

**EFFECT OF CORPORATE GOVERNANCE ON PERFORMANCE OF TEA
FACTORIES MANAGED BY KENYA TEA DEVELOPMENT AGENCY**

By

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DECLARATION

“I declare that this dissertation is my original work and has not been previously published or submitted elsewhere for award of a degree. I also declare that this contains no material written or published by other people except where due reference is made and the authors duly acknowledged.

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ABSTRACT

In the recent past, many organizations in Kenya have experienced the performance and management challenges as a result of ineffective corporate governance practices. Organizations which fail to practice good corporate governance eventually fail to win public confidence which may lead to an eventual collapse. The general objective of this study was to investigate the effect of corporate governance practices on the performance of Tea Factory Companies in Kenya which are managed by KTDA. The general research question was: what is the effect of Corporate Governance practices on the performance of KTDA managed Tea Factory Companies in Kenya? A survey of twenty companies in Kenya out of the possible 54 tea factory companies under the management of the Kenya Tea Development Agency Limited (Managing Agent) was undertaken. In order to answer the intended research questions, the study focused on disclosure of information, stakeholder participation and the composition of the factory boards. Through stratified sampling, factories were grouped into three categories; according to performance in the term's end year bonus payout that is the highest performing, middle and the lowest performing companies. The first best performing and the last ten worst performing factories in three consecutive years were selected. The target population was 432 being 324 directors, 54 managers and 54 accountants. The sample constituted of twenty directors, twenty managers and twenty accountants. The main data collection instrument was a semi structured questionnaire. Secondary data was gathered through a documentary review of the financial reports years ending June 2010, June 2011 and June 2012, a period covering the financial years of the Tea Factories Companies. The descriptive statistical approach was adopted. Response frequency, percentages, mean, standard deviation and variance were computed and findings presented through use of tables, figures and bar charts. Finding indicated that explanation of the reports during the AGM as well as the books of accounts, enhanced understanding and acceptance of financial reports of the tea factories to the shareholders to a very large extent. Additionally, the study concluded that Tea Factory Companies consider the board of directors as a crucial organ in determining the effectiveness of corporate governance, hence enhanced Tea Factory Company's performance. Finally, the study concluded that that management acknowledges the shareholders during Factory Company meetings, level of stakeholders' participation is effective, stakeholders are comfortable with their involvement in performance improvement of the Tea Factory Companies and that all the stakeholders are involved in the annual report compilation and that decision making process involves the participation of all stakeholders. The overall implication is that; corporate governance practices have a significant influence on the performance of KTDA managed Tea Factory Companies in Kenya.

Key words: Governance; Stakeholders; performance

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DEDICATION

I dedicate this work to my family for their invaluable understanding and support during the study period.

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LIST OF ABBREVIATIONS

FSMS:	Food Safety Management System.
GCG:	Good Corporate Governance
HR:	Human resource.
ICT:	Information Communication Technology.
KTDA:	Kenya Tea Development Agency Limited.
MAS:	Malaysia Airlines System.
OECD:	Organization for Economic Cooperation and Development.
UNESCAP:	United Nations Economic and Social Commission for Asia and Pacific

DEFINITION OF TERMS

Governance: The means of assuring that firms are being managed well and investors receive an acceptable return (Magdi and Nadereh, 2002). It is also defined as a methodical process that is meant to improve institutional performance via the development of individuals and team's performance (Al Fakir, 2006).

Performance: Means accomplishing a particular assignment, whose measure can be given in terms of certain standards which include cost, speed, completeness and accuracy. Managements believe that performance is the accomplishment of set objectives in a way such that the performer is released from liabilities under his or her contract with the employer (Sachs, 1998).

Stakeholder: Defined as any person, group or organization that has an interest or concern in an organization (The Kenya business dictionary approved 2012).

CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

Governance as a concept is not a recent innovation; rather, it began at the same time with human civilization. In simple terms, governance entails the process of implementing or failure to implement organizational decisions. The concept is useful in various contexts including intercontinental governance, nationwide governance in addition to corporate governance as well as localized governance (UNESCAP, 2013). Corporate governance is deemed as a crucial subject for scholarly, theoretical and empirical discussion due to 1990's and the early 2000's crisis. In that regard, Constant research has been done continually in the last few decades on the extensive corporate governance topic. On the same note, corporate governance has been receiving a great deal of consideration as a result of the 2007-2008 financial crises, often associated with the weak governance initially found in the corporations and financial institutions. This study was examining the outcomes of appropriate corporate governance practices on the performance of tea factories managed by Kenya Tea Development Agency (KTDA) in Kenya. It sought to establish whether stakeholder participation, disclosure of financial information and board composition have any effect on the performance of those factories working under the umbrella of KTDA.

Various practitioners and researchers have defined the concept of corporate governance differently. The social scientists and the economists define the concept in a broad manner as those bodies influencing the allocation of resources and returns by firms (O'Sullivan, 2000). Additionally, Magdi and Nadereh (2002) postulate that corporate governance is the means of assuring that firms have suitable management strategies, and that investors are receiving acceptable returns. Most of these definitions place an emphasis on the importance of prescribed guidelines and corporate governance institutions, and also give a warning regarding the dangers of any unofficial patterns arising where formal rules are lacking (World Bank, 2002). Further, these definitions provide an elaboration on the internal organization of firms, and also its relations with the external environment, including labor and capital markets, government competitive policies as well as bankruptcy systems.

The Organization for Economic Co-operation and Development (2004) postulates that the characteristic portrayal of corporate governance in educational literature is that it deals with problems arising from the division of control and ownership. Prospectively, corporate governance should be focusing on the internal structure of an organization as well as the rules of the board of directors in addition to the creation of audit committees that are independent, rules governing information disclosure to creditors and stakeholders, and management control.

Furthermore, OECD (2004) explains that corporate governance entails a complete relationship existing between the management of a firm, shareholders, board of directors as well as any other stakeholders. Corporate governance also helps in providing the structure via which a company's objectives are laid down as well as the strategies to be put in place to ensure that the laid down objectives are achieved, coined together with the monitoring processes involved in any implementation. Most importantly, OECD'S (2004) cites the aim of corporate governing as a way of maximizing shareholder values that are long term via the improvement of performance as well as corporate decisions. Truly, stakeholders are not the only ones with an interest to ensure that corporations are adopting competent practices of governance because the contemporary society, international countries as well as worldwide people and organizations. Most importantly, because shareholders as corporation owners have legal basic rights, which include the right for participation in the sharing of profit, attending and voting at any meeting for the shareholders of the organization as well as rights to obtaining the correct organizational information in a regular and a timely way (OECD, 2004)

Poor corporate governance can lead to unfavorable effects on a company's performance. According to Sachs (1998), the 1997 Asian monetary crisis whose partial initiation was by the long term trade and industry crisis that took place in Japan in the early twentieth century has had negative effects on the majority of the East Asian economies performance, which include the Malaysian economy. For example, the majority of Malaysian corporation's reputation such as Perwaja Steel, Malaysia Airlines System and Renong has continually become tarnished by a number of poor corporate governance cases (Sachs, 1998). Additionally, global financial scandals joined followed by the collapse of large organizations such as World com and Enron. A more recent occurrence is the 2009 global economic crisis

that affected the faith of the expected investors in the investment markets, thus prompting the efficacy of the corporate authority practices that are in existence, thus they encourage accountability as well as transparency (Sunday, 2008).

Most today's organizations are run by managers who act as the owners the companies' agents, who are the biggest shareholders. With this kind of management arise the agency theory problems. In such a case, shareholders acting as organizational principals get to contractual relationships with their agents, who in turn are the managers of the organization. The success of such an accord, the association and interaction with the proprietors and the management, in accordance with Al-Faki's (2006) study findings, must possess the characteristics of intelligibility to the most important person who is the principal as well as fairness to all other organizational stakeholders. This has led to the lessening of the agency cost as Jensen and Meckling (1976) postulate. Corporate performance is a crucial concept because it provides a revelation regarding the way of organization as well as on the availability of monetary resources in a business. Moreover, Jensen and Meckling notes corporate governance also has a relationship with economic resources that are vital in achieving the overall organizational objectives. On top of that the concept of corporate governance keeps the corporation in big business and creates a superior viewpoint for potential emerging opportunities in future.

1.1.2 Tea Industry in Kenya

Kenya is ranked fourth position among the largest producers of black tea production in the world market after India, China and Sri Lanka (Kenya Bureau of statistics, 2012). According to the Kenya Bureau of statistics (2012), the year 2010 saw tea as a crop accounting for approximately 20% of the farming GDP when in comparison with 8% farming GDP for coffee and 6% farming GDP from horticultural production. Most importantly, tea as cash crop is ranked third among the major foreign exchange earners, after horticulture and tourism. Most of the tea that is produced in Kenya is the black type; however, white tea, yellow tea, and green tea types are usually produced by major countries capitalizing on tea production. Currently, Kenya is categorized third position in tea production behind China and India. In Kenya, tea is also one of the leading crops in foreign exchange garnering, beside tourism, coffee farming as well as horticulture. The KTDA (Kenya Tea Development

Agency) is the organization that has the responsibility of the management of small scale holders, and the body currently manages 54 Kenyan tea factories that serve approximately 500,000 farmers who are small scale, who cultivate approximately 100,000 hectares.

From the total amount of tea that is produced in Kenya, Kenya Tea Development members contribute to above 60%, while large scale producers generate the rest of the tea large scale producers. From the total production, local consumption constitutes a mere 3%, while the rest is exported for the half year ended June 2012, 207 million kilograms were exported to fifty three destinations while local consumption was 8.5 million Kgs (TBK Profile, 2012). In most Tea growing regions, labor is normally provided manually. However, the recent years have seen tea plucking machines currently being used by multinational organizations and countries. The regions of Kenya where tea is grown are usually have superlative climate; well disseminated of about 1200 and 1400mm as well as humid volcanic red soil in addition to long days that are sunny, are several climatic characteristics of the tea growing regions.

