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Corporate Governance And Performance Of Companies Listed At Nairobi Securities Exchange: The Role Of Top Management Team Characteristics

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Abstract: ***Corporate governance enables organizations to solely focus and identify governance mechanisms that are efficient to enable them achieve the aligned interests existing between the management and ownership of the firm effectively which in turn results to improved performance. Further with better and sound top management, communication and reporting, inefficiencies in corporate governance practices will decrease while increasing the investor confidence in an organization and therefore enhanced overall firm performance. The general objective of the study was to determine the role of top management characteristics influence the relationship between corporate governance and performance of companies listed in the Kenyan context. The study was guided by Agency Theory informing the influence of corporate governance and the Upper Echelons Theory information the influence of top management team characteristics. This study used a positivism research philosophy. The study used a cross sectional survey. The target population for the study was drawn 66 firms listed at the Nairobi Securities Exchange. The study used both primary and secondary data which were collected using questionnaires, interviews and desk review. Data analysis took place at two levels – descriptive statistics level and inferential statistics level. The findings indicate that top management team characteristics significantly moderate the relationship between corporate governance and firm performance among companies listed in NSE. TMT characteristics such as education, functional background and work experience, are the main contributors to the relationship between TMTs and firm performance. These qualities should be considered key elements by policies makers when developing policies to be used when recruiting TMT's since these characteristics of the top management team results to better leadership and good corporate governance hence better firm performance.***

Keywords: Corporate governance, Top Management Team Characteristics and Firm Performance

I. INTRODUCTION

There is an increasing evidence and prominence in literature to link corporate governance and performance among the organizations across the world. Corporate governance enables organizations to solely focus and identify governance mechanisms that are efficient to enable them achieve the aligned interests existing between the management and ownership of the firm effectively which in turn results to improved performance (Eisenhardt, 1989). Firms' corporate governance plays an important role in the probability of accounting frauds and firms, which have a weak corporate governance structure being more prone to accounting frauds (Bozec & Dia, 2017). The failure in preventing these frauds has fuelled many debates on the effectiveness of current corporate governance rules, principles, structures and mechanisms (Suganya & Lingesiya, 2017). To guarantee that wider stakeholder' interests are met, organizations should maintain transparency in communication and disclosures, maintain consistency and reliability in financial reporting, monitor related party transactions, and adhere to business ethics.

Top Management Teams members in any organization comprise of the highest-ranking executives with titles such as chairman/chairperson, president, chief executive officer, managing director, executive directors, and executive vice presidents, among others. These positions are responsible for the entire organization (Wasike, Machuki, Aosa & Ganesh, 2015). Top management team characteristics refer to unique personal traits ascribed to members of top management team that are innate or learned, observable or cognitive. They are indicators of the worth that the top management team members bring to administrative situations in managing their organizations (Kinuu, Murgor, Ongeti, Nicholas & Evans, 2012).

Top Management Team (TMT) has engaged the attention of both academics and practitioners in strategic management owing to its link its formation and organizational performance (Hambrick & Mason, 1984).Many management studies have documented that firm's top management team characteristics (TMT) have enormous impact on its organizational outcomes. Hambrick, Humphrey and Gupta (2015) argue that the development of organizational strategies is influenced by the top managers' personal characteristics (upper echelons perspective). These characteristics are assumed to reflect experience, expertise, values, and dispositions of the TMT and influence important decisions made for the whole firm. As TMTs engage in strategic management processes, they act on the basis of their interpretations of the strategic situations they face, informed by their experiences, values and personalities.

Previous scholars have grouped top management team characteristics into three broad categories namely, demographic characteristics, cognitive characteristics and psychological characteristics (Kinuu, 2014). The TMT demographic characteristics are the socioeconomic attributes such as age, gender, education level, functional background, and work experience, tenure with the organization and TMT size. Psychological characteristics explain the behaviour of each team member and bring to light the actual mechanism underlying team behaviour, while cognitive characteristics are brain-based skills each TMT member need to carry out tasks associated with their day-today activities. They involve the ability of the TMTs to learn, remember, problem-solve, and pay attention, rather than with any specific knowledge.

