EFFECT OF BOARD COMPOSITION ON FINANCIAL PERFORMANCE OF LISTED FIRMS IN NAIROBI SECURITIES EXCHANGE

BY

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DECLARATION

Declaration by the Student

This research project is my original work and has not been presented for a degree in any other University. No part of this project may be reproduced without prior written permission of the author and/or Garissa University.

Signature.. Date........10/12/2017..................

Adan Haji Shunu

REG. NO: **MBA/SBE/1009/2015**

Declaration by the Supervisors

This research project has been submitted for examination with our approval as University supervisors.

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ABSTRACT

This study sought to establish the effect of board composition on financial performance of listed firms in Nairobi Securities Exchange. The study objectives were to determine the effect of board size, independent directors, multiple directorships and financial expertise of directors on financial performance. Firm performance was measured using return on assets (ROA). This study was guided by agency theory, upper echelon theory. The study used exploratory research design. The study employed panel approach for a period covering ten years from 2006-2015. The target population comprised of all 68 listed firms in Nairobi Securities Exchange. The study used secondary data which was obtained from annual reports and NSE bulletins using data collection schedule to address recent corporate scandals, major accounting failures while other firms going into receivership and collapsing due to poor financial performance. Data was analyzed using both descriptive and inferential statistical methods. Specifically, multiple regression was used to test the hypotheses. The study found a significant positive effect of board size (β= 2.325; $p<0.05$), board independence (β= 2.112; $p<0.05$), multiple directors (β= 2.931; $p<0.05$ and financial expertise of directors (β= 2.114; $p<0.05$) on firm financial performance of listed firms in NSE. The study adds value on the understanding of the effect of board composition on financial performance in listed firms in Kenya. The study also provides a basis for further research as future scholars will find this study fruitful in making conclusions. The study recommends the appointment of more board independent directors to the board and financial experts to be appointed as directors to the boards. In Kenya, several initiatives have been taken by the government to strengthen the board structure and composition in order to create good dynamics of board meetings discussion which will lead to better firm performance and create good value creation to shareholders. Future research could also explore on board characteristics and firm performance by using different research method.