Tea in Kenya is available in over 157,720 hectares, from which approximately 345,817 tons of completed tea is normally harvested. Over forty nine varieties, so far developed by the (TRFK) which do not require additional chemicals to grow to maturity but application of fertilizers to stock up nutrients in the soil. Distinctly, high quality tea is made from the upper two leaves of the tea plant and a bud. The plucking of young shoots takes place in regular cycles that range from 7 to 14 days. The manufacture of tea takes place via CTC (Cut, Tear and Curl) technique which is suitable in ensuring maximum cuppage per the weighed units of tea. After processing, the tea is categorized into different grades starting with the primary and then the secondary grades. The Kenyan local market has a consumption of only 3% of the total production, while the remaining 87% is produced for export.

In Kenya, Tea activities are controlled by the Ministry of Agriculture via the TBK (Tea Board of Kenya) and the EATTA (East African Tea Trade Association). Both the TRFK (Tea Research Foundation of Kenya) and the KTDA administer the tea producers via the tea factories. EATTA has the role of facilitating the trade of tea in East and southern Africa, and on the other hand, TRFK facilitates research regarding tea in Kenya. For instance, Egerton University and the TBK formed a partnership that was intended to strengthen the Kenyan Tea industry. They did draft a core curriculum, offering certificates, diplomas, and undergraduate

and Post graduate in tea production, management for tea processing as well as management in addition to marketing.

Outstandingly, of all export crops in Kenya, tea is the only crop that has maintained an increasing trend both in its production and earnings from export. Some Tea factories pay their growers very well while others very poorly. It is against this backdrop that this study was undertaken to fill the missing gap by investigating whether corporate governance practices affects these differences in performance.

1.1.3 Profile of Kenya Tea Development Agency Limited (KTDA)

In the whole world, tea from Kenya has won approval for consistency in high quality production, a distinct rich flavor as well as a pleasant aroma. Kenya Tea Development Agency Ltd (KTDA) has been at the heart of it all and has been working with more than 500,000 tea farmers operating on a small scale basis in the production of quality teas for its potential consumers, and also in the creation of wealth for all shareholders according to KTDA profile 2012). The authority of the KTDA agency was transformed into a confidential company On June 30, 2000, and its registration was done under the Companies Act. The agency was restructured in the year 2010, such that KTDA Holdings Limited as well as KTDA Management Services (MS) Limited, as a subsidiary of KTDA Holdings Limited was formed. Currently, KTDA (MS) has 54 tea dispensation factories that spread in the tea growing regions all over Kenya under its management (KTDA profile, 2012). The agency has been working with all the tea factories in order effectively administer expenditure, enhance effectiveness in manufacture processes and invest cautiously as a way of to securing the financial future of the farmers. The demonstration of this fact can be done via the knowledge regarding KTDA-managed factories since they all have been ISO: 9001:2008 certified in order to enhance efficiency in the administration systems, while over 90% of the factories have already acquired the supplementary comprehensive ISO 22000: 2005 regarding the FSMS (Food Safety Management System) (KTDA profile, 2012).

Kenya has approximately 554,000 tea farmers operating on small small-scale basis (KTDA profile, 2012). The farmers are known to hold shares of the KTDA individually and therefore are regarded as the corporate shareholders of their respective tea factories, hence, the corporate shareholders of Kenya Tea Development Authority Ltd (KTDA profile 2012. One

of the largest, highly influential and appropriately managed organizations at the moment is KTDA, has continually posted a historic increase in the earnings of its farmers. Recently, it was reported to reach a much unfrequented rate of 38.2 billion Kenya Shillings that took place in the 2009/2010 financial year, having risen from the 25.4 billion Kenya Shillings that had been realized in the 2008/2009 financial year. As a result, the 2009/2010 financial year saw farmers earn an average rate of 43.02 Kenya Shillings per kilogram of green leaves that they had delivered to the factories delivered; a phenomenon that turned them to the best paid tea farmers operating on small-scale basis over the globe (KTDA profile, 2012).

As the number of businesses increase, so does the necessity of systemizing business operations. According to Okpara (2009), promoting competent and successful corporate governance is becoming a crucial agenda for majority of businesses that operate within the countries that are developing since it enhances excellence in management, in addition to helping organizations with delicate structures of governance as a way of increasing capital in order to catch the attention of foreign investments. Among the theories which have been used for a long time to explore the relationship between the investors of capital and their managers are the Agency theory and the Efficiency theories. A majority of shareholders entrust their investments to managers to administer them on their behalf. Shareholders usually incur costs (monitoring costs) to see to it that managers do not act in self interest and that they operate efficiently. The above two theories have been reviewed in the course of this study.

1.2 Problem statement

Corporate governance is important in an organization because it involves a set of relationships between a company's management, the board of directors, shareholders and other stakeholders. It also provides the structure through which the objectives of the company are set and the means of attaining those objectives and monitoring of performance. All the Tea Factory Companies share similar characteristics in that they operate under the management of the same agency (KTDA profile, 2012). Despite the similarities, their performances differ considerably as they pay different bonus rates (return to growers).

The differences in performance are as a result of inadequacies in the implementation of appropriate corporate governance frameworks. For instance, most factories suffer downfalls

due to the inadequacy of the Board of directors' capacity to handle issues and formulate policies that would enhance performance. Most importantly, the management frameworks in most of the tea factories fail to fully recognize shareholders as crucial components in performance, thus, leading to unexpected results. Most importantly, most tea factories have ignored information disclosure as a core value where every employee and a board member as well as the shareholders are entitled to having clear information on performance and missing gaps so that each of the parties can give an opinion for improvement. Ongore (2011) further notes that corporate governance framework in its current form is evidently lacking in a monitoring system or contract, aligning the role of the firm owners, board of directors and manager interests and actions within the wealth creation and welfare motivation of stakeholder

Corporate governance plays a crucial role in providing a framework in managing organizations in order to achieve intended goals, vision and mission. More specifically, financial disclosure, board composition and stakeholder involvement as components of corporate governance ensure that transparency, ethical leadership and honesty are practiced in an organization as in an endeavor to boost performance. With proper utilization of these pillars of corporate governance, Tea Factory Companies are expected to perform in a superior manner. Expectedly, the higher the profit of an individual Tea Factory Company, the higher the bonus payment which is a delicate balancing act between revenue, operating costs, long term survival and financial stability of an individual firm. According to Bass (1985), this balancing is a responsibility bestowed on the Board of Directors who formulates the policies that govern the Factory Companies. Clearly, if the management operating procedures are similar, the managers appointed have similar qualifications, and are remunerated in a similar way (as per their categories), harvesting and field logistics as well as processing operations are similar in nature, then how does Corporate Governance practices impact on the performance of KTDA managed Tea factories Companies in Kenya?. There is minimal information regarding the effect of corporate governance adoption and practice on performance of Tea factories managed by KTDA in Kenya.

Some local researchers have explored the influence of corporate governance firms, for example Muthamia (2011) concentrated on directors attributes in KTDA managed Tea Factory Companies in Kiambu County and found out that the attributes of directors influence

a factory's performance. Messah (2011) dealt with the effect of performance appraisal system on employees' performance in KTDA managed Tea Companies in Kenya and concluded that the appraisal is a coherent tool for ensuring that performance is increased in the factories. Al-Faki (2006) did a study on the effect of transparency and corporate governance in the development of capital market in Africa, and found out that the two concepts influence the performance of a company to a great deal. Tea Factory Companies sell their products in large markets and therefore there is need to study the influence of transparency in KTDA managed Tea Factory Companies given that they operate in large Markets. Also, Claessens & Burci (2012) studied the effect of corporate Governance in emerging markets, specifically on how it assists companies to forge their way in the markets, and found out that corporate governance is a key concept in the operations of factories. However, though much has been done in the area of corporate governance, no study has concentrated on the effect of Corporate Governance practices on the performance of KTDA managed Tea Factory Companies in Kenya, thus the prompt of this study in order to close the existing research gap.

1.3 General Objectives

The general objective of this study aims at establishing the effect of Corporate Governance practices on the performance of KTDA managed Tea Companies in Kenya.

1.3.1 Specific objectives.

- i. To establish the effect of accurate disclosure of financial situation on the performance of
KTDA managed Tea Factory Companies in Kenya
- ii. To establish the effect of the composition of the Board of Directors in the performance of
KTDA managed Tea Factory Companies in Kenya
- iii. To establish the effect of stakeholders' participation the performance of KTDA managed Tea
Factory Companies in Kenya

1.4 Specific Research Questions

- i. What is the effect of accurate disclosure of the financial situation on the performance of KTDA managed Tea Factory Companies in Kenya?
- ii. What is the effect of the composition of the Board of Directors on the performance of KTDA managed Tea Factory Companies in Kenya?
- iii. What is the effect of Stakeholders' participation on the performance of KTDA managed Tea Companies in Kenya?

1.5 Significance of the study

The findings of this study are expected to enable filling any knowledge gap as far as the effect of Corporate Governance practices on KTDA managed Tea Factory Companies are concerned. The knowledge obtained from this study may be of help in given that it paves way in terms of the factors needed in the improvement of corporate governance at KTDA managed Tea Factory Companies.

The study is also anticipated to serve as a channel for modifying and formulating corporate administration strategies as well as policies which would go a long way in benefiting Top management of the concerned firms as well as Government of Kenya officials who make policies need to be encouraged to copy paste from the best performing factories and apply the same to poorly performing Tea Factory Companies and failing Government Agencies.

In addition, the public at large can benefit from that if the factors which affect performance are taken into account given that if tea production and quality increases, more export earnings are expected to flow in and this would facilitate economic growth with a resultant improvement of the standard of living of the stakeholders of KTDA managed Tea Factory Companies. Positive company performance depicts a nation with a robust corporate management system. Furthermore, the study would also be beneficial to other scholars who may desire to conduct research in this area. The research study is aimed at adding literature material to human resource managers who would then have an additional reference point applicable to their area of interest.

