<td>10.3200</td>
</tr>
<tr>
<td>Money Market Fund</td>
<td>4.6606</td>
</tr>
<tr>
<td>Bond Market Fund</td>
<td>10.1536</td>
</tr>
<tr>
<td>Fixed Income Fund</td>
<td>7.1557</td>
</tr>
<tr>
<td>East African Fund</td>
<td>16.5913</td>
</tr>
<tr>
<td>Kenya Management Fund</td>
<td>5.8156</td>
</tr>
<tr>
<td>Kenya Shillings Fund</td>
<td>2.2817</td>
</tr>
</tbody>
</table>

Source: CMA (2017)

Table 7 below provides the return of unit trust over a five year period. The average values show that unit trust decreased their returns from 81.688% in 2012 to 64.342% in 2013. This value increased to 75.627% in 2014 and further increased to 98.034 in 2015 which was the highest return during the period. This value is seen to reduce in 2016 to 68.030%.

Table 7: Return on Unit Trust

<table>
<thead>
<tr>
<th>Year</th>
<th>Min</th>
<th>Max</th>
<th>Mean</th>
<th>Std. Dev.</th>
</tr>
</thead>
<tbody>
<tr>
<td>2012</td>
<td>3.75</td>
<td>141.91</td>
<td>81.688</td>
<td>200.1628</td>
</tr>
<tr>
<td>2013</td>
<td>2.58</td>
<td>122.83</td>
<td>64.342</td>
<td>180.234</td>
</tr>
<tr>
<td>2014</td>
<td>3.12</td>
<td>153.23</td>
<td>75.627</td>
<td>200.091</td>
</tr>
<tr>
<td>2015</td>
<td>4.85</td>
<td>175.20</td>
<td>98.034</td>
<td>200.256</td>
</tr>
<tr>
<td>2016</td>
<td>3.02</td>
<td>125.44</td>
<td>68.030</td>
<td>183.243</td>
</tr>
</tbody>
</table>

Source: NSE (2017)
4.7 Regression Analysis
The study also required regression analysis so as to establish the relationship between the independent variables (Board Size, Board Effectiveness, Non-Executive Directors/Foreign Membership and Board Leadership Structure/CEO Duality) and the Dependent variable (firm value). According to the findings from the data, the following results were established by use of the SPSS (Statistical Package for Social Sciences).

Table 8: Coefficient of Determination ($R^2$)

<table>
<thead>
<tr>
<th>Model</th>
<th>R</th>
<th>R Square</th>
<th>Adjusted R Square</th>
<th>Std. Error of the Estimate</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>.912$^a$</td>
<td>.831</td>
<td>.822</td>
<td>.2112</td>
</tr>
</tbody>
</table>

Predictors: (Constant), Board Size, Board Effectiveness, Non-Executive Directors/Foreign Membership and Board Leadership Structure/CEO Duality

Coefficient of determination explains the extent to which changes in the dependent variable can be explained by the change in the independent variables or the percentage of variation in the dependent variable (firm value) that is explained by all the four independent variables (Board Size, Board Effectiveness, Non-Executive Directors/Foreign Membership and Board Leadership Structure/CEO Duality).

The four independent variables that were studied, explain only 91.2% of the firm value as represented by the $R^2$. This therefore means the four independent variables only contribute about 91.2% to the firm value while other factors not studied in this research contributes 8.8% of the firm value.

Therefore, further research should be conducted to investigate the other factors (8.8%) that affect firm value.
The researcher conducted a multiple regression analysis so as to determine the relationship between firm value and the four independent variables.

The regression equation \( Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 \) now becomes:

\[
Y = 0.264 + 0.333 X_1 + 0.189 X_2 + 0.330 X_3 + 0.334 X_4
\]

Whereby

- \( Y = \text{Firm Value} \)
- \( X_1 = \text{Board Size} \)
- \( X_2 = \text{Board Effectiveness} \)
- \( X_3 = \text{Nonexecutive Directors/ Foreign Membership} \)
- \( X_4 = \text{Board Leadership Structure/CEO Duality} \)