This study operationalizes Top management team characteristics to include functional background, tenure, age, gender and education (Nielson & Nielson, 2013). The proposition of functional background argues that each manager brings to his/her job the expertise they have acquired in a specific functional area and this has an influence on developing strategies for growth. Long tenure TMTs seem to bend towards status quo and would be reluctant to implement risk management strategies. Top Management teams with diverse tenure benefit from the different experiences and perspectives brought by the individual TMTs and this positively affects performance (Marimuthu & Kolandaisamy, 2009; Nielson & Nielson, 2013). The current study therefore is set to unleash the role top management team characteristics play in influencing performance since the question of whether the diversity in management background setup is advantageous and crucial for the companies still remains unanswered and open for discussion.

This study focuses on how corporate governance explains the performance of firms listed at Nairobi securities exchange (NSE). Several guidelines have been developed by the Capital Markets Authority to encourage good practices in corporate governance by the listed public companies in Kenya to adequately respond to the increasing relevance of the governance matters in both the growing and emerging economies and for the promotion of regional and domestic growth of the capital market. It also recognizes the contribution of good governance in maximization of the value of shareholders, capital formation, protection of the rights of investors and corporate performance. The justification of the companies listed at NSE has a selection of this study is because of the requirement to abide by minimum codes of good corporate governance guidelines. In addition, companies listed in NSE are required to disclose certain minimum requirement hence they operate in similar guidelines. The variation in performance of firms listed in Nairobi Securities Exchange can thus be explained by the unique integration of corporate governance mechanisms and selection of top management team.

II. MATERIALS

The theories underpinning the study are; Agency theory (Eisenhardt, 1989) and the upper echelons theory (Hambrick & Mason, 1984). Agency theory which informs the argument concerning corporate governance is based on the argument that board of directors as an example of corporate governance minimizes the problems that may arise due to principal who are the owners and stakeholders of the firm and the agent who are the management is because CEOs seek to increase their utility at the expense of firms by withholding effort or increasing their own compensation through self-dealing (Hendry, 2002). The key assumptions of the Upper Echelon theory is the argument that top management team characteristics' are closely related to the cognitive and psychological elements' of the executives'(Cannella, Park & Lee, 2008). This gives an organization an upper hand in developing, adapting and execution those strategies that maximize the organizational power over other competing firms. The principle of the UET recognizes that top managers' different characteristics such as age or career experiences affect their decisions on strategy and structure and it will directly affect firm's strategic choice and organizational performance (Nielsen 2010). The theory enables the study understands the role of top management team characteristics and how their potential can be harnessed to improve organizational performance.

The role of top management team characteristics in corporate governance and performance aspects in literature has been studied and conclusions made. For instance, Jaw and Lin (2009) focused on corporate elite characteristics and firm's internationalization. This work hypothesized that curvilinear relationship exists between CEO position tenure, TMT size, and TMT tenure heterogeneity and a firm's internationalization, by combining previous upper echelon theory and processing international business school perspective. Detailed empirical findings indicate that CEO and TMT characteristics show a nonlinear relationship, based on 165 samples of Taiwanese firms operating in a technologically intensive industry. An inverted U-shaped relationship exists between CEO position tenure and TMT size regarding a firm's internationalization. These associations are an inverted U-shape, when internationalization level facing TMT tenure heterogeneity is accounted for.

Carpenter and Fredrickson, (2001) conducted a study on top management teams, global strategic posture, and the moderating role of environment uncertainty. They indicated that uncertainty is a consequence of environmental factors that generally result in a lack of the information needed to assess means-ends relationships, make decisions, and confidently assign probabilities to their outcomes. In developing their upper echelons perspective, Hambrick and Mason (1984) made uncertainty a precondition for demographic effects by ancboring it in the Carnegie School's behavioral theory of the firm (March & Simon, 1958), According to that theory, decisions made under great uncertainty are likely to be "the outcome of behavioral factors rather than a mechanical quest for economic optimization" (Hambrick & Mason, 198). Therefore, upper echelons predictions are contingent upon the view that top management teams generally operate under highly uncertain conditions, conditions characterized by ambiguity, complexity, and information overload. As a result, embedded in the upper echelons perspective is the proposition that the more uncertain the decision making situation, the more likely TMT demographic characteristics will be manifest in organizational outcomes.