1.6 Scope of the Study

The study covered 20 out of 54 Tea Factory Companies working under the management of KTDA. It would be necessary to explore factories in different locations, given that geographical, cultural and economic conditions may differ from place to place.

Carrying out this study at both the Factory Companies' level and the KTDA is justified because the actual operations take place at the factory Companies while KTDA carries out Marketing and the overall human resource issues concerning the management team including recruitment and consequent posting.

1.7 Limitation of the Study

There may be other factors related to corporate governance which could affect performance but fail to be considered in this study.

1.8 Summary

The chapter gives the background information of the study, highlighting the overall research problem, research questions and key objectives of the study. It establishes the importance of the research area and provides the structure of the study. The next chapter discusses theories and literature relevant to the study.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter presents an examination and review literature that is related to the effect of corporate governance on company performance. This chapter is helpful because it shows the findings of earlier research in corporate governance conducted by other scholars as well as the effect that corporate governance has had on firms' performance. These studies help the researcher in identifying the gap of knowledge as well as in justifying the importance of carrying out studies regarding the ways in which firms' performance has been influenced by corporate governance. Literary sources for this study are inclusive of relevant and pertinent education journals, books, in addition to theses that are in print and unpublished recent dissertations. The sections for consideration in this chapter are: theoretical reviews, empirical review, and literature summary as well as the gap of research.

2.2 Theoretical Framework

In most cases, capital investors are never in a position whereby they can supervise the daily operations that are taking place in their corporations. They are usually dependent on their staff, which carries out the management tasks. Therefore, they have to employ managers and inevitably bear additional agency costs besides those incurred in monitoring activities by auditors. Theoretically, this study focused on two major theories; which are; agency theories and efficiency theories but adopted the agency theory as its analytical framework.

2.2.1 Agency Theory

Agency theory is the most renowned and documented theory in studies regarding corporate governance. Meckling (1976), in this theoretical perspective postulated that corporate governance that is fundamental mainly has its focus on the ways in which an organization's shareholders have the ability of preventing the general management from capitalizing on their individual self-interests so as to create a suitable working environment that will lead to maximum profits. The rationale of this theory is in regard to its provision of

analytical structure through which the outcomes of corporate governance on the performance of an organization can be measured, particularly tea factories' performance. Agency problems that are related to corporate governance can be solved via the establishment of a 'nexus' of both implicit and explicit optimized contracts between the proprietors of an organization and the team entrusted with management issues. The contracts that may be established are commonly referred to as the game's internal regulations, which dictate the management's rights within an organization, the evaluation criteria for management roles as well as the ultimate payoff functions

These contracts, also known as the "internal rules of the game", identify the rights of agents in organization, performance criteria against which they would be evaluated and the resulting payoff roles which they are intended to come into contact with (Jensen and Meckling 1976; Fama and Jensen, 1983; [Coase, 1937](#)). The agency predicament as proposed by agency theory is essentially separating organizational management and financial management, or rather, is a standardized terminology regarding proprietorship and control. An industrialist, manager, or an entrepreneur usually raises his/her finances from investments so that he can either commit them to be used productively or in cashing out the firm's holdings. Investors usually require the dedicated human investment of the managers so that they can produce returns on their invested finances.

The managers usually require the funds of the financiers out of either lack of adequate capital needed for his investments or when he may need cashing out his holdings elsewhere. However, the agency theory asserts that financiers are sometimes unsure of the outcome of their investments due to lack of accountability by their managers. In this context, the agency problems are used to mean those hardships faced by investors in a bid to ensure that the funds they put in their business or organizations become productive, and in any case would never be wasted or expropriated on projects that are unattractive. Most importantly, the underlying problem is that coming up with absolute contracts is technically infeasible since it is never easy to describe and predict the success or the failure or future contingencies. Such problems are unavoidable despite the managers' motivation to elevate as much finances, therefore most of them try much more to accommodate investors via the development of absolute contracts. As a result, the problems lead the financiers and managers in allocating control rights that are residual ([Coase \(1937\)](#)); (Jensen and Meckling 1976).

2.2.2 The Efficiency Theory

The efficiency concept underlying the perspective of corporate governance is presentable as a version of the locative criterion of Pareto. Any organization becomes inefficient due to the existence of another one dealing with similar operations, and whose average results are better when both of them two comparable organizations are subjected to a similar environment for all parties drawn in or involved. Stakeholders should have the freedom for negotiation, implementation and enforcement of their esteemed decisions. Efficiency is dependent on the created value for organization as well as how the value is allocated, though there are other abnormal cases for with costs of allocation being negligible. There is no separation between creation and allocation because the two are not independent concepts. Therefore, according to the efficiency theory, the method employed for the allocation of resources has a great influence on the value that is created in the processes involving management of corporations.

2.3 Empirical literature

2.3.1 Integrity of the Accounting, Financial and Legal Reports

According to the Organization for Economic Co-operation and Development (2004), corporate governance entails responsibilities and rights distribution among various participants in a corporation. The various stakeholders include the board of directors and shareholders, in addition to managers and other stakeholders. Corporate governance also spells out the regulations as well as the procedures that should be followed when decisions for corporate affairs are being made (OECD, 2004). Generally, there is a lot to be done by the Board of Directors need in order to improve the accountability of the managerial team in an organization. It is inappropriate for people to accept the necessity for a complicated management technique for performance transversely in most levels of staffing in corporations; however, it is not easy to extend a similar level of disciplines to Board levels.

2.3.2 Disclosure and Transparency

Managers usually normally have an understanding that sufficient, dependable and timely dissemination of information regarding the performance of a corporate is helpful to a large number of stakeholders. Boards are also familiar with the fact that failure to receive

necessary information from the management in order to facilitate making informed decisions, their governance capacity becomes limited (OECD, 1999). Shareholders and the organizational creditors, in addition to the broader society, all require sufficient and dependable knowledge about corporate performance. Stakeholders require this in order for them to be in a position to supervise and monitor the directors as well as the senior management and in turn encourage the investors to take part in investment markets on a reasonable basis. For instance, the system for disclosing information that is available in Australia is comprehensive, which requires both continuous and periodic information disclosing structures. The unremitting regime for information disclosure needs that all entities that are listed in the records for corporations to provide information relating to price sensitivity to all market operators. The market operators in turn make that information available to other participants in the market. Generally, the regime operates appropriately and makes favorable comparisons to the operators in other markets (Securities & Investments Commission, 2002).

However, there has been a number of recently appearing instances that are high-profile, where lack of or the existence of underprivileged information disclosure systems raises eyebrows from shareholders. Some of the most crucial factors include inadequacy of clarity regarding the way current disclosure test operates in practice and the insufficiency of the remedy for breaches. Both of the above shortcomings are known to occur in most of those organizations that apply severe technological approaches that make them look for a justification meant for avoiding information disclosure. Those organizations that have a culture for information disclosure normally make organizational announcements to shareholders unless they lack a good reason not to do so.

Researchers in Kenya including Ongore (2011) have discussed matters on corruption which involved undisclosed expenditures by managers. He cited corruption as a big vice in business practices which places major challenges on corporate governance having major negative consequences on the business environment and development. Ongore (2011) argues that the ultimate consequence has been undermining the faith held by investors and shareholders regarding the world investment markets' integrity. Nevertheless, in high-quality corporate governance, this vice withers in a transparent environment coupled with good corporate management and proper accounting systems, the problem can be lessened. Ongore (2011)

further notes that most of the corporate governance frameworks in their existing forms evidently lack in a contract of monitoring structure which align the firm owner's roles, the actions and interests of managers and the board of directors in the creation of wealth and motivational welfare of stakeholders. He opinion that rules governing listing and disclosure should be revised as a way of clarifying the necessary exclusions, and that the balance should shift to favor information disclosure in almost all situations.

2.3.3 Effect of the composition of the Board of Directors on performance

Some research groups, with an original belief that their efforts had led them to identify a links existing between firm performance and corporate boards, gave a discount on the original notion via the consideration of supplementary factors. For instance, Kesner and Johnson (2000) in their study findings illustrated that boards that have a greater proportion of indoor directors tend to commonly get involved in rampant fiduciary-failure lawsuits, and most probably, they demonstrate lax misunderstandings. Although, factoring the consequence of the rampant lawsuits could account for the distinction between them and those having outdoor boards. The lawsuits are usually caused by the impropriety of the board as opposed to real substantiation that boards with inside domination have adverse effects on the expected performance. In spite of the numerous and voluminous study findings that confirm boards existence, the existing literature also contains prominence of studies which conclude that boards that are independent normally influence the behavior of managements, in turn influencing corporate performance in ways that are significant. Evidence is also available in literature suggests that boards that are proactive have an association with remarkable economic performance (Zahra, 2001).

Peng (2004) conducted an examination on the fact that directors operating from outside help in increasing the performance of a firm and found out that the directors acted on an impartial ground, hence; helped in increasing performance of organizations. Also, Kang and Shivdasani (2005) conducted a study on the importance of corporate governance structures at the time when executive turnover was occurring in Japanese contingencies. The study aimed at providing some logical evidence on the level of distinct governance forces influenced the performance of operational managers. The study findings showed a possible succession of an outdoor board of directors as compared to that where inside directors are involved,

particularly for organizations whose pretax working income is negative. At the same time, there is a possibility that routine turnover has a significant inverse connection with the performance of a firm; upon measuring performance is in relation to other similar industrial firms. It was also clear from Kang and Shivdasani's study (2005) outside board succession in Japanese companies was possibly for organizations with superior shareholders as compared to those with a small number.

According to Julie and siciliano's (1996) study, sufficient diversity in the structures of board present as ways of improving the performance of organizations via the provision of a new insight and an outlook to an organization's board. Boards are fundamental component any organization as well as its surrounding environment. Via the provision of resources and social information to a corporation, boards play a role of countering against an environment that is indecisive. Kiel and Nicholson (2003) did a study on the association that exists between corporate performance and board structure in the largest companies in Australia, and intended to give an expression of the companies' characteristics and boards. The study findings indicated that the size of the board had a positive association with a firm's value. They also made a discovery that there was the existence of a positive relationship between the inside director's ratio and the assessment that is market-based. Also, via the agency theory herein discussed, a superior board has a likelihood of watching agency problems simply because when there are many people, the assessment process becomes easier and more success in generated (Shleifer & Vishny, 1997).

