

Board Characteristics and Financial Performance of Listed Manufacturing and Allied Firms in Kenya

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Abstract

The manufacturing sector in Kenya contributes significantly to the economic development of both developing and developed economies. The government in its Big 4 agenda seeks to raise the share of manufacturing sector from nine to 15 per cent of the gross domestic product (GDP) and create 1.3 million manufacturing jobs by 2022. However, the percentage contribution of manufacturing sector to the gross domestic product and merchandise exports has stagnated. Further, the financial performance of the Kenyan manufacturing sector has been depreciating. The weak performance is attributed to low investments due to weak corporate governance practices in Kenya. The main objective of the study was to examine the influence of board characteristics on the financial performance of listed manufacturing and allied firms in Kenya. Specifically the study sought to examine the influence of board size, board diversity and board independence on financial performance of listed manufacturing and allied firms in Kenya. The study was based on the Stakeholders theory. In order to meet the objectives of this study an explanatory research design was employed utilizing a quantitative approach. The target population of the study comprised the ten listed manufacturing and allied companies on the Nairobi Securities Exchange. Through purposive sampling, seven listed manufacturing and allied firms were selected for the study. Audited annual reports for the ten year period from 2008 to 2017 were used. Data reliability was ensured by use of audited reports. Documentary evidence was employed by collecting the relevant information from the annual reports by use of a document schedule. The panel data fixed effect estimation model was applied for the data analysis. The collected data was analyzed using descriptive statistics and classical linear regression modeling. At 5% significance level the fixed effect result indicated board characteristics constructs namely board size, board diversity and board independence had a significant effect on the financial performance of listed manufacturing and allied firms in Kenya. The study recommends that listed manufacturing firms should enhance their board size, board diversity and board independence as the study found a significant relationship between board characteristics and financial performance. The results of the study have significant managerial and theoretical implications.

Keywords: Board Characteristics, Corporate Governance manufacturing and allied firms, Big 4 Agenda, Kenya