Akpan and Amran (2014) examined the relationship between board characteristics and company performance (measured by turnover) in Nigeria. The study used multiple regression technique on 90 sampled firms from the main board of Nigerian Stock Exchange from 2010 to 2012. The empirical evidence showed that board size and board education are positively and significantly related to company performance. While there is no relationship between board equity, board independence, and board age. Also, this study evidences a negative significant between board women and turnover. Their appointment is window dressing as the percentage is too small for meaningful positive effect on company performance. Based on this finding, the study recommends legislation mandating companies listed on Nigerian Stock Exchange to appoint at least 30 to 35% of women on the board of directors.

Drawing on the executive demography and the upper-echelons perspectives, Herrmann and Datta, (2005) examined the relationships between top management team (TMT) characteristics (educational level, tenure, age, international experience and functional background) and firm international diversification. The study is based on a sample of 112 relatively large, internationally diversified US-based firms in the manufacturing sector. Findings indicate that firms with higher levels of international diversification are likely to have TMTs characterized by higher educational level, shorter organizational tenures, younger executives and greater international experience. In addition, findings indicate that the relationships between TMT characteristics and international diversification are more dominant in better-performing than in lower-performing firms.

Ongore and Obonyo, (2011) conducted a study on the effects of Selected Corporate Governance Characteristics on Firm Performance. The study examined the interrelations among ownership, board and manager characteristics and firm performance in a sample of 54 firms listed at the Nairobi Stock Exchange (NSE). These governance characteristics, designed to minimize agency problems between principals and agents are operationalized in terms of ownership concentration, ownership identity, board effectiveness and managerial discretion. The typical ownership identities at the NSE are government, foreign, institutional, manager and diverse ownership forms. The role of boards was found to be of very little value, mainly due to lack of adherence to board member selection criteria. The results also show significant positive relationship between managerial discretion and performance. Collectively, these results are consistent with pertinent literature with regard to the implications of government, foreign, manager (insider) and institutional ownership forms, but significantly differ concerning the effects of ownership concentration and diverse ownership on firm performance.

III. METHODS

This study used a positivism research philosophy and a cross sectional survey design. The target population for the study was drawn 66 firms listed at the Nairobi Securities Exchange. The study used both primary and secondary data which were collected using questionnaires, interviews and desk review. The study used primary data collected using questionnaires. A close-ended questionnaire was used to collect primary data relating to the all variables. The questionnaire enabled the researcher to collect views of respondents on the manifestations of strategic leadership and service delivery. The questionnaire adopted a 5-likert scale. The use of 5-likert scale made it possible to quantify the qualitative data, and therefore, enable the attainment of more objective results regarding the views of respondents on the different manifestations. Before administering the data collection instrument, respondents were assured of complete confidentiality and anonymity regarding their responses. The questionnaire was administered using the 'drop and pick up later' method so as to allow the respondents ample time to respond to the questions, thereby enhancing accuracy in responses and improve response rate. For this study, both descriptive and inferential statistic (mean scores, standard deviations, percentages and frequency distribution) were used. Further the regression model was tested to depict the relationship between the dependent and independent variables. The significance of each independent variable was also tested. P-value, F-ratio and t-statistic explains the significance of the model constructs at a 95 percent confidence level.

IV. RESULTS

The third objective of the study aimed at establishing the extent to which top management characteristics affect the relationship between corporate governance and performance of companies listed in NSE. Theoretical reasoning and mixed evidence (positive and negative) from literature led to the belief that top management characteristics affect the relationship between corporate governance and performance. The study therefore stated and tested the following hypothesis: H_1: Top management team characteristics do not significantly moderate the relationship between corporate governance and firm performance among companies listed in NSE.

Since the study was assessing both non-financial and financial performance, two sub hypotheses were derived from the hypothesis. The first sub hypothesis aimed at testing the moderating influence of top management team characteristics on the relationship between corporate governance and non-financial performance of companies listed in NSE. Therefore, the following sub hypothesis was tested: $H_{1a:}$ The top management team characteristic is not a significant moderator on the relationship between corporate governance and non-financial performance of companies listed in NSE.