2.3.4 Effect of stakeholders' participation on performance

Chief executive officers as well as other corporation executives have a tendency to do their communication with the entire public when shareholder meetings are held, and also in organized conferences. However, an organization's board of directors has the role of ensuring that the organization does a responsible communication with the shareholders as proposed by Clarke (2004). The kind of communication that is expected should incorporate openness, accuracy in monetary records, disclosure of information and organizational announcements. Appropriate communication also refers to offer shareholders a leeway to through which they can give their views to the company as well as its management. All participants of corporate governance normally have an unprecedented direct or indirect

interest in a corporation's financial performance (Clarke, 2004). The directors, employees as well as the management receive salaries, and are also entitled to other benefits and good reputation, and on the other hand, investors/financiers are expected to obtain financial profits. Organizational lenders normally receive specified payments in terms of interest, while profits for equity investors normally arise from distributions of dividend or stock related capital gains. The concern of customers is usually on the assurance regarding the stipulation of commodities and services that are of a suitable superiority. Most importantly, the concern of the suppliers lies with what they get as a reimbursement for the goods and services they offer to the organizations, as well as potential continual trading associations (World Business Council for Sustainable Development WBCSD, 2004). Generally, the herein discussed parties endow a corporation with additional value in terms of human, financial and physical value in addition to other capital forms. Therefore, the majority of the aforementioned parties may also have a concern with business societal performance (Kroszner, 2008).

Kroszner (2008) asserted the confidence of shareholders that an organization would deliver the expected results is a fundamental factor influencing the decision of a party to commit him or herself in its activities. When there is lack of confidence in the different categorical parties concerning the control of a corporation in a consistent and well directed way, there is a high likelihood that they may never engage with the organization, and the vice-versa is true. This has the implication that for shareholders to participate in an organization, they must gain the confidence from the management, and the ultimate outcome is enhanced organizational performance (Moebert & Tydecks, 2007).

2.5 Research Gap

Earlier researchers (Ongore, 2011, Muli 2008 and Muthamia 2011) explored issues on corporate governance but they did not draw sufficient attention on issues touching on performance of KTDA managed Tea Factory Companies. The current study therefore wishes to establish the real factors which affect performance of on KTDA managed Tea Factory Companies, hence; ends up contributing significantly to additional knowledge in the area of corporate governance.

2.6 Conceptual Framework

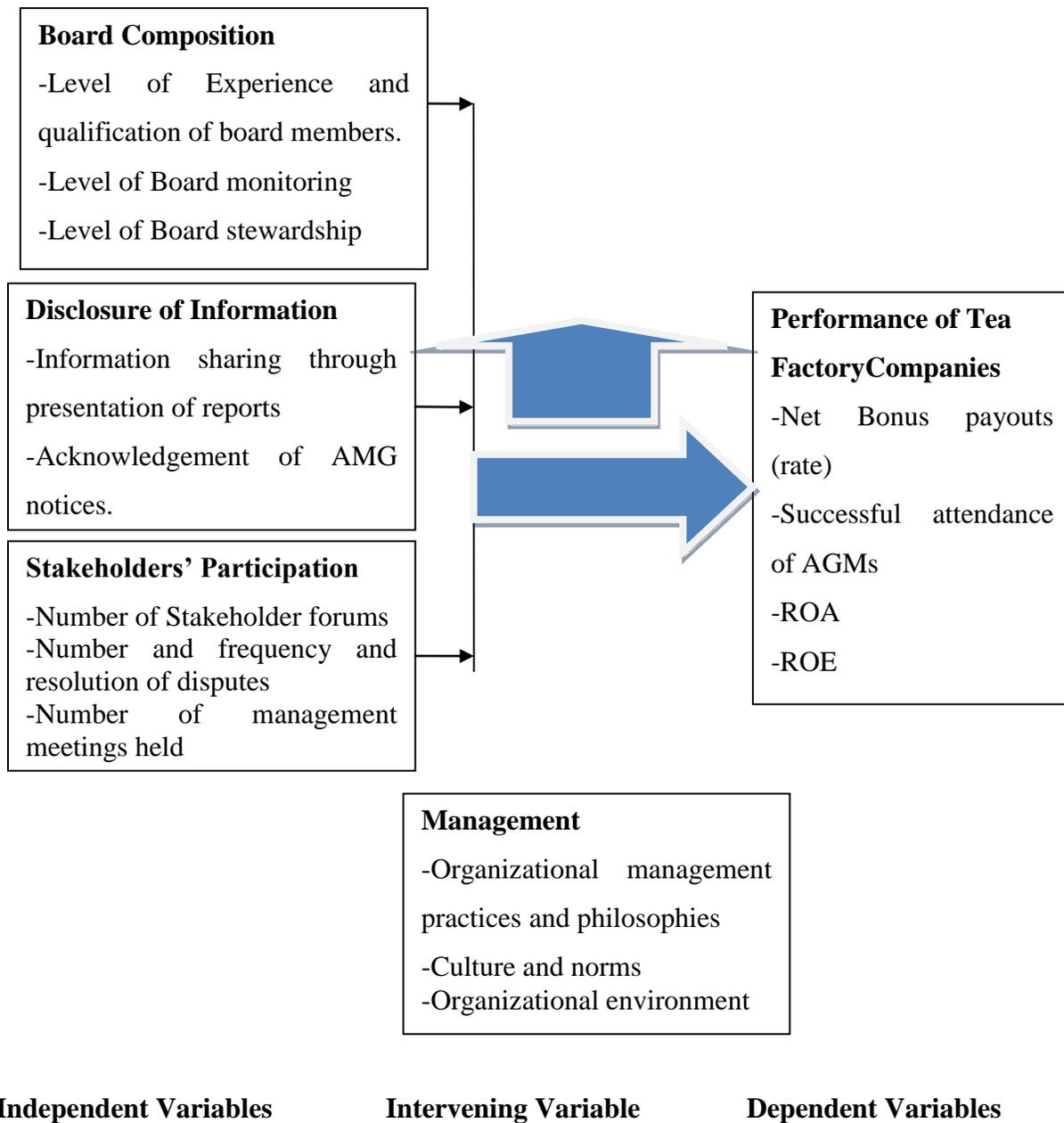
Among other factors which affects corporate governance the integrity of the board. It is well known, that effective leadership influences group performance. With good leadership, farmers can be assured of receiving quality services which in this case includes timely, understandable and acceptable reports.

This study used the agency theory as its analytical framework given that performance of Tea Factories Companies under the management of KTDA depends heavily of the ability of the management to adopt and apply the basic principles of Corporate Governance in the running of these firms. Understandably, good teamwork between the management, and the other stakeholders would inevitably enhance performance. Managers should be people of integrity, credibility and honesty. (Ongore 2011).

FIGURE 1

CONCEPTUAL FRAMEWORK

Source - The Researcher (2013)



Acceptability of presented financial information also indicates that shareholders have confidence with the way financial and operational information has been prepared and presented. With increased Government assistance to farmer through formulation of policy guidelines which encourages increased tea production, performance of the factories is expected to improve. Organizations which are able to employ and retain highly qualified and competent board members are expected to have improved performance over time.

The majority of academic investigative research utilizes conceptual frameworks at the beginning since it enables the researcher to obtain clarity of his/her research questions as well as aims. This study's conceptual framework includes the dependent variable and the independent variables. The independent variables are inclusive of Stakeholders participation, information disclosure as well as Board composition. The dependent variable is the performance of Tea factories, usually indicated depicted by the rate at bonus is paid to farmers as well as the financial reports for each factory.

2.6.1 Board Composition

This independent variable was measured qualitatively in order to show how it influences performance as a corporate governance value. Specifically, it was measures according to the level of experience and qualification of board members, level of Board monitoring and the level of Board stewardship, which all determine the level of expected performance in an organization.

2.6.2 Disclosure of Information

This independent variable was measured quantitatively in order to show how it influences performance as a corporate governance value. Specifically, measurements were made regarding the rate of information sharing through presentation of reports as well as the rate of acknowledgement of AMG notices because they were suspected to have great influence on performance.

2.6.3 Stakeholders' Participation

This independent variable was measured quantitatively in order to show how it influences performance as a corporate governance value. The measurements were according to number of Stakeholder forums, number and frequency and resolution of disputes as well as the number of management meetings held in terms of how these measures affected performance.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter provides the research methodology that was utilized in establishing the corporate governance's effects on performance of individual tea processing firms. Ngulube (2003) asserts that it is always crucial to describe the methodology applied in a study so that other researchers can use the study as a future reference, and also to determine the reliability and the validity of the findings. This chapter has its focus on research design, the population of the study, sampling techniques and sample size, instruments for data collection, procedure for data collection, analysis of data as well as presentation.

3.1 Research Design

Orodho (2003) define a research design as a scheme, plan or outline normally utilized in generating answers to research-related problems. For the study of corporate governance effecton performance, a descriptive survey research design was deemed appropriate to assess the effect of corporate governance on performance as it is concerned with describing the current or past status of a situation thus helping to describe the achievement, attitudes, behaviors, or other characteristics of a group of subjects. In this case the descriptive approach was used to examine the facts and opinions of the managerial governance on how the rules governing corporate society impacted on their socioeconomic status as measured by the performance.

3.2 Population of Study

The study population was all the 54 private Tea Factory Companies (Appendix VI) which are managed by KTDA. Population is defined as the entirety compilation of vital elements from which research information can be drawn Cooper and Schindler (2006). The managers of the 54 private Tea Factory Companies were the focus of this study.

Each factory has one unit manager, one accountant and six elected directors. The total target population was 432 being 54 managers, 54 accountants and 324 directors. It is from

this population that a sample of 60 respondents was drawn being one manager, one accountant and one director per factory for the twenty factories.