### Table 9: Multiple Regression Analysis

<table>
<thead>
<tr>
<th>Model</th>
<th>Unstandardized Coefficients</th>
<th>Standardized Coefficients</th>
<th>t</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>B</td>
<td>Std. Error</td>
<td>Beta</td>
<td></td>
</tr>
<tr>
<td>(Constant)</td>
<td>-.264</td>
<td>.095</td>
<td>2.783</td>
<td>.007</td>
</tr>
<tr>
<td>Board Size</td>
<td>.333</td>
<td>.061</td>
<td>.333</td>
<td>5.417</td>
</tr>
<tr>
<td>Board Effectiveness</td>
<td>.189</td>
<td>.055</td>
<td>.189</td>
<td>3.420</td>
</tr>
<tr>
<td>Nonexecutive Directors/ Foreign Membership</td>
<td>.330</td>
<td>.058</td>
<td>.329</td>
<td>5.639</td>
</tr>
<tr>
<td>Board Leadership Structure/CEO Duality</td>
<td>.334</td>
<td>.059</td>
<td>.333</td>
<td>5.659</td>
</tr>
</tbody>
</table>
CONCLUSIONS

The main aim of the study was to establish the influence of board characteristics on firm value. From the findings from the study, the following conclusions were drawn;

Board size of the company is essential in enhancing the firm value through making the board members active and easy to make the decisions for the betterment of the firm. The findings have it that the quality of the corporate governance heavily depends on the size of the board. The findings further concluded that through the smaller board sizes, firm value enhances as a result of reduced communication channels thus decision making is easier unlike larger board sizes which require too much clarifications and communications thus slowing the organizational decision making process. The study also concluded that many organizations support bigger board sizes due to the increased costs of keeping and maintaining bigger board sizes.

Effective boards are the main performance drivers in an organization. The study concluded that an effective board is essential for organizational performance. This is based on the findings that involving the board members in strategic planning activities, holding frequent meetings and promoting effective communication enable the board members to have more time and mechanism to handle the upcoming firm issues thus increase the value of the firms. The study also concluded that having an audit committee and monitoring of the company regularly enhances the firm value. The study further concluded that top management turnover, presence of an audit committee and involvement in strategic planning affects firm value to a great extent and that separating CEO and chairman roles is in the shareholders’ interest affects firm value to a great extent.

The study concluded that nonexecutive directors or foreign membership are essential in enhancing the firm value. The study concluded that promoting non-executive members in a
board through enhancing the board flexibility and enhancing firm level assessment plays an important role in promoting the firm value. The study further concluded that board members outside from the organization enhance the performance of the firm.

Lastly the study concluded that effective board leadership plays an essential role in promoting the firm value. The study further concluded that CEO duality enhances the performance and effectiveness of the board thus promoting the organizational performance through an effective board. This is as a result of increased problem solving channels and scrutiny, enhancement of consultative forums as well as credible firm management strategies.

**RECOMMENDATIONS**

This study recommends that there is need for the company to access the characteristics of the board for it has a material impact on the quality of corporate governance. This will help in the realization of challenges or other hindrances that may hinder the functionality of the board size quality. The findings have it that the respondents disagreed with the board size and the effectiveness of the firm thus there is need for the firms to ensure that the board size are proportional to the organization need.

Based on the study findings, the effectiveness of the board is very essential in today’s competitive environment for it increases firm value. To achieve this, the study recommends that the current board be evaluated to rate its effectiveness for enhanced quality value. The organizations should ensure that the board makes frequent meetings and involves all the board members so as to make them effective enough to enhance the proper and adequate decision making.

The findings have it the non-executive play an important role in promoting the firm value. On the same note, the study recommends that nonexecutive directors/ foreign ownership be
handled with care for their participation is significant. Nonexecutive directors/ foreign ownership should be designed to enhance the ability of the firm to protect itself against threats from the environment and align the firm's resources for greater advantage.

Finally, the study established that the roles of each of the board leadership structure/CEO duality affect firm value. The study therefore recommends that the board leadership structures should be well evaluated and established to enhance the board flexibility. The study further recommends that the roles of the CEO as well as the firm-level assessment should be carried out frequently as a way of enhancing the firm value. The study recommends that the unit trusts should ensure that transformational leadership style and delegation of duties are well adhered to so as to enhance the firm value through restored leadership.

REFERENCES