To test for the moderation influence, a hierarchical regression analysis was conducted using the following three steps. Step one, tested the influence of corporate governance on non-financial performance. Step two, tested the influence of corporate governance and top management team characteristics on non-financial performance. Step three, the interaction term was introduced in the equation and its significance evaluated when controlling for corporate governance and top management team characteristics. The interaction term was computed as the product of the standardized scores of top corporate governance and top management team characteristics. To confirm moderation, the influence of the interaction term should be significant.

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics	
					R Square Change	F Change
1	.706[a]	.498	.488	.560	.498	47.619
2	.710[b]	.505	.484	.562	.007	.645
3	.715[c]	.512	.480	.564	.007	.649

ANOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	14.910	1	14.910	47.619	.000[b]
	Residual	15.029	48	.313		
	Total	29.939	49			
2	Regression	15.113	2	7.557	23.956	.000[c]
	Residual	14.826	47	.315		
	Total	29.939	49			
3	Regression	15.319	3	5.106	16.067	.000[d]
	Residual	14.620	46	.318		
	Total	29.939	49			

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	.934	.361		2.585	.013
	Corporate Governance	.779	.113	.706	6.901	.000
2	(Constant)	1.132	.439		2.581	.013
	Corporate Governance	.811	.120	.735	6.750	.000
	Top Management Characteristics	-.083	.104	-.087	-.803	.426
3	(Constant)	-.111	1.605		-.069	.945
	Corporate Governance	1.225	.527	1.109	2.322	.025
	Top Management Characteristics	.251	.427	.264	.587	.560
	interaction term	-.279	.101	-.298	-2.751	.005

a. Dependent Variable: Non-Financial Performance
b. Predictors: (Constant), Corporate Governance, Top Management Characteristics
c. Predictors: (Constant), Corporate Governance, Top Management Characteristics, Interaction term

Source: Research Data (2020)

Table 1: Moderating Effect of Top Management Team Characteristics on the Relationship between Corporate Governance and Non-Financial Performance

In step one corporate governance accounts for 49.8 percent of the variation in non-financial performance (r^2= 0.498). The model was overally significant (F= 47.619, P-value=0.000<.05). Beta coefficient of corporate governance was individually significant (β=.779, t= 6.901, P-value= 0.000<.05). The results in step one were significant.

In step two, the study introduced the moderator variable (top management team characteristics). The explanatory power improved significantly, that is, 50.5 percent of the variation in financial performance could be explained by the changes in corporate governance and top management team characteristics. The model was overally significant (F= 23.956, P-value=0.000<.05). Beta coefficient for corporate governance (β=0.811, t= 6.750, P-value = 0.00<.05) was significant while beta coefficient of top management team characteristics (β=-.083, t= -.803, P-value = 0.426>.05) was not significant. The results in step two were partially significant.

In step three, the interaction term was introduced in the model. The explanatory power changed significantly, that is, 51.2 percent of the variation in non-financial performance could be explained by the changes in corporate governance, top management team characteristics and the interaction term The model was overally significant (F= 16.067, P-value=0.000<.05). Beta coefficient for interaction (β= -0.279, t= -2.751, P-value = 0.005<.05) was significant. The results in step three were significant. Thus top management team characteristics moderates the relationship between corporate governance and financial performance of the firms.

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics	
					R Square Change	F Change
1	.652[a]	.426	.414	.551	.426	35.574
2	.703[b]	.495	.473	.523	.069	6.403
3	.708[c]	.501	.469	.525	.007	.641

ANOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	10.810	1	10.810	35.574	.000[b]
	Residual	14.586	48	.304		
	Total	25.396	49			

2	Regression	12.559	2	6.279	22.990	.000[c]
	Residual	12.837	47	.273		
	Total	25.396	49			
3	Regression	12.735	3	4.245	15.424	.000[d]
	Residual	12.661	46	.275		
	Total	25.396	49			