3.3 Sample Design and Sampling procedure

A sample is always a correct representative of the total population of the study. Each element in the population when randomly selected and entirely by possibility has the same probability of being selected at any point for the period of the sampling process (Yates, Daniel, Moore and Starnes, 2008). The study used stratified sampling. (See the strata below)

TABLE 1
Sample Size

Population	54 managers	54 Accountants	324 Board members
Sample	20 managers	20 Accountants	20 Board members

The Factories were stratified into three main categories; those that perform extremely well in terms of payment of bonuses, those that perform moderately well and lastly those that perform poorly (see appendix 5). The sample chosen comprised of the top 10 best performed and the bottom 10 worst performed Tea Factory Companies managed by KTDA. This study targeted the 20 managers, 20 accountants and 20 directors from the top performing and the 10 worst performed companies. In addition, the study focused on the 10 elected directors of the top 10 performing and the bottom 10 worst performed Tea Factory Companies. The sample constitutes 13.8% of the population. This %ge is deemed to be a good representative of the population which consists of 432 respondents (Mugenda and Mugenda (2003)). The aim here was establish whether corporate governance affects the performance of the top 10 best performed and the bottom 10 worst performed KTDA’s managed Tea Factory Companies in Kenya.

3.4 Research Instruments

A research instrument is the basic means or tool utilized by a researcher in the collection of primary data. The main research instrument for this study was a questionnaire. The questionnaire consisted of open-ended, close ended and Likert scale questions. The

questionnaire was considered appropriate because, first; it was possible to receive feedback directly from the participants. Secondly, it was relatively a fast method of data collection as postulated by Mitchell, et al (2004). The researcher administered the questionnaire via “drop and pick later method” so as to offer the participants enough time for filling it in. This was also necessitated by the fact that the Tea Factory Companies are far apart therefore the researcher needed enough time to distribute them.

3.5 Validity and Reliability

The pilot testing was conducted as a way of ascertaining the validity as well as the reliability of the questionnaire. According to (Cooper & Schindler, 2006) piloting is important because it helps the researcher to become aware of the weakness in the instrumentation and design, and also aids in the provision of accurate data for sample selection. Content validity was well administered to make sure that qualitative information on the pilot firms provide information similar the one contained in the sampled Tea Factory Companies. Joppe’s (2000) study has defined reliability as an extent to which consistent results are obtained over time, and also that a precise population representation is capable of reproducing similar results when subjected to a similar method, then the reliability of a research instrument is ascertained.

3.6 Pilot Testing

The pilot testing was carried out on those Tea Factory Companies that fall in the middle strata of the target population, that is, neither the 10 best performing nor the 10 worst performing companies. This was done to ensure that the actual participants were not engaged in the pilot study, which would otherwise compromise the outcome of the study findings.

3.7 Data Analysis and Presentation

Once data was collected, it was cleaned and coded into meaningful parameters that can be read by the computer for ease of analysis. According to Joppe (2000), analysis of data involves to gather, model and transform data in order to of highlight constructive information, which suggests conclusions, and support making of decisions. Data collected from the questions that were open-ended was subjected to analysis via the utilization of

qualitative content analysis to establish what the respondents had viewed as the effect of corporate governance on the performance of the Tea Factory Companies.

On the other hand, the analysis of data obtained from the questions that were close-ended was done via the use of SPSS (Statistical Package for Social Sciences). This process was helpful to the researcher because it helped in the analysis of by the use of means, frequency, Standard deviation (SD) and regression analysis. The three variables of corporate governance at play (Stakeholders' participation, Disclosure of information and board composition) were correlated to establish to what extent they affected the performance of the Tea Factory Companies. The below model was applied to establish whether there existed any relationship between the independent variables and the dependent variable.

$$(i) Y = \alpha + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \sum_i$$

Where Y is the dependent variable (performance)

β_i being the coefficients

X_i is the predictor/independent variable: X_1 Being Disclosure of material financial information, X_2 being stakeholders' participation and X_3 being board composition and

α being the constant.

\sum_i = error term

3.8 Ethical Considerations

Neumann (2003) explains that the term 'ethical' is used to mean principle of conduct that is usually considered accurate, particularly by people of a specified group or profession. Conduct principles are among the most significant components because they provide a comprehensive view regarding ethical behavior content. Research activities normally provoke ethical issues concerning the rights of participants, for instance the right of privacy. In order to address the issues, the researcher did obtain the informed consent of the respondents before he could issue them with questionnaires. Additionally, the researcher made the participants aware on the information type that he needed from them, the reason for seeking the information, the purpose, as well as their expected mode of participation, in addition to the direct and indirect effects of the research on them.

CHAPTER FOUR

DATA ANALYSIS AND PRESENTATION

4.1 Introduction

This chapter provides the analysis of the findings of the study on effect of corporate governance on the performance of the Kenya Tea Development Agency's managed Tea Factory Companies in Kenya.

TABLE 2
Response rate

	Frequency	Percentage (%)
Responded	46	77
Not responded	14	23
Total	60	100

The study targeted to interview one director, one manager and one accountant from each of the 10 best and the 10 worst performing Tea Factory Companies. The aim was establishing the effect of corporate governance on performance of the top 10 best performed and the bottom 10 worst performed Tea Factory Companies in Kenya. The questionnaires were distributed to the selected participants by hand delivery. Out of the 60 questionnaires distributed, 46 questionnaires were collected back fully filled, hence a response of 77%. The 23% non response was from 3 directors, 6 accountants and 5 managers from some selected tea factories. The response rate distribution is shown in the table above .

4.2 General Information of the Respondents

The study required the respondents to provide their general information regarding occupation and designation because this was fundamental for the provision of the answer required in the research topic. The 23% non response was attributed to confidentiality issues

4.3 Company's Disclosure of Information

The study had the intention of establishing the extent to which information disclosure factors enhanced both understanding and acceptability of financial reports of the Tea Factory Companies to the shareholders as shown in the table below;

TABLE 3
Extent which Disclosure of Information enhances understability and acceptability of reports

Information disclosing factors	Very large extent	Large extent	Moderate extent	Small extent	Not at all	Total %
Explanation of reports during the AGM	78%	15%	3%	2%	2%	100
Books of Accounts	41%	36%	19%	2%	2%	100

The study findings indicated that the majority of the respondents indicated that explanations of the reports during the AGM as well as the books of accounts enhanced understanding and acceptance of financial reports of the tea factories to the shareholders to a very large extent as shown by 78% and 41% respectively.

Table 4
Disclosure of Information

	Yes (%)	No (%)	Total
Does your factory, company post its published reports via the internet before the AGM date?	78	22	100
Frequency	47	13	60
Does your Tea factory, company maintain a register to be signed by various stakeholders upon receipt of AGM booklet 21 days ahead of the AGM?	56	44	100
Frequency	34	26	60
Is the remuneration committee chaired by an independent director?	55	45	100
	33	26	60

The study needed the participants to give their opinion of statements regarding the publishing of reports via internet for the AGMs, maintenance of the stakeholders register as well as the chairing of the remuneration committee by an independent director. From the findings of the study, the best part of the respondents indicated and agreed that their Tea Factory Companies posted their published reports via the internet before the AGM date, maintained a register to be signed by various stakeholders upon receipt of AGM booklet 21 days ahead of the AGM and also that the remuneration committee was chaired by an independent director as shown by 78%, 56% and 55% respectively. This depicts that majority of the Tea Factory Companies attach a great value to effective information disclosure as well as transparency in corporate governance.

The study was set to establish the level at which the respondents viewed information disclosure occurring within the organization's setting and their responses are shown in the Table 4.4 below. According to the findings of the study, the majority of the respondents agreed that their factory organization had been always ready with financial information and

current trend disclosure as shown by 65%. Additionally, the majority of the respondents indicated that there was always an audit report with regard to what the company should disclose its information as shown by 63%. Further, 63% of the respondents agreed that; it was the role of the management to ensure that every stakeholder was informed on the performance of the organization. Moreover, the majority of the respondents agreed that they were satisfied with the way the management handled and delivered information as shown by 62%.

Table 5
level of agreement as regards to Disclosure of Information

	S t r o n g l y a g r e e (%)	A g r e (%)	M o d e r a t e l y a g r e e (%)	D i s a g r e (%)	S t r o n g l y d i s a g r e (%)
The organization is always readiness with financial information and current trend disclosure	30	65	5	0	0
Frequency	18	39	3	0	0
There is always an audit report with regard to what the company should disclose	25	63	12	0	0
Frequency	16	37	7	0	0
It is the role of the management to ensure that every stakeholder is informed on the performance of the organization	26	63	11	0	0
Frequency	16	37	7	0	0
I am satisfied with the way the management handles and delivers information	29	62	10	1	1

Finally, majority of the respondents agreed to the fact that the board members are free to provide any information to its members that regard to performance of the Tea Factory Companies as indicated by 55%. This has the implication that the majority of the tea company factories have provided an appropriate framework for information disclosure as a way of enhancing corporate governance.

4.3.1 Improvement of Information Disclosure Framework

Regarding information disclosure, the study required the respondents to suggest ways through which the board could improve on disclosure of information to improve their Factory Company performance functions. According to the findings, some of the respondents indicated that teamwork, accountability, transparency as well as trustworthiness were fundamental components that could help improve information disclosure so as to enhance the companies' performance. In addition, some of the respondents indicated that the implementation of ethical leadership would be vital in enhancing disclosure of information, which in turn would enhance corporate governance as a prerequisite for suitable performance.

4.4 Composition of the Board of Directors

The study needed the respondents indicate their agreement regarding statements related to the composition of the board of directors in the tea factories they worked for as in the table below;

Table 6
Composition of the Board

	Yes (%)	No (%)	Total
It is a requirement that the chairman of the board must sign the approved budgetary estimates.	78.5	21.5	100
Frequency	47	13	60
There is a requirement that one has to be a member of a professional body to be eligible for election	68.7	30.2	100
Frequency	41	19	60
The board operates through committees	65.6	34.4	100
Frequency	39	21	60
The directors undergo elections after every three years	64.2	35.8	100
The factory board operates on the performance contracting basis	58.4	42.6	100

From the study findings, majority of the respondents agreed with the fact that it was a requirement that the chairman of the board must sign the approved budgetary estimates as shown by 78.5%. Additionally, majority of the respondents reported that there is a requirement that one had to be a member of a professional body to be eligible for election as shown by 68.7%. Majority of the respondents also indicate agreed that the board operates through committees, the directors are subjected to elections after every three year, and also

that the factory board operates on performance contracting basis as shown by 65.6%, 64.2% and 58.4%. This implies that Tea Factory Companies consider the board of directors as a crucial entity in determining the effectiveness of corporate governance; hence enhanced factory performance

Table 7

Level of agreement as regards to the Structure of the Board

	Str on gly agr ee %	Agr ee %	M od era tel y agr ee %	Dis agre e %	S t r o n g l y d i s a g r e e %	Tot al / % Tot al
There are only executive board members in the board	18	10	18	54	0	100
Frequency	11	6	11	32	0	60
There are non executives and executive members in the board	25	50	23	2	0	100
Frequency	6	30	14	1	0	60
There are only non executive members in the board	38	0	12	50	0	100

On the composition of the board of directors, the study required that the respondents agreed to several statements regarding the influence that the composition/ structure. According to the study findings, the majority of the respondents disagreed that there are only executive members of the board of directors as indicated by 54%. Additionally, the majority of the respondents agreed that there were non-executives and executive members in, the board as shown by 50%.

Further, the majority of the respondents disagreed that there were only non-executive members in the board compositions. On top of that, 50 % of the respondents disagreed there was no executive or non executive members on the board, while the majority of the

respondents agreed that they were happy with the organization structure of the executive and non-executive. This has the implication that the organizational structure of the board is made up of executive and non-executive members.

4.4.1 Average number of Board committees

The study needed to establish the average number of people that make up the board committees in most of the factories where the study was conducted. The findings indicated that most of the factories were having a minimum of 3 members and a maximum of 6 members, hence an average of 5 members.

4.4.2 Directors

The study also required that the respondents indicate specific information regarding to directors. Study findings indicated that the board of directors comprised of 7 members in the majority of the factories. This mainly consisted of the chairperson, vice-chairperson and five other members. On the gender of the board members, the study findings indicated that most of the board members were male and only one or no female. In addition, most of the respondents indicated that most of the board members' highest qualification was the possession of a college certificate. Further, on the length of time the board members have been in operation in the various factories, majority of the respondents indicated that the majority had operated for an average of 8 years as indicate in the above table.

4.5 Stakeholders' Participation

The study sought to establish the truth concerning Participation of shareholders in the factory companies

[Table 8](#)

[Information relating to Stakeholders' Participation](#)

Information	Yes (%)	No (%)	Total
Do you maintain a shareholder register during annual AGMs?	77.5	22.5	100
Frequency	47	13	60
Have you ever held a repeat AGM for lack of a quorum	60	40	100
Frequency	36	24	60
Does your company maintain a creditor's complain register?	59	41	100
Frequency	35	25	60
Does the CEO of your factory, company chair board meetings	42	58	100

According to the study findings, the majority of the respondents indicated that their factories maintained a shareholder register during annual AGMs, have ever held a repeat AGM for lack of a quorum, their companies maintained a creditor's complain register, and also, the CEO of their Tea Factory Companies chair board meetings as shown by 77.5%, 60%, 59% and 42% respectively. This implies that the majority of the factories encourage shareholder participation.

4.5.1 Different Classifications of Shareholders in the Factory

The study required the respondents to indicate the different classifications of the shareholders of the company factories. According to the findings of the study, the majority of the respondents indicated that there are two main classifications of the shareholders in a factory, mainly founder and commercial shareholders.

4.5.2 Minimum number of Shareholders in an AGM

The study required the respondents to indicate the minimum number of shareholders required to be present at the start of an AGM. According to the study findings, the majority of the respondents indicated that the average number of shareholders required for the start of the meeting is 30 members.

Table 9

Stakeholders' Participation in Tea Factory Companies

Statement	St ro ng ly ag ree e %	Ag ree %	Mo der atel y % agr ee	D i s a g r e e %	S t r o n g l y D i s a g r e e %	Total %
The management acknowledges the shareholders of any meeting of the organization	22	65	12	1	0	100
Frequency	13	39	7	1	0	60

The study sought to establish the level of agreement of the respondents to, statements relating to stakeholder participation on performance. The findings of the study indicated that most of the respondents agreed that the management acknowledges the shareholders of any meeting of the organization, Stakeholder participation levels in the organizations is effective, Shareholders are comfortable towards their involvement on performance improvement in the organization, All the stakeholders are involved in the annual report compilation, and also, the decision making requires the participation of all stakeholders as shown by 65%, 63%, 60%, 45% and 45% respectively.

Table 10
Stakeholders' level of Participation

	Frequency	Percentage (%)
Very High	12	26
High	25	54
Average	3	7
Low	4	9
Very Low	2	4
Total	46	100

The study sought to establish the rate at which stakeholders participate in tea factories. On average, the findings of the study indicated that the majority of the respondents stated that shareholders participate in the factories to a high rate as shown by 54%. Information concerning the rate at which stakeholders participate in Tea factory Companies activities is presented in the figure below;

Figure 2
Stakeholders' Participation in the Performance of the Tea Factories

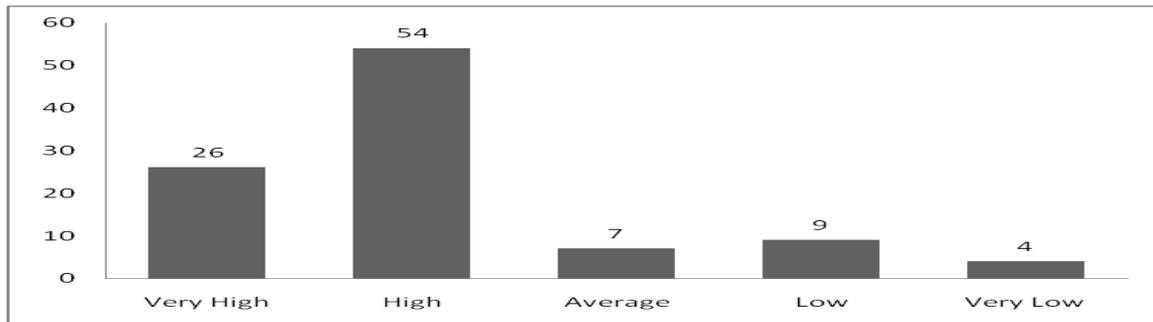


Table 11

Stakeholders' Level of Participation

Financial Year ending 30 th June	Number of shareholders who attended the AGM	Number of court cases involving stakeholders	Numbers of stakeholders' consultative meetings held	Number of written correspondences between the board and employees
2010	300	2	12	15
2011	320	2	14	10
2012	316	2	12	16

The study found out that on average, the number of shareholders who attended the AGM was 300, 320 and 316 in the financial years ending in 2010, 2011 and 2012 respectively. Secondly, the study findings indicated that a tea factory had an average of at least two cases in each of the financial years. This implies that Tea Factory Companies' stakeholders value ethics in regard to corporate governance. Additionally, the study established that the average numbers of stakeholders' consultative meetings held were 12, 14 and 12 in the financial years ending in 2010, 2011 and 2012 respectively. The study also indicated that the average number of written correspondences between the board and employees amounted to 15, 10 and 16 in the financial years ending in 2010, 2011 and 2012 respectively.

Table 12

Stakeholders' Participation Effect on Performance

	Frequency	Percentage (%)
Yes	32	70
No	14	30
Total	46	100

The study required the respondents to indicate the effect of stakeholders' participation on the performance of the tea factories. According to the findings of this study, the majority of

the respondents stated that stakeholder participation influences the performance of tea factories as indicated by 70%.

4.5.3 Role of stakeholders' participation on performance

The study required the respondents to provide information regarding how stakeholders' participation enhances performance of KTDA managed Tea Factory Companies. According to the findings, some of the respondents indicated that shareholder participation improves performance by enhancing the quality of leadership, promoting transparency, accountability as well as trustworthiness. Also, some respondents indicated that shareholder participation incorporates the company's community, thus promoting unity and organizational sustainability.

4.6 Inferential Statistical Analysis on Board Composition, Disclosure of Information and Stakeholders' Participation

Table 13
Model Summary of Regression Analysis

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
Composition of the Board of Directors	0.365	0.085	0.076	0.564
Disclosure of financial situation	0.257	0.066	0.060	0.697
Stakeholders' Participation	0.140	0.020	0.013	0.714

The above table 4.13 presents the correlation and the coefficient of determination between the performance of Kenya Tea Development Agency's managed Tea Factory Companies (dependent variable) and the independent variables (Disclosure of Financial Situation, Composition of the Board of Directors and Stakeholders' Participation). From the findings, the study found that there was a positive, but weak relationship between the dependent variable and the independent variables.

Of all the three independent variables, composition of the board of directors had the highest relationship with the performance of Kenya Tea Development Agency's managed Tea Factory Companies of 0.085 followed by disclosure of financial situation with a value of 0.066, then stakeholder participation with a correlation value of 0.020.

In addition, the study conducted a multiple regression analysis so as to determine the effect of the independent variables (Disclosure of financial situation, Composition of the board of directors and stakeholder participation) on performance of Kenya Tea Development Agency's managed Tea Factory Companies. The results obtained were as follows;

Table 14

Model Summary of Coefficient of Determination (R^2)

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	842(a)	.594	.472	.46

Variables considered in the analysis include the Constant, Disclosure of financial situation, Composition of the Board of Directors and Stakeholder Participation.

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 (performance of Kenya Tea Development Agency's managed Tea Factory Companies.) that is explained by all the three independent variables (Disclosure of financial situation, Composition of the Board of Directors and Stakeholder Participation).