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	.983	.356		2.761	.008
	Corporate Governance	.663	.111	.652	5.964	.000
2	(Constant)	.402	.408		.984	.330
	Corporate Governance	.569	.112	.560	5.089	.000
	Top Management Characteristics	.244	.096	.278	2.530	.015
3	(Constant)	1.552	1.494		1.039	.304
	Corporate Governance	.286	.110	.183	2.592	.006
	Top Management Characteristics	-.265	.104	-.274	-2.549	.001
	interaction term	.352	.113	.601	3.130	.007

a. Dependent Variable: Financial Performance

b. Predictors: (Constant), Corporate Governance, Top Management Characteristics

c. Predictors: (Constant), Corporate Governance, Top Management Characteristics, interaction term

Source: Research Data (2020)

Table 2: Moderating Effect of Top Management Team Characteristics on the Relationship between Corporate Governance and Financial Performance

The second sub hypothesis aimed at testing the moderating influence of top management team characteristics on the relationship between corporate governance and financial performance of companies listed in NSE. Therefore, the following sub hypothesis was tested: H_{03b}: The top management team characteristics is not a significant moderator on the relationship between corporate governance and financial performance of companies listed in NSE.

In step one corporate governance accounts for 42.6 percent of the variation in financial performance (r^2= 0.462). The model was overally significant (F= 35.574, P-value=0.000<.05). Beta coefficient of corporate governance was individually significant (β=.663, t= 5.964, P-value= 0.000<.05). The results in step one were significant.

In step two, the study introduced the moderator variable (top management team characteristics). The explanatory power improved significantly, that is, 49.5 percent of the variation in financial performance could be explained by the changes in corporate governance and top management team characteristics. The model was overally significant (F= 22.990, P-value=0.000<.05). Beta coefficient for corporate governance (β=0.569, t= 5.089, P-value = 0.00<.05) and beta coefficient of top management team characteristics (β=0.244, t= 2.530, P-value = 0.015<.05) were significant. The results in step two were significant.

In step three, the interaction term was introduced in the model. The explanatory power changed significantly, that is, 50.1 percent of the variation in financial performance could be explained by the changes in corporate governance, top management team characteristics and the interaction term The model was overally significant (F= 15.424, P-value=0.000<.05). Beta coefficient for interaction (β= 0.352, t= 3.130, P-value = 0.007<.05) was significant. The results in step three were significant. Thus top management team characteristics moderates the relationship between corporate governance and financial performance of the firms.

V. CONCLUSIONS AND IMPLICATIONS OF THE STUDY

This study showed that top management team characteristics significantly influence the relationship between corporate governance and firm performance. This conclusion is consistent with findings from previous research and lends credence to the idea that firm performance is determined, in part, by the combination of factors both from the corporate governance and top team management. This study has confirmed the contributions by the various theories and lends support for the hypothesized relationships. The result contributes to the strengthening of the literature by confirming the postulations of agency theory and upper echelon theory. The study therefore pointed out that for corporate governance to have meaningful relationship with performance; top team management characteristics should be considered, controlled and streamlined with the key organizational capabilities.

Most companies listed in the NSE have previously not received best corporate governance, yet these companies are crucial to Kenya's economic development and contribution to gross domestic product. Hence this will provide a guide to policy makers to develop strategies to enhance effective corporate governance for the firms. The results of the study show that Top team management characteristics have significant influence on firm performance. TMT characteristics such as education, functional background and work experience, are the main contributors to the relationship between TMTs and firm performance. These qualities should be considered key elements by policies makers when developing policies to be used when recruiting TMT's since these characteristics of the top management team results to better leadership and good corporate governance hence better firm performance.

On management practice, effective board size should be agreed on by the directors and shareholders for effective corporate governance for better firm performance. Additionally, a good corporate governance structure should be adopted to aid companies to have access to funds and increased returns which results in an improvement in their earnings. The board, which is the management of the corporation, makes decisions about day-day operations of a firm as well as supervisory function that comprise monitoring a firm's performance and major decisions pertaining the company's objectives. Therefore effective board size in an organization promotes innovative ideas, application of knowledge to push and integrate the corporation into the competitive global market. The study should therefore form basis on how policy, managerial view and future researchers should blend the study variables applicability to recommend the best fit to different functional areas especially in listed firms for performance to be improved for economic prosperity.

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