The three independent variables that were studied, explain only 47.2% of the effect of corporate governance on performance of Kenya Tea Development Agency's Managed Tea Factory Companies as represented by the adjusted R^2 . This therefore means that the three independent variables contribute about 47.2% to performance on Kenya Tea Development Agency's managed Tea Factory Companies, while other factors, not studied in this research contribute 52.8% of performance in Kenya Tea Development Agency's managed Tea

Factory Companies. Therefore, further research should be conducted to investigate the other aspects of corporate governance (52.8%) that affect the performance of Kenya Tea Development Agency's Managed Tea Factory Companies.

The figures in the above Table 4.14 were generated through the use of SPSS data analysis statistical tool where the below regression equation was obtained;

$$(ii) Y = 1.47 + 0.57X_1 + 0.20X_2 + 0.03X_3$$

Table 15**Regression Coefficients**

Model	Variables	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
			Std. Error	Beta		
1	Constant	1.47	0.549	0.00	2.67	0.009
	Composition of the Board of Directors	0.57	0.177	0.411	3.23	0.002
	Disclosure of financial situation	0.20	0.160	0.182	1.23	0.023
	Stakeholders' participation	0.03	0.152	0.019	0.175	0.047

The study found that when the composition of the Board of Directors, Disclosure of financial situation and stakeholders' participation are kept constant at zero, performance of Kenya Tea Development Agency's managed Tea Factory Companies stands at 1.47. A unit increase in Composition of the Board of Directors would lead to an increase in performance of Kenya Tea Development Agency's managed Tea Factory Companies by a factor of 0.57; a unit increase in Disclosure of financial situation would lead to an increase in performance of Kenya Tea Development Agency's managed Tea Factory Companies by a factor of 0.20. Further, a unit increase in Stakeholder participation would lead to increase in performance of Kenya Tea Development Agency's managed Tea Factory Companies by a factor of 0.03.

This shows that performance of Kenya Tea Development Agency's managed Tea Factory Companies has a positive relationship with Composition of the Board of Directors,

Disclosure of financial situation and stakeholders' participation in that order. This implies that the composition of the Board of Directors contributes more to performance of Kenya Tea Development Agency's managed Tea Factory Companies.

At the 5 % level of significance and 95% level of confidence, Stakeholder Participation had a 0.0470 level of significance; Disclosure of Financial Situation showed a 0.023 level of significance, while the composition of the Board of Directors showed a 0.002 level of significance hence the most significant towards the effect on performance of Kenya Tea Development Agency's managed tea Factory Companies studied.

CHAPTER FIVE

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

This chapter provided a presentation of the research findings' summary on the effect of corporate governance on the Tea Factory Companies under the management of Kenya Tea Development Agency's performance. The chapter also presents the conclusions as well as the recommendations of the study, in addition to areas for further research.

5.2 Summary of Major Findings

In this section, a summary the findings as well discussion the research results was presented, and this was done in line with the study objectives.

5.2.1 Companies' Disclosure of Information

The study found out that 77.5% of the respondents indicated that explanations of the reports during the AGM as well as the books of accounts enhanced understanding and acceptance of financial reports of the tea factories to the shareholders to a very large extent. 78% of the respondents also indicated and agreed that their factory companies posted their published reports via the internet before the AGM date, 56% of the respondents indicated that they maintained a register to be signed by various stakeholders upon receipt of AGM booklet 21 days ahead of the AGM while 55% indicated that their remuneration committee was chaired by an independent director. These percentage points into a majority of the Tea Factory Companies attach great value on disclose of information and transparency. This can be confirmed in the literature findings by David's study (2011) who asserts that successful companies attach a great value to effective information disclosure as well as transparency in corporate governance.

The findings of the study indicated that the majority of the respondents agreed that Tea Factory organizations are always ready with financial information and current trend disclosure. Additionally, majority of the respondents indicated that there was always an audit report with regard to what the company should disclose its information.

Further, a large number of the respondents agreed that; it was the role of the management to ensure that every stakeholder was informed on the performance of the organization. Moreover, the majority of the respondents agreed that they were satisfied with the way the management handled and delivered information. Finally, majority of the respondents agreed to the fact that board members are free to provide any information to its members that regard to the performance of the tea factory. This has the implication that majority of the tea company factories have provided an appropriate framework for information disclosure as a way of enhancing corporate governance. This concurs with Claessens & Burcin (2012) assertion that the higher the level of information disclosure, the better the rate of transparency, hence the higher the performance.

Regarding information disclosure, study findings indicated that teamwork, accountability, transparency as well as trustworthiness were fundamental components that could help improve information disclosure so as to enhance the companies' performance. In addition, respondents indicated that implementation of ethical leadership would be vital in enhancing disclosure of information, which in turn would enhance corporate governance as a prerequisite for superior performance.

5.2.2 Composition of the Board of Directors

From the study findings, a large number of the participants agreed with the fact that it was a requirement that the chairman of the board must sign the approved budgetary estimates. Additionally, the majority of the respondents reported that there is a requirement that one had to be a member of a professional body to be eligible for election. The majority of the respondents also agreed that the board operates through committees; the directors are subject to elections after every three years and that Tea Factory Company boards operate on the performance contracting basis. This implies that Tea Factory Companies consider the board of directors as a crucial entity in determining the effectiveness of corporate governance; hence enhanced Tea Factory Company's performance.

From the findings of the study, a large number of the respondents disagreed that there are only executive members of the board of directors. Further, some respondents disagreed that there were only nonexecutive members in the board compositions. On top of that, the majority of the respondents disagreed there was no executive or non executive members on

the board, while the majority of the respondents agreed that they were happy with the organization structure. This has the implication that the organizational structure of the board composition is made up of executive and non-executive members.

The study findings indicated that the board of directors comprised of 7 members in the majority of the factories. This mainly consisted of the chairperson, vice-chairperson and five other members. On the gender of the board members, the study findings indicated that most of the board members were male and only one female member. In addition, most of the respondents indicated that most of the board members' highest qualification was the possession of a college certificate. Further, on the length of time the board members have been in operation in the various factories, majority of the respondents indicated that the majority had operated for an average of 8 years.

5.2.3 Shareholders Participation

The study findings showed that the majority of the respondents indicated that their factories maintained a shareholder register during annual AGMs, have ever held a repeat AGM for lack of a quorum, their companies maintained a creditor's complain register, and also, the CEO of their Tea Factory Company chair board meetings. This implies that the majority of the factories encourage shareholder participation. According to the findings of the study, the majority of the respondents indicated that there are two main classifications of the shareholders in a factory, mainly founder and commercial shareholders. The findings of the study indicated that most of the respondents agreed that the management acknowledges the shareholders of any meeting of the organization, Stakeholder participation levels in the organizations is effective, Shareholders are comfortable towards their involvement in performance improvement of their organization, all the stakeholders are involved in the annual report compilation, and also, decision making requires participation of all stakeholders.

5.2.4 Regression Analysis and the Model

The study found out that when composition of the Board of Directors, Disclosure of financial situation and stakeholders' participation are kept constant at zero, performance of Kenya Tea Development Agency's managed Tea Factory Companies would be at 1.47. A unit increase in Composition of the Board of Directors would lead to an increase in performance of Kenya Tea Development Agency's managed Tea Factory Companies by a factor of 0.57; a unit increase in Disclosure of financial situation would lead to an increase in performance of Kenya Tea Development Agency's managed Tea Factory Companies by a factor of 0.20. Further, a unit increase in Stakeholder participation would lead to increase in performance of Kenya Tea Development Agency's by a factor of 0.03. This shows that performance of Kenya Tea Development Agency's has a positive relationship with Composition of the Board of Directors, Disclosure of Financial Situation and Stakeholders' Participation in that order. This implies that the composition of the Board of Directors contributes more to performance of Kenya Tea Development Agency's managed Tea Factory Companies.

5.3 Below is a conclusion on the research findings

5.3.1 Disclosure of Financial Information

On the effect of disclosure of financial situation of performance of KTDA managed Tea Factory Companies in Kenya, the study concludes that explanations of the reports during the AGM as well as the books of accounts, enhanced understanding and acceptance of financial reports of the tea factories to the shareholders to a very large extent. The study also concludes that most of the Tea Factory Companies posted their published reports via the internet before the AGM date, maintained a register to be signed by various stakeholders upon receipt of AGM booklet 21 days ahead of the AGM, this depicts that majority of the Tea Factory Companies attach a great value to effective information disclosure as well as transparency. The study further concludes that that there was always an audit report with regard to what the company should disclose its information, it was the role of the management to ensure that every stakeholder was informed on the performance of the organization and that stakeholders are always satisfied with the way the management handled

and delivered information. This indicates that financial information is accurately disclosed to the stakeholders. This finding concurs with Al-Faki's (2006) study on the effect of transparency in the development of capital market in Africa, and the findings were that transparency influences the performance of a Tea Factory company. Therefore, disclosure of financial and other company information plays a vital corporate governance role that enhances performance.

5.3.2 Composition of the Board of Directors

On the composition of the board, the study concludes that it is a requirement that the chairman of the board must sign the approved budgetary estimates and that one has to be a member of a professional body to be eligible for election on the board. It can also be concluded from the study that the board operates through committees, the directors are subject to elections after every three years and that the factory board operates on the performance contracting basis. Muthamia's (2011) study concluded that the attributes of directors influence a factory's performance. This implies that Tea Factory Companies consider the board of directors as a crucial organ in determining the effectiveness of corporate governance; hence enhanced Tea Factory Company's performance. This is clearer in that the board composition includes non-executives and executive members; stakeholders are happy with the organization structure of the executive and non-executive.

The study findings indicated that the board of directors comprised of an average of 7 members in the majority of the factories. The board is composed of the chairperson, vice-chairperson and five other members. On the gender of the board members, study findings indicated that most of the board members were male and only one adopted female. In addition, most of the respondents indicated that most of the board members' highest qualification was of a college certificate. Further, on the length of time the board members have been in operation in various factories, majority of the respondents indicated that majority had operated for an average of 8 years. The mentioned aspects conclude that board members effectiveness has enhanced the performance of the sampled Tea Factories Companies. According to Claessens & Burci (2012) the effect of corporate Governance in emerging Market, specifically on the role played by the leading teams as well as the organizational structure, and the finding was that the structure is crucial in forging the way

forward for a company. Hence, it can be concluded that the effectiveness of the board has a direct impact on the performance of a company.

5.3.3 Shareholders Participation

On shareholders' participation the study concludes that factories have managed to maintain a shareholders' register during annual AGMs, have ever held a repeat AGM for lack of a quorum, their companies maintained a creditor's complain register, and also, the CEOs of KTDA managed Tea Factory Companies do not chair board meetings. This implies that majority of the factories encourage shareholders' participation, which enhances performance of the sampled Tea Factories Companies. This concurs with agency theory, where Meckling (1976) points out that fundamental corporate governance focus on how the principal (shareholder) are able to prevent the agent (generally management) from maximizing his own self-interest

The study also concludes that management acknowledges the shareholders during Factory Company meetings, level of stakeholders' participation is effective, stakeholders are comfortable with their involvement in performance improvement of the Tea Factory Companies and that all the stakeholders are involved in the annual report compilation and that decision making process involves the participation of all stakeholders. A study by Al-Faki (2006) on the effect of transparency and corporate governance in the development of capital market found out that the two concepts influence the performance of a company to a great deal because the Tea Factory Companies sell their products in large markets, which means that the level of stakeholders participation plays a very crucial role in determining the level of performance of the Tea Factory Companies.

5.4 Recommendations of the Study

This study recommends that management continues with the practice of availing information concerning the management of their organization, which according to the study results enhances the understanding of financial and acceptability of financial reports of the Tea Factories Companies to the stakeholders to a very large extent. At the same time, the management should always make sure that reports on financial information is made simple and clear so that every stakeholder is continually updated on the performance of their Tea

Factory Companies. This being the case, they could be in a better position to challenge any information or suggest strategies towards the improvement. According to agency theory, Meckling (1976) points out that fundamental corporate governance focus on how the principal (shareholder) are able to prevent the agent (generally management) from maximizing his own self-interest

This study recommends that the management in the Tea Factories, Companies work hard to eliminate issues which may bring about misunderstanding between the executive and non executive members of the board. The management should always be in a position to motivate members on the need to reach quorums so as to help them engage fully in proposing the right strategies geared towards the performance of the Tea Factories Companies. This is expected to enhance performance of the board to a very great extent.

This study additionally recommends that management continues with the spirit of ensuring that stakeholders participate fully in all the activities which concerns them. In this case, shareholders and other interested parties can have a chance to suggest on improvements which management may have failed to consider.

5.5 Recommendations for Further Studies

The current research recommends that further studies be done on performance of Kenya Tea Development Agency's managed Tea Factory Companies as concerns determinants of performance. Future researchers may consider other variables besides the one considered by this study, that is (disclosures of financial information, composition of the board and shareholder participation). Future researchers may want to find out why the female gender seems to be underrepresented at the board level. Future studies should also include more tea factories, especially those outside the ambit of KTDA in an effort to establish factors which affect their performance thus enabling a comparative study on performance between them and those managed by KTDA.

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APPENDICES

APPENDIX: I

INTRODUCTION LETTER.

Livingstone M. Karuma
KCA student
Nairobi

Managing Director,
XXXXXX Tea Factory Co. Ltd
Nairobi, Kenya.

Dear Sir/Madam

Re: Request to Conduct Research

I am writing from the school of graduate studies and research; Kenya College of Accountancy University. The purpose of this letter is to humbly request for approval to enable me to conduct research on effect of corporate governance on the performance of KTDManaged Tea Factory Companies in Kenya. A study of 20 selected Tea processing firms in Kenya.

Your assistance will be highly appreciated.

Signed

.....

Livingstone M Karuma

APPENDIX II

QUESTIONNAIRE

Section 1: Respondent Profile

Personal Details

Name (optional).....

Occupation.....

Designation.....

SECTION I: This section intended to collect data pertaining to Tea Factory Company's disclosure of information

Please indicate the extent to which the following information disclosing factors enhance both understanding and acceptability of financial reports of your Tea Factory Company to the shareholders. Please record your answer by ticking at the space provided, by the scale indicator. (1= not at all, 2 = small extent, 3 = moderate extent, 4 = large extent, 5 = very large extent)

Information disclosing factors	1	2	3	4	5
Books of accounts					
Explanation of reports during the AGM					

(b) Answer yes or no

		Yes	No
1	Does your Tea Factory Company maintain a register to be signed by various stakeholders upon receipt of AGM booklet 21 days ahead of the AGM?		
2	Does your Tea Factory Company post its published reports via the internet before the AGM date?		
3	Is the remuneration committee chaired by an independent		

(c) Suggest ways through which the board could improve on disclosure of information to improve on your Tea Factory Company performance functions.

.....

SECTION II: This section intended to collect data pertaining to the Composition of the board of directors of your Tea Factory Company

(a) Answer yes or no

		Yes	No
1	There is a requirement that one has to be a member of a professional body to be eligible for election		
2	The directors are subjected to elections after every three years.		
3	The Tea Factory Company board operates on performance contracting basis.		
4	The board operates through committees		
5	It is a requirement that the chairman of the board must		

If the answer to no 4 above is yes, indicate the number of board committees your board has.

(b) Kindly indicate the below information relating to directors

Title held	Gender	Highest qualification	How long held
Chair Person			
Vice chair			
Member			

SECTION III: This section intended to collect data pertaining to Stakeholders participation

(a).

1	Do you maintain a shareholder register during annual AGMs?	Yes	No
2	Have you ever held a repeat AGM for lack of a quorum		
3	Does your company maintain a creditor's complain register?		
4	Does your company maintain a register of directors' interests?		

(b) Kindly indicate the different classifications of shareholders your Factory Company have.....

(c). what is the minimum number of shareholders who are required to be present as at the start of an AGM?

(d). How would you rate the level of stakeholders’ participation in the performance of your Tea Factory Company?

- i. Very high
- ii. High
- iii. Average
- iv. Low
- v. Very low

(e).Kindly indicate the following information relating to your Tea Factory Company

Tea Factory company	Financial Year ending 30 th June	Number of shareholders who attended the AGM	Number of court cases involving stakeholders	Number of stakeholders’ consultative meetings held	Number of written correspondences between the board and employees.
	2010				
	2011				
	2012				

(F).In your opinion, does stakeholders’ participation affect the performance of your Tea Factory Company?

Yes

No

If Yes/No explain.....

Thank you for your cooperation

APPENDIX 111

DATA VALIDATION FORM

The 10 best performed Tea Factory Companies	Financial Year ending 30 th June	Repeat AGM	Number of shareholders who attended the AGM	Rate of bonus pay	Gender of the board member
	2010				
	2011				
	2012				

The 10 poorly performed Tea Factory Companies	Financial Year ending 30 th June	Repeat AGM	Number of shareholders who attended the AGM	Rate of bonus pay	Gender of the board member
	2010				
	2011				
	2012				

APPENDIX IV

THREE YEARS COMPARATIVE BONUS PAYOUT

FACTORY	2012 KSHS/KG	2011 KSHS/KG	2010 KSHS/KG
IMENTI	60.00	57.80	55.73
GATHUTHI	57.68	54.00	48.75
KINORO	55.15	53.50	48.98
MUNUNGA	55.06	51.95	44.01
RUKURIRI	55.04	54.70	49.90
GITUGI	55.00	52.20	47.80
NGERE	54.93	57.20	50.43
KIMUNYE	54.50	50.65	44.47
MUNGANIA	53.94	54.25	49.03
GITHONGO	53.84	50.00	43.11
KIONYO	53.72	51.50	47.17
WERU	53.07	51.00	45.48
MAKOMBOKI	53.04	57.15	48.96
IKUMBI	52.94	53.92	52.95
THUMAITA	52.92	49.40	45.49
KATHANGARIRI	52.70	52.20	48.74
NJUNU	52.68	53.65	47.29
NDIMA	52.54	48.60	41.64
NYANSIONGO	52.54	48.00	42.43
RAGATI	52.43	49.10	41.69
KAGWE	52.40	54.40	46.97
CHINGA	51.69	50.20	46.26
KANYENYAINI	51.65	47.70	39.69
KANGAITA	51.64	50.35	47.68
IRIAINI	51.55	48.10	44.94
GITHAMBO	51.49	49.00	42.65
GATUNGURU	51.48	49.00	42.95

MATAARA	51.00	53.50	48.75
KAMBAA	50.13	52.00	44.65
MICHIMIKURU	50.11	48.75	47.71
GACHARAGE	49.52	50.15	51.85
NDUTI	49.49	52.05	49.47
KIRU	49.46	47.10	40.57
MOMUL	48.98	50.00	43.03
KAPSET	48.75	43.15	37.32
TOMBE	48.74	42.50	36.45
TEGAT	48.64	45.07	38.25
THETA	48.47	52.15	43.57
GACHEGE	48.24	50.25	45.04
NYAMACHE	48.02	43.15	37.41
KAPKATET	47.73	46.00	41.37
NYANKOBA	47.08	42.50	39.95
KIEGOI	46.99	45.50	42.62
KEBIRIGO	46.53	41.50	37.08
SANGANYI	46.51	44.50	38.49
KAPKOROS/ TIRGAGA	46.04	46.50	40.52
OGEMBO	45.54	42.00	36.84
GIANCHORE	45.06	41.50	38.07
MOGOGOSIEK	45.02	45.50	42.18
KIAMOKAMA	44.79	42.55	39.06
LITEIN	44.56	43.25	38.20
MUDETE	43.16	41.00	36.73
CHEBUT/KAPTUMO	42.97	41.20	38.20
KAPSARA	38.65	37.20	34.70
AVERAGE	50.01	48.40	43.76

Source; Annual published reports for all the KTDA managed Tea Companies for the financial years ending 30th June 2010, 2011 and 2012 (Pg